

Shrem, Fudim, Kelner and Co. Ltd.

Directors' Report on the Company's State of Affairs As of March 31, 2007

Pursuant to the Securities Regulations (Periodic and Immediate Financial Statements"), 1970, we take pleasure in submitting to the shareholders, the Directors' Report of Shrem. Fudim, Kelner and Co. Ltd. ("the Company") for the three-month period ended March 31, 2007 ("the reporting period" or "the quarter"), which also includes an update of significant changes or advances that occurred in the Company's businesses with respect to the Company's Periodic Report for the Year 2006.

1. Condensed description of the entity and its business environment

The Company is a holding company that operates primarily in the areas of capital markets, industry, communications and technology, real estate and infrastructures, digital printing and commerce and services.

Capital markets: - The Company is engaged in a variety of activities in the capital markets through its subsidiaries, Leader Capital Markets Ltd., which concentrates the activities of Leader Issuances, Leader & Co., Leader Management and their subsidiaries (together – the "Leader Capital Markets Group").

The Company also engages in this field through a subsidiary, Sphera Funds Management Ltd. ("Sphera Management"), which manages a number of hedge funds including the Sphera Fund, a hedge fund for investments in marketable securities. In addition, in December 2006, the Company and a British investment bank named Shore Capital Finance Limited founded an investment fund for foreign investors that will invest in securities traded in Israel and abroad.

In March 2007, the Sphera Global HealthCare Fund was set up together with Moshe (Maury) Arkin (50%) and Sphera Management (50%). The fund will invest mainly in financial assets having a connection to the healthcare industry. The investors in the fund are Israeli and foreign residents, including Israeli and foreign resident institutional investors. Mr. Maury Arkin invested \$15 million in the fund. See Paragraph 2.1.1 below.

Industry: - Through Urdan and the companies it controls is engaged in industry and commerce, focusing on metals, compound products, construction and development products, construction finishing products, paints and insulation products.

Communications and technology: - The activities are carried out mainly through its directly and indirectly-held investee companies – Shrem Fudim Kelner Technologies Ltd. ("Technologies"), including the Art PE fund which it manages, and through the investee companies Telit, Cimatron Ltd., YES, and various companies owned by Polar Communications, and through the Company's direct investments. Regarding the discontinuation of part of the segment's operations, also see Paragraph 2.3.2 below.

Real Estate and Infrastructures – The Company operates through directly and indirectly held investees – Leader Real Estate, Polar Real Estate, Sitips, and the holdings of the Group in additional real estate properties. See paragraph 2.3.2 below.

Digital Printing - Through Nipson and the companies held by it.

Trade and Services – through investees - Hazera, Reshet and the activity of Dai Telecom.

The Company is engaged, directly and through its investee companies, in the purchase, improvement and development of activities and companies in the aforementioned sectors. In addition, the Company is engaged in, among other things, consulting and management services to

its investee companies, hedge fund management as described above, consulting in the field of investment banking and in consulting for and management of a number of venture capital funds.

The Company ended the reporting period with net income of NIS 2.1 million, compared with net income of NIS 12.5 million in the same quarter last year (the same quarter last year included the Company's share in the gain from the decline in the shareholding percentage of Leader's holdings in Leader Capital Market due to its public offering, of NIS 12 million).

In December 2006, Polar Investments and Leader signed an agreement for investment in Polar Investments by way of an allotment of shares and a grant of an option to an investor. See Paragraph 2.7.4 below.

In the reporting period, Leader allotted to several institutional investors 125,000,000 par value of debentures (Series D) of Leader, through the expansion of the debenture series (Series D) that were offered to the public pursuant to the Leader prospectus in 2005. Also see Par. 2.7.2 below.

In the reporting period, the Company, Leader and Urdan declared a dividend distribution of NIS 30 million, NIS 44 million and NIS 11 million, respectively, which was paid in April 2007. Additionally, during the reporting period, Leader Capital Markets distributed a dividend of NIS 13 million and subsequent to the balance sheet date, Leader Capital Markets declared an additional dividend of NIS 15 million.

2. Noteworthy events during the reporting period and until proximate to the publication date of this report, presented by operating segment

2.1 The Capital Market

2.1.1 The Sphera Fund ("Sphera") is a fund that invests in marketable securities and is managed by Sphera Management.

In December 2006, the Puma Fund was set up by a British investment bank, Shore Capital Finance Limited, the Company and some of the shareholders of Sphera Management. This fund is intended for foreign investors and invests in marketable financial assets in Israel and abroad.

Sphera Management undertook to provide the manager of the Puma Fund with consulting services for its assets in accordance with the policy of the board of directors of the Puma Fund. Sphera Management has an agreement to receive consulting fees as a percentage of the volume of the managed assets, which will be paid to the management company on a monthly basis. The share of the Company in the success and management fees of the Puma Fund (indirectly) is 30%.

In March 2007, the Sphera Global HealthCare Fund was set up. In addition, Sphera Global Healthcare Management LP (the "fund manager") was also established, held by Maury Arkin (50%) and Sphera GPLP (50%) (the "Partnership"). The control over the fund manager is jointly held by the Company (indirectly through the Partnership) and Maury Arkin. The share of the Company in the success and management fees in the HealthCare Fund (indirectly) is 21.25%.

The fund invests mainly in foreign financial assets having a connection to the healthcare industry. The investors in the fund are Israeli residents and foreign residents, including Israeli and foreign-resident institutional investors. In the initial phase, Maury Arkin invested \$15 million. In addition, Technologies and Polar Communications invested \$1 million each, as did other interested parties.

As of the publication date of the financial statements, the total volume of the managed funds exceeds \$200 million.

- 2.1.2 In the reporting period, Leader Issuances entered into an underwriting agreement whereby it guaranteed the purchase of the shares of Oil Refineries Ltd. ("ORL"), amounting to NIS 340 million, comprising 11.2% of the volume of the sales offer to the public of the shares of ORL made by the State of Israel. On the basis of the results of the sales offer, Leader Issuances was not required to fulfill its underwriting commitment, as above. The commissions received by Leader Issuances on the aforementioned sales offer totaled NIS 15 million.
- 2.1.3 The results of the capital market segment in the quarter indicated income of NIS 42 million, compared with NIS 38 million in the same quarter last year (as noted above, the segment's results in the same quarter last year included the Company's share in the gain from the decline in the shareholding percentage of Leader Capital Markets of NIS 12 million).

In addition, the results of the capital market segment include the activities of the Yelin Lapidot investment house, which was added to the Group's operations during 2006. The provident funds of Yelin Lapidot achieved top yields among all provident funds in 2005 and 2006. Presently, Yelin Lapidot manages portfolios, provident funds and other funds exceeding NIS 6.5 billion, which include investment portfolios (including funds) totaling NIS 4.7 billion and provident funds totaling NIS 1.8 billion.

2.2 Real estate and infrastructures

- 2.2.1 In February 2007, Leader Real Estate, through a subsidiary, entered into an agreement with a third party to acquire 50% of the shares of a Croatian company ("the Croatian Company"), which is wholly-owned by the third party, and the assignment of 50% of shareholder loans in the Croatian Company to the other Holland company. The Croatian Company is the registered owner of land in Croatia, in the Estrian Peninsula, totaling 2,200 square meters zoned for residential construction. The Croatian Company also signed an agreement with a third party to acquire additional land, totaling 7,240 square meters, also located on the Estrian Peninsula, also zoned for residential purposes. The consideration has not yet been paid by the Croatian Company.

In February 2007, the subsidiary paid to the third party, for the acquisition of 50% of the Croatian Company and the assignment of 50% of the shareholder loans in the Croatian Company to it, the sum of €1.46 million.

Under the terms of the agreement, the parties undertook to obtain the necessary financing for completion of the purchase of the second property by the Croatian Company. In addition, the parties undertook to finance, in equal shares, the purchase of two additional pieces of property through the Croatian Company.

- 2.2.2 In April 2007, Leader Real Estate, through a subsidiary, entered into commercial rental projects in Germany. The undertaking is with an unrelated third party ("the developer"), and in a framework agreement for the purchase of projects involving commercial rental properties in Germany, at a total amount of €120 million ("the proceeds"). According to the transaction, the subsidiary will invest up to €7 million. The balance of the proceeds will be financed by a loan from a foreign bank (with which a framework agreement was signed for providing the loan) which will finance up to 90% of the value of the proceeds, and through a mezzanine loan, bearing interest and participating in the transactions' earnings, at 4.2% of the proceeds or up to €5 million, whichever is lower, provided by a partnership managed jointly by two corporations, one of which is controlled by the Company ("mezzanine loan" and/or "the partnership", respectively). The management companies will be entitled to financing commissions and to amounts deriving from the partnership's earnings.

On April 18, 2007, the subsidiary invested €4.7 million, which constituted the first stage of the investment. The said amount was repaid to the subsidiary after receipt of the mezzanine loan.

To date, agreements have been signed for the purchase of eight commercial properties in Germany at a total cost of €45.3 million. The subsidiary and developer intend to purchase additional commercial properties in Germany, until achieving the full amount of the investment, as described above, within 6-8 months.

Pursuant to the transaction, the subsidiary has the right to receive a minimum annual yield of 10% on its investment, and later to participate in the remaining earnings (after the payments to the foreign bank and after repayment of the mezzanine loan) at the rate of 25% (the developer is entitled to the balance of the earnings).

- 2.2.3 Subsequent to the balance sheet date, Leader Real Estate signed an agreement to purchase shares in S.L. Real-Estates Limited ("S.L.") from third parties for €0.8, so that following the purchase, the holding percentage of Leader Real Estate in the company is 64%.
- 2.2.4 As of the publication date of the report, Leader Real Estate is involved in real estate projects in Eastern Europe (mainly in Romania, Bulgaria, Croatia and Russia) totaling more than €100. The equity invested by Leader Real Estate in these projects totals €20. In most of the projects, Leader Real Estate's share is 50%.
- 2.2.5 As of the publication date of the financial statements, S.L. entered into contracts and preliminary contracts related to several projects. The closing of these transactions is subject to several suspending condition, including the completion of due diligence.

S.L. signed an agreement to purchase 50% of the shares of Leadmas, a Cypriot company, totaling €11.6 million. The investment is to be made in two stages, according to the progress of the projects that the Cypriot company will undertake.

(1) Stage 1 - Bulgaria – Bansko Project

A portfolio containing six projects (through six Bulgarian companies) spread over six properties in the city of Bansko, located 140 kilometers south of the capital, Sofia. A total of 850 residential units are planned for these projects.

One of the properties described above is located near the city of Razlog (considered to be the central city of this district) and near a golf course currently undergoing construction.

The expected amount of the investment is €43 million (50% of which is S.L.'s share – through a jointly-held Cypriot subsidiary).

As of the preparation date of the financial statements, S.L. signed an agreement for the purchase of shares and a shareholders' agreement. This stage was completed.

S.L. entered into an agreement with Canaf Partnerships (partnerships managed by a company controlled by the Company), to receive a €2 million for a 3-year period. The loan bears annual interest at the fixed rate of 9%. Additionally, S.L. made a one-off payment of €60 thousand to the general partner in the Canaf Partnerships for development fees.

In addition, the Canaf Partnership is entitled to participate in the net earnings that S.L. will receive from the project company, at the rate of 10%-12%, as stipulated in the loan agreement.

(2) Stage 2 – For holdings in the following companies

Three Romanian companies, each of which holds residential real estate in Bucharest, Romania, spanning a total of 13,500 square meters, for the construction of 950 residential units.

Two Romanian companies that own land in the environs of Bucharest with total area of 73,000 square meters, which have not yet been zoned for construction.

Three Bulgarian companies, each of which owns land zoned for office construction in Sofia, Bulgaria, with total area of 12,700 square meters and 44,400 square meters for construction.

The investment at this stage constitutes the exclusive option of S.L. As of the date of the financial statements, this stage was not yet complete, since the shares of the said companies had not been transferred to the possession of Leadmas.

(B) Romania – Bucharest – Pipera project

S.L. purchased (through a jointly-owned (50%) Romanian subsidiary) property in the Pipera neighborhood, covering an area of 42 thousand square meters, at a total cost of €12 million. €6 million of the purchase cost was financed through non-recourse loans obtained from a local bank. The project is expected to contain 1,200 residential units, at a total investment of €106 million.

As of the preparation date of the financial statements, the transaction was closed.

S.L. entered into an agreement with the Canaf Partnerships to receive a €3 million loan for a 3-year period. The loan bears annual interest at the fixed rate of 9%. Additionally, S.L. made a one-off payment of €90 thousand to the general partner in the Canaf Partnerships for development fees.

Additionally, the Canaf Partnerships are entitled to participate in the net earnings that S.L. will actually receive from the project company, at the rate of 10% to 12%, as stipulated in the loan agreement.

(C) Romania – Sinaia project

S.L. will purchase (through a jointly-owned (50%) Romanian subsidiary) property in the city of Sinaia, located 120 kilometers north of Bucharest, covering an area of 27 thousand square meters, at a cost of €3.4 million.

The project is expected to contain 440 residential units, at a total investment of €23 million.

As of the preparation date of the financial statements, the Romanian company signed a preliminary agreement, subject to obtaining building rights on the property. The transaction is expected to close in the third quarter of 2007.

(D) Romania – Bucharest – Voluntar project

S.L. will purchase (through a jointly-owned (50%) Romanian subsidiary) 100% of the shares of a Romanian company which owns property in the Voluntar district (northeast Bucharest), covering an area of 40 thousand square meters, at a total cost of €12 million.

The project is expected to contain 1,100 residential units, at a total investment of €90 million.

As of the preparation date of the financial statements, S.L. signed an agreement for the purchase of shares of a Romanian company that has ownership rights in the property. The purchase includes several pre-conditions that constitute a condition for closing the purchase, including: a) the sellers obtaining a building permit for the construction of 110,000 square meters above ground (100,000 square meters of residential use, approx. 1,100 residential units, and the balance commercial space and shops); b) the due diligence work which was performed by experts hired by the Company was completed, and the Company informed the sellers of its intention to close the transaction, subject to obtaining a building permit.

On 13.4.2007, the sellers furnished the Company with a building permit which is subject to the approval of the relevant environmental protection authority. This approval is expected to be received in the upcoming months.

The transaction is expected to close during the second quarter of 2007.

(E) Romania – Bucharest – Pantelimon Project

S.L. will purchase (through a jointly-owned (50%) Romanian subsidiary) property in Bucharest spanning 27 thousand square meters at a total cost of €6.9 million. The project is expected to contain 670 residential units, at a total investment of €1.5 million.

As of the preparation date of the financial statements, the Romanian company had signed a preliminary agreement, subject to due diligence testing and approval of the building rights. Likewise, the transaction was signed for 8,000 square meters of land with an option to purchase an additional 19,000 square meters. The closing of the first stage of the transaction is expected in the second quarter of 2007.

(F) Romania – Bucharest – Michalesti Project

S.L. will purchase (through a jointly-owned (50%) Romanian subsidiary) property located north of Bucharest spanning 160 thousand square meters at a total cost of €1.5 million.

The plan is to change the zoning of the land to residential construction and to develop it in the future. As of the preparation date of the financial statements, the Romanian company signed a preliminary agreement, subject to due diligence testing. The transaction is expected to close in the second quarter of 2007.

(G) Bulgaria – Sofia – Offices Project 1

S.L. will purchase (through a jointly-owned (50%) Bulgarian subsidiary) property in Sofia spanning 5.6 thousand square meters at a total cost of €4 million.

The project is expected to contain 19,800 square meters of offices, at a total investment of €2.4 million

(H) Bulgaria – Sofia – Offices Project 2

S.L. will purchase (through a jointly-owned (50%) Bulgarian subsidiary) property in Sofia spanning 6.6 thousand square meters at a total cost of €2.1 million.

The project is expected to contain 14,800 square meters of offices, at a total investment of €15.5 million

(I) Russia – a project near Moscow

S.L. will purchase (through a jointly owned (50%) Russian subsidiary) 100% of the shares of a Russian company which owns the rights to construct a residential project in an area located north of Moscow (approximately 70 kilometers from downtown Moscow). The transaction has a cash component (US\$ 3 million) as well as a percentage of the sales that will be paid to the seller out of the proceeds of the project (18% of the proceeds of the combination transaction).

The project is expected to contain 7,000 residential units, at a total investment of €250 million.

As of the preparation date of the financial statements, S.L. signed a preliminary agreement subject to due diligence with results to its satisfaction. The transaction is expected to close during the second quarter of 2007.

(J) Residential projects – in one of the Baltic states

1. S.L. will purchase property covering an area of 8,500 square meters, at a cost of €6.8 million. The project is expected to contain 330 residential units, at a total investment of €35 million. As of the preparation date of the financial statements, S.L. signed a preliminary agreement subject to approval of the building rights for the property. The transaction is expected to close during the second quarter of 2007.

2. S.L. will purchase (through a jointly-owned (50%) company) 100% of the shares of a Baltic company that owns property covering an area of 33,000 square meters, at a total of €8.5 million. The project is expected to contain 44,500 square meters of built area for sale as residences, at a total investment of €72 million. S.L. signed a preliminary agreement subject performance of due diligence to its satisfaction. The transaction is expected to close during the second quarter of 2007.

2.2.6 In January 2007, a partnership held by Polar International (25.5%) closed the sale of the “Gerard” Building in Manhattan (New York) (the “Building”) for \$ 82 million.

On the date of sale, the partnership deposited \$ 3.5 million in a trust account for a period of 14 months subsequent to this date, to guarantee the quality of the renovation and will be released upon fulfillment of a number of conditions stipulated in the agreement.

As a result of the closing of the sale of the Building, Polar Investments recorded a pre-tax gain (net of the minority share) of NIS 16 million in the financial statements of the first quarter of 2007.

In April 2007, Polar International raised NIS 50 million from institutional investors by means of an expansion of an existing series of debentures (Series B) of Polar International, which was offered to the public pursuant to a prospectus dated May 19, 2005. A subsidiary of Leader served as advisor to the offering.

2.2.7 During and subsequent to the reporting period, Polar Investments, through Polar International, expanded its real estate investments overseas – see Note 3.B.2 to the financial statements.

2.2.8 Regarding the compromise obtained by Polar International regarding the Herald Towers, see Note 3.B.3 to the financial statements.

2.3 Communications and technology

2.3.1 Technology

- A. Persay, a subsidiary of Technologies, is engaged in voice identification and develops technology for identification of the speaker. Further to a memorandum of understanding from June 2006, an investment agreement ("the agreement") was signed between Persay and Athlone Global Security Inc. ("AGS"), which is, to the best of the knowledge of Technologies, an investment body specializing in the field of security and homeland security. Pursuant to the agreement, AGS will invest \$1 million in Persay, at a Persay company value of \$5 million before the money. This amount is to be transferred in three equal installments, with the first payment made in April 2007, and the other payments will be made in July and October 2007. Pursuant to the agreement, AGS is entitled to appoint one member of the five-member board of directors of Persay, with Technologies entitled to appoint the remaining directors.

Concurrent with the agreement, Persay granted some of its shareholders options, exercisable for shares of Persay ("the options"). Pursuant to the options, AGS, Technologies and Dr. Yehoshua (Shuki) Gleitman (chairman of the board of Persay) are entitled to invest a total of \$1,000 thousand, \$450 thousand and \$50 thousand, respectively, in Persay, at a share price identical to the price of the share pursuant to the agreement. The options are exercisable until the end of 2007.

As of March 31, 2007, Technologies holds 78% of the share capital of Persay (67% on a fully-diluted basis) and its carrying value in the books of Technologies is NIS 6.5 million.

Following the allotment of all the shares to AGS pursuant to the agreement, and assuming exercise of all the convertible securities of Persay, including exercise of the options allotted to AGS, Technologies and Dr. Gleitman, Technologies and companies it controls will hold 51% of the share capital and voting rights in Persay.

- B. On May 7, 2007, Technologies and other shareholders in Danbar ("the offerors") approached the other shareholders of Danbar ("the offerees") with an offer to purchase from them in a special tender offer under Section 328 of the Companies Law, 29,114 of the shares of Danbar, constituting 4.7% of the issued and paid-up share capital of Danbar and 5% of the capital and voting rights therein ("the tender offer"). Pursuant to the tender offer, the offerors (including Technologies) who are offering to purchase the said shares from the offerees, on a pro rata basis to the offerors' holdings in the capital of Danbar, at a price of NIS 49 per share, for total consideration of NIS 1,427 million. The last date to accept the tender offer is May 30, 2007. As of the tender offer date, Technologies holds 10.16% of the capital and 10.82% of voting rights of Danbar. The offerors (including Technologies) each individually have cumulative holdings of 64.89% of the capital and 69.1% of the voting rights of Danbar.

Technologies is the controlling shareholder in Danbar by virtue of the Company's bylaws, which give it the right to appoint most of the members of the board of directors of Danbar, as long as the management agreement from April 2000 between Technologies and Danbar is in effect ("the management agreement").

On May 7, 2007, proximate to submitting the tender offer, the offerors signed a shareholders' agreement, the taking effect of which is contingent on the outcome of the tender offer ("voting agreement"), which arranges the cooperation between them in all that relates to the tender offer, their holdings in shares of Danbar when the tender offer is accepted, as they will be from time to time, for the sale of the parties' capital to a third party, and all that relates to the transfer of Danbar shares held by them and to invoke the related voting rights of these shares.

As aforesaid, the voting agreement will take effect immediately after acceptance of the tender offer, and will terminate at the end of 24 months from the signing date of this agreement. The offerors have undertaken in the voting agreement that immediately after a buyer is found for control in Danbar, and subject to the signing of a binding agreement with him, in a manner integrated with its execution, they will cause a change in the section of Danbar's bylaws that gives Technologies the right to appoint most of the members of the board of directors of Danbar, whereby the decision on the appointment of directors will be adopted in a meeting – revoking the management agreement between Technologies and Danbar.

On May 10, 2007, the board of directors of Danbar announced that after examining the terms of the tender offer, it had decided to refrain from expressing an opinion on the expediency of the tender offer.

- C. During the reporting period, Technologies invested \$0.7 million in the Platinum Fund within the framework of a call for an additional 5% of the commitment to invest in the Platinum Fund (thus completing a call of 80% of the Platinum Fund's commitment).

In addition, Technologies received \$0.45 million as a return of investment from the Platinum Fund out of a total of \$1.7 million that the Platinum Fund distributed to its investors.

For additional details regarding the major investments of the Platinum Fund, see Note 3.A.3 to the financial statements.

- D. During the reporting period, Dash Polaris, a subsidiary of Technologies, distributed a dividend of NIS 4.2 million. Technologies' share was NIS 1.8 million.
- E. Synergy (formerly Superior) is 29%-held by Art P.A. Limited Partnership, a private equity fund in which Technologies has indirect holdings of 44% as a limited partner and 50% of the general partner and management company.

During the reporting period, Synergy repaid a short-term loan of \$1.8 million that had been given to it by Art P.A. during 2006. The loan was in dollars and bore interest of Libor + 3%.

During the reporting period, Synergy issued securities pursuant to a prospectus, in a public offering, as described in Note 3.A.8 to the financial statements.

Under the terms of the prospectus, Art P.A. undertook to invoke all of the rights offered to it pursuant to the prospectus. Accordingly, the partnership acquired 8,428,690 ordinary shares of Synergy for NIS 9,486 thousand (NIS 1.15 per share).

- 2.3.2** In May 2007, Polar Investments sold approximately half of its holdings in Telit, a former subsidiary of Polar Investments (53%), which is traded on the AIM Exchange in London, to a group comprised of Mr. Uzi Katz, CEO of Telit and a group of private investors from Italy led by Mr. Franco Barneva.

- Pursuant to the agreement, Polar Investments sold 12 million shares of Telit, constituting 27.8% of its share capital, for total proceeds of €7.7 million (half in cash and half in 6 equal semi-annual installments beginning after 30 months have elapsed from the signing date of the agreement until 60 months have elapsed, plus interest of 6% per annum). Regarding additional terms included in the agreement, see Note 3.B.2.d to the financial statements.

On the closing date of the transaction, all of the directors that had been appointed by Polar Investments to the board of Telit resigned.

The above transaction does not have a material effect on the financial results of Polar Investments.

As a result of this transaction, Polar Investments ceased being the controlling shareholder in Telit. Therefore, on March 31, 2007, the operations of Telit are presented in the financial statements as discontinued operations, separate from the consolidated items from continuing operations, retroactive for all reported periods, in accordance with Accounting Standard No. 8 regarding discontinued operations. Commencing from the second quarter of 2007, the Polar Investments' investment in the shares of Telit will be stated at cost.

2.3.3 In March 2007, Polar Investments sold its entire investment in Aqwise (29.9%) to Elron Electronics Industries Ltd. for NIS 12 million.

As a result of the sale, Polar Investments recorded a pre-tax capital gain in of NIS 12 million in the financial statements of the first quarter of 2007.

2.3.4 Subsequent to the balance sheet date, Expand, which is indirectly 5%-held by Polar Communications, completed a round of financing in which it raised a total of \$14 million. Polar Communications invested \$0.7 million in this round of financing.

2.3.5 Regarding the developments in D.B.S. Satellite Services (1999) Ltd., see Note 3.B.3 to the financial statements.

2.4 Trade and services

During the reporting period, the shareholders of Reshet provided additional shareholder loans to Reshet totaling NIS 11 million. Polar Communications' share in these loans was NIS 3.3 million.

Further to the description in the periodic report of Polar Communications for the year 2006, in February 2007, Urbino Holdings Ltd., owned by a third party, signed an agreement for the sale of its holdings in Reshet (21%) to L.I.N. Or (Communications) Ltd., a company controlled by the Eyal Ofer and Udi Angel Group ("L.I.N. Or"), so that following the acquisition, L.I.N. Or holds 41% of the shares of Reshet. This transaction, which is subject to the approval of the Second Channel Authority and the Anti-Trust Commissioner, closed on April 18, 2007.

On May 17, 2007, Polar Communications announced that its wholly-owned subsidiary ("the subsidiary") is negotiating for the sale of 10% of the capital and ownership of Reshet to L.I.N. Or, and for the sale of an additional 7.5% of capital and ownership of Reshet to Strauss Investments (1993) Ltd., for consideration that will be based on a Reshet company value of \$30 million. If this transaction closes, the subsidiary will remain with holdings of 12.5% in the capital and ownership of Reshet.

Until the date of this report, no binding agreement was signed between the parties, and there is no certainty that the transaction, or any other, will be executed between the parties.

2.5 Industry

- 2.5.1 EER Environmental and Energy Resources (Israel) Ltd. ("EER") recently completed the construction of a demonstration facility in Israel for implementation of its technology for the treatment and removal of solid waste, which was successfully and continuously operated for the first time.

In March 2007, EER announced that it intends to assess the possibility of issuing its shares on a stock exchange (in Israel and/or abroad), at an EER company value of hundreds of millions of dollars, toward the end of 2008. This is a forward-looking ambition, based on assessments which, by their very nature, may change and/or not come to fruition in connection with, among other things, the realization of the overseas commercial potential of EER's technology for the treatment of waste and the volatility of the capital markets in Israel and abroad.

In the reporting period, EER signed an investment agreement with a private investor regarding the immediate investment of \$1.5 million and an additional contingent investment of the same amount ("the second half"). Subsequent to the balance sheet date, it was decided with the consent of the parties to cancel the second half of the investment. The immediate investment was made at a price reflecting an EER company value of \$71 million (after the actual investment). Upon the closing of the investment, the investor holds 2.1% of the share capital of EER. Additionally, \$0.5 million was transferred to EER as a supplement to the investment agreement from December 2006 with an additional private investor, totaling \$1 million for 1.4% of the share capital of EER.

Further to EER's inquiries during the reporting period to Urdan, the Company and Technologies (together – "the guarantors"), the guarantors committed to furnish guarantees in favor of EER, toward banks, to secure receipt of short-term bank credit by EER, totaling up to \$3 million ("guarantees"), of which up to \$1.9, \$0.8 and \$0.3 million are guaranteed by Urdan, the Company and Technologies, respectively. The amounts of these commitments are added to the amounts of previous guarantees furnished by the guarantors, so that in total, the guarantors have committed to furnish guarantees in favor of EER totaling up to \$5.5 million, of which up to \$3.5, \$1.5 and \$0.6 million are guaranteed by Urdan, the Company and Technologies, respectively. The division of the guarantee amounts was determined based on the ratio of the guarantors' holdings in the issued and paid-up share capital of EER.

The guarantees are several, not joint and several, so that the bank may be repaid from each of these guarantors only up to the total amount for which each gave guarantees. Additionally, the guarantors are entitled to a guarantee fee at the annual rate of 2% of the guarantee amounts.

Guarantees totaling \$2.5 million (of which Urdan's share is \$1.6 million), confer on each of the guarantors (severally) the right to invest in the share capital of EER the amount of the guarantees they furnished, in full or part, at the price of \$5,402.4 per share (reflecting as of the preparation date of the financial statements, an EER company value of \$71 million). Regarding the balance of the guarantee facilities approved in the reporting periods totaling up to \$3 million, the right of their conversion will be provided to the guarantors even in the event EER does not utilize these guarantee facilities.

As of the report date, the balance of the guarantees utilized totals \$2 million.

In February 2007, EER decided to allow certain shareholders (including Urdan, the Company and Technologies), which had provided shareholder loans to EER in the past pursuant to a founders' agreement and its amendments, which as of the preparation date of the financial statements total \$17.7 million (including accrued interest), of which the shareholder loans provided by Urdan, the Company and Technologies total \$7.2 million, \$3.1 million and \$1.2 million (respectively), to convert these loans to share capital of EER according to an EER company value of \$135 million before conversion. As of the report date, the companies had not yet decided whether to respond to the request.

If Urdan, the Company and Technologies decide to invoke their right to invest and convert the shareholder loans in full to shares of EER, as well as additional guarantees that they furnished in the past, as discussed in Par. C above, they Urdan, the Company and Technologies will hold 21.3%, 9.2% and 3.6% (respectively) of the fully-diluted share capital of EER.

- 2.5.2** In March 2007, a subsidiary of Urdan (100%), Batei Yezika Vulcan Ltd. ("Vulcan"), closed the sale of all its rights in 9,200 square meters, out of rights in 52,000 square meters of a property in Haifa Bay, the location of its plant, the operations of which are being discontinued.

The proceeds of this sale totaled NIS 7 million, and accordingly the financial statements in the reporting period included a net capital gain of NIS 1.6 million, which was included in other income.

2.6 Digital Printing

- 2.6.1 In January 2007, the board of directors of Polar Communications resolved to increase the size of the loans to Nipson, which at that date totaled €6 million by and additional sum of up to €2 million. €1.5 million of this sum was transferred during the reporting period.

The losses of the digital printing segment increased to NIS 7.2 million in the reporting period, compared with a loss of NIS 1.9 million in the same quarter last year. The increase in losses was due mainly to the decrease in the sales of new equipment by Nipson. Nipson reported expectations for improved gross profitability in the upcoming quarters, as a result of cost reductions.

2.7 Other events

- 2.7.1** Subsequent to the balance sheet date, 9,755 thousand par value of debentures (Series B) (NIS 8,000 thousand par value by an interested parties) of the Company were converted to 1,312 thousand ordinary shares, NIS 1 par value of the Company. In view of the aforesaid, the balance of debentures (Series B) as of the preparation date of the financial statements is NIS 2,245 thousand par value.

As a result of the conversion, the shareholders' equity of the Company increased to NIS 8.6 million.

Likewise, during and subsequent to the reporting period, employees and officers who are not interested parties exercised 80,500 options for 44,770 ordinary shares of the Company.

- 2.7.2** During the reporting period, Leader allotted to several institutional investors, 125,000,000 par value of debentures (Series D) of Leader, through an expansion of a series of debentures (Series D) that was offered to the public pursuant to a prospectus in 2005, as provided in the notes to the annual financial statements of Leader ("the private placement" and "the new debentures").

The net proceeds from the placement to the offerees totaled NIS 125,000 thousand.

As of the publication date of the financial statements, the balance of the debentures (Series D) is 215,000,000.

A subsidiary of Leader Capital Markets served as advisor in the private placement.

- 2.7.3** In the reporting period, investors who are interested parties in Leader, converted 3,850,000 par value of debentures, Series B, to 520,628 ordinary shares of Leader.

In addition, during the reporting period, investors who are not interested parties in Leader converted 4,000,000 par value of debentures, Series B, to 540,912 ordinary shares of Leader.

As of the report date, 1,430,000 par value and 270,000 par value of debentures, Series B and C, respectively, remained in circulation.

During the reporting period, 154,818 options that had been granted in the past to employees of Leader and companies it owns and to officers in them were exercised for 80,981 ordinary shares of Leader. Likewise, 300,000 options (Series H) that were granted in the past to officers in a former affiliate of Leader were exercised for 300,000 ordinary shares of Leader for NIS 2.1 million.

- 2.7.4** In December 2006, Polar Investments signed an investment agreement by way of an allotment of shares (the "allotment agreement") with HFZ Holding LLC, a company owned by Mr. Feldman, which assigned its rights and obligations under the agreement to F.D. Holdings Ltd. (the "Investor"), which to the best of the knowledge of Polar Investments, is a company owned by Mr. Feldman.

Pursuant to the allotment agreement, the Investor will invest NIS 207 million in Polar Investments, in consideration for an allotment of 3,388,443 ordinary shares of Polar Investments, par value NIS 1 each ("the allotted shares"), which will grant the Investor, immediately after the allotment 41.2%, of the voting rights and 39.9% of the share capital of Polar Investments. In addition, the Investor will be allotted by Polar Investments, for no additional consideration, 688,091 non-negotiable options (the "Polar options") for the purchase of 688,091 ordinary shares of Polar Investments, par value NIS 1 each. The investment agreement of Polar Investments and the pursuant allotment of securities were ratified by the general shareholders meeting of Polar Investments on January 31, 2007.

On February 15, 2007, the initial closing of the agreement took place and Polar Investments received an advance of NIS 20.7 million, after it furnished all of the approvals that it had undertaken to furnish pursuant to the agreement, against the granting of a bank guarantee in favor of the Investor by Polar Investments pursuant to its undertaking in the agreement.

The agreement should close within six months of its signing, i.e. June 6, 2007, such that Polar Investments will allot the shares and options against receipt of the balance of the consideration.

Concurrent with the signing of the allotment agreement with the Investor, the Company signed an option agreement with the Investor, whereby it granted him an option ("put option") to purchase from it 807,131 shares of Polar Investments which it owns (the "Leader shares") and 325,538 options (Series 6) exercisable into shares of Polar Investments ("Leader options"). Additionally, a shareholders' agreement was signed between the Investor and the Company, whereby the parties will cooperate, on matters including the appointment of directors in Polar Investments, as provided in the immediate report of Polar Investments dated 21.12.2006, as amended on 22.1.2007.

On 14.5.2007, the board of directors of Polar Investments, after receiving approval from its audit committee, approved the undertaking of Polar Investments in the amendment to the investment agreement, whereby the terms of the allotment of the allotted shares and options of Polar will be amended as follows:

1. Not later than 6.6.07 (original closing date for making the investment pursuant to the investment agreement), the Investor will pay to the Company on account of the proceeds the sum of NIS 10.3 million, as a supplement to the advance of NIS 20.7 million paid to Polar Investments, as aforesaid.
2. On the closing date of the amended investment agreement, the Investor will pay to the Company the sum of NIS 135.2 million on account of the proceeds (also includes the par value of the trust shares as defined in Par. 3 below). The balance of the proceeds, NIS 40.7 million, plus annual interest at the rate of 7% from 6.6.07, will be paid by the Investor to the Company in two equal installments – the first not later than 27.6.09 and the second not later than 27.6.10 ("the deferred payments").
3. On the closing date, Polar Investments will allot to the Investor 2,710,754 shares of the allotted shares, and the balance of 677,689 allotted shares will be allotted and registered in the name of the trustee ("the trust shares"). Against any deferred payment made, the trustee will transfer to the Investor the ownership of half the trust shares. The Investor will be entitled to vote in general meetings of Polar Investments by virtue of the trust shares, as long as the Investor did not breach his obligation to make the deferred payments. Dividends to be distributed by Polar Investments for the trust shares will be offset against the Investor's obligation for the deferred payments. If there is a breach of the Investor's obligation to make the deferred payments on time, the trust shares will be forfeited and transferred to Polar Investments, without prejudicing any other relief to which Polar Investments will be entitled pursuant to the agreement or any law.
4. The exercise price of the Polar options of NIS 61.09 will bear annual interest at the rate of 7% commencing 6.6.2007 until the exercise date of the options.
5. The amendment to the investment agreement is subject to receipt of approval of the general meeting of shareholders of Polar Investments and approval from banks.
6. Subject to receipt of the said approvals and renewal of the stock exchange's approval for listing the allotted shares and the underlying shares from the Polar options, the allotment transaction is to close by 27.6.07. If a special approval by the general meeting is required to amend the investment agreement, in accordance with the Company's bylaws (exceptions in transactions with interested parties – 2000), the closing date will be postponed to 10.7.07.

If the said approvals are not received, the amendment will be canceled and the provisions of the investment agreement in their original version will bind the parties, although the closing date will be 15.7.07.

7. If by the closing date, Polar Investments furnished all of the requisite approvals for executing the investment agreement, although the Investor did not pay to Polar Investments, on time, the supplement of NIS 135.2 million, the investment agreement will be cancelled, and the advance, including the supplement of NIS 10.3 million, will remain with Polar Investments.

Concurrent with the amendment to the investment agreement, Leader and the Investor signed an amendment to the option agreement, whereby the exercise period of the put options with respect to the shares of Leader, was extended to 27.12.2008, during which time the shares of Leader may be purchased by the Investor at an exercise price of NIS 61.09 per share, plus annual interest at the rate of 7% as from 6.6.07. The exercise period of the Leader options with respect to the Leader shares may be extended until 27.5.2009, and during the extended exercise period, the exercise price will be NIS 85 per share. If the allotment transaction with Polar Investments is not closed in accordance with the amendment to the investment agreement, the amendment to the option agreement will be cancelled and the provisions of the original options agreement will bind the parties.

After closing the allotment transaction, and assuming exercise of the Polar options and the Leader options by the Investor, the Investor will hold 54.7% of the voting rights in and 53.1% of the capital of Polar Investments.

3. Financial condition

The following table presents data from the consolidated balance sheet and from the balance sheet of the Company and the private companies under its control (*) in reported NIS millions of March 2007:

	As of March 31, 2007			As of December 31, 2006
	Consolidated balance sheet	Company balance sheet	Balance sheet of Company and controlled private companies (*)	Balance sheet of Company and controlled private companies (*)
Current assets	2,284.0	144.9	154.9	111.2
Real estate	412.5	-	-	-
Investment real estate	259.5	-	-	-
Investments and loans in investees (affiliates) and other	784.4	329.7	298.3	328.0
Fixed assets	122.1	22.2	24.2	24.2
Other assets and deferred charges	352.4	-	1.5	1.5
Total assets	<u>4,629.1</u>	<u>496.8</u>	<u>478.9</u>	<u>464.9</u>
Current liabilities	1,583.4	113.5	116.7	62.6
Long-term liabilities	1,789.7	142.3	115.0	126.5
Minority interest	702.6	-	6.2	5.9
Receipts on account of options issued by subsidiaries	18.7	-	-	-
Liabilities allocated to discontinued operations	293.7	-	-	-
Shareholders' equity	241.0	241.0	241.0	269.9
Total liabilities and shareholders' equity	<u>4,629.1</u>	<u>496.8</u>	<u>478.9</u>	<u>464.9</u>

(*) In this report, the meaning of "the balance sheet of the Company and the private companies under its control" – the consolidated balance sheet in which public companies owned directly by the Company are presented by the equity method (Leader and Technologies).

- The Company's shareholders' equity as of March 31, 2007 amounted to NIS 241.0, compared with NIS 269.9 million as of December 31, 2006, representing 50% of the total assets of the Company and the private companies under its control.

The changes in capital in the reporting period derive mainly from the Company's earnings of NIS 2.1 million, offset by the NIS 30.4 million dividend declared.

Subsequent to the balance sheet date, the Company's shareholders' equity increased by NIS 8.6 million as a result of the conversion of debentures, as described previously.

- Current assets amounted to NIS 154.9 million as of March 31, 2007, compared with NIS 111.2 million at the end of 2006. The increase in current assets is primarily the result of the increase in cash balances of the Company and of the increase in the receivables balance for a dividend receivable from Leader in the amount of NIS 24.5 million.
- Investments and loans in investees and other companies amounted to NIS 298.3 million as of the end of March 2007, compared with NIS 328.0 million at the end of December 2006. The decrease is due to the dividend proposed by Leader, as described above.
- The financial liabilities of the Company and the private companies under its control amounted to NIS 231.7 million as of the reporting date, compared with NIS 189.1 million at the end of 2006. The increase is due mainly to the Company's obligation to pay a dividend. The net financial liabilities of the Company as of the end of March 2007, net of its liquid resources amounted to NIS 77 million.

4. Operating results of the Company and the private companies under its control

General

The Company ended the reporting period with income of NIS 2.1 million, compared with net income of NIS 12.5 million in the same period last year.

The following table presents data from the statements of operations of the Company and the private companies under its control in reported NIS millions:

	2006	2005	2004
Revenues from consultation, management, and participation in the earnings of funds	16.0	9.3	42.0
Income (loss) from long-term investments, net	(0.9)	0.1	4.7
Income from marketable securities, net	4.4	3.3	2.6
Total other costs and other expenses	(9.8)	(9.9)	(40.9)
Income before financing	9.7	2.8	8.4
Financing expenses, net	(2.0)	(1.7)	(9.1)
Income (loss) after financing expenses	7.7	1.1	(0.7)
Company's share in earnings of investees, net	0.1	14.0 **	33.3 **
Income taxes	(0.6)	(0.5)	(1.0)
Minority interest in income	(5.1)	(2.1)	(7.4)
Net income for the period	2.1	12.5**	24.2 **

(*) In this report, the meaning of "the data of the Company and the private companies under its control" – the consolidated statement of operations in which public companies owned directly by the Company are presented by the equity method (Leader and Technologies).

(**) The financial statements were restated – also see Note 1.D to the financial statements.

The operating results of the Company and the private companies under its control during the reporting period are explained as follows:

- The Company and the private companies under its control present turnover from consulting, management and participation in the profits of funds of NIS 16.0 million, compared with NIS 9.3 million in the same period last year.
- During the reporting period, the Company presented income from marketable securities of NIS 4.4 million, compared with NIS 3.3 million in the same period last year (includes income on marketable securities from the Sphera and Puma Funds), an increase that also derives from the improvement in the yields of the Sphera Funds.
- The Company's share in the earnings of investee companies in the reporting period includes a loss from the decline in the shareholding percentage in Leader due to the realization of convertible securities in Leader of NIS 2.1 million, compared with income of NIS 14.0 million in the same quarter last year, deriving mainly from the Company's share in the results of Leader due to a gain from the decline in the shareholding percentage in Leader Capital Markets.
- Total costs and other expenses amounted to NIS 9.8 million in the reporting period, similar to the expenses in the same quarter last year.
- The net financing expenses totaled NIS 2.0 million and NIS 1.7 million in the reporting period and in the same period last year, respectively. The increase in financing expenses in the reporting periods was due mainly to the lower volume of income from the loans given to an affiliate than in the same period last year, because of the decrease in the exchange rate of the dollar in the reporting period compared with the same period last year.

Consolidated operating results

The Group's consolidated revenues from sales, services, consultation, management and underwriting totaled NIS 554 million in the quarter, compared with NIS 362 million in the same period last year.

The major changes in the composition of revenues between the reporting periods are as follows: the increase in sales turnover due to the sale of the "Gerard" Building in Manhattan, New York, by Polar International, an increase in revenues in all sectors of the industry segment, mainly in the paints and insulation products, and an increase in the sales turnover in the capital market segment, offset by a decrease in revenues from the digital printing segment, which was due to the decrease in sales of new printing systems.

The income from long-term investments, assets and other, net, in the reporting period amounted to NIS 8 million, compared with NIS 23 million in the same quarter last year.

The income this quarter derived mainly from the sale of Aqwise by Polar Investments. The income in the same quarter last year included a gain of NIS 22 million from the decline in shareholding percentage in Leader Capital Markets, due to its public offering, and a gain of NIS 20 million from the sale of Partner by Polar Communications.

Net financing expenses in the quarter totaled NIS 24 in the reporting period, compared with NIS 26 million in the same period last year.

The following table summarizes the operating data from the consolidated financial statements (in reported NIS millions, as applicable):

	Quarter 1 2007	Quarter 1 2006 (*)	Year 2006 (*)
Revenues from sales, services, consultation management and underwriting	553.5	361.5	1,462.5
Income from long-term investments, assets, etc., net	8.1	22.7	42.4
Income from marketable securities, net	18.3	48.0	126.2
Company's share in earnings of investees, net	-	0.2	9.1
Total revenues	579.9	432.4	1,640.2
Costs of sales and services	374.9	260.3**	1,020.4**
Selling and marketing expenses	55.6	51.7	180.7
General and administrative expenses	58.6	47.8**	218.6**
Company's share in losses of investees, net	1.2	-	-
Financing expenses, net	23.8	26.0	136.4
Total expenses	514.1	385.8	1,556.1
Income before taxes on income	65.8	46.6	84.1
Taxes on income	30.5	12.3	(34.6)
Income after taxes on income	35.3	34.3	49.5
Minority interest in earnings of subsidiaries, net	(24.0)	(10.9)**	0.6**
Loss from discontinued operations	(9.2)	(11.5)	(26.6)
Cumulative effect as of the beginning of the year of change in accounting principles, net	-	0.6	0.6
Net income for the period	2.1	12.5	24.1

See Note 5 to the financial statements for data on operating segments.

(*) Reclassified, for reasons including the treatment of discontinued operations, see Note 3.B.2.C. to the financial statements.

(**) The financial statements were restated – also see Note 1.D to the financial statements.

5. **Liquidity**

Cash flows provided by operating activities of the Company and the private companies under its control in the reporting period amounted to NIS 9.8 million.

Net cash flows provided by investing activities in the reporting period totaled NIS 10.3 million. These cash flows derived mainly from the proceeds on the sale of marketable securities of NIS 12 million.

Cash flows provided by financing activities totaled NIS 0.5 million in the reporting period. The cash flows derived mainly from the increase in short-term credit of NIS 6 million in a subsidiary, which was offset by the purchase of shares of the Company of NIS 0.6 million.

6. **Sources of financing**

The current operations of the Company and the private companies under its control are financed mainly by their equity, as well as by bank credit and debentures. During 2005, the Company changed the mix of its liabilities, from reliance mainly on bank credit to raising capital through debentures issued in public and private offerings. As of March 31, 2007, the balance of liabilities to banks and others and debentures, net of liquid resources, totaled NIS 71 million.

7. **Directors with accounting and financial expertise**

There were no significant changes in the reporting period with respect to the reporting provided on this subject in the Company's Directors' Report, which was included in the Periodic Report of the Company for the year 2006.

8. **Disclosure on the Company's Internal Auditor**

There were no significant changes in the reporting period with respect to the disclosure provided about the Internal Auditor in the Company's Directors' Report, which was included in the Periodic Report of the Company for the year 2006.

9. **Peer review**

On July 28, 2005, the Israel Securities Authority issued a guideline in accordance with Article 36A of the Israeli Securities Law – 1968 in the matter of disclosure pertaining to the agreement to conduct a peer review, the goal of which, according to the guideline, is to initiate a control process for the work of accounting firms, and an examination of the existence of procedures required during the course of the audit work performed by such firms, which will contribute to the existence of an advanced capital market.

10. **Charitable contributions**

The Company regards contributions to the community as an important objective in its business activities and, therefore contributes in equal portions with Leader through the DASH Fund, which is a registered foundation that has been recognized as a not-for-profit organization. The principal purpose of the foundation, as was set forth upon its establishment is: “to establish a fund in Israel for contributions to charitable institutions and enterprises, to institutions, to the needy and indigent, to educational, cultural, sport, artistic, scientific, research, intellectual institutions and enterprises, for scholarships to students, health, welfare and medicine”.

The amount of contributions of the Company and on a consolidated basis (including contributions of the Company's subsidiaries) during the reporting period was NIS 135 thousand and NIS 543 thousand, respectively. The amount of contributions in 2006, consolidated and Company, was NIS 436 thousand and NIS 2,522 thousand, respectively.

11. Quality report regarding exposure to and management of market risks

There were no significant changes in the reporting period with respect to exposure to and management of market risks compared with the reporting on this subject in the Company's directors' report, which was included in the Periodic Report of the Company for the year 2006.

We present below a sensitivity analysis of the Group's financial instruments to changes that may take place in the risk factors to which the Group is exposed (NIS thousands):

Sensitivity to changes in interest rates:

	Gains (Losses) from changes		Fair Value	Gains (Losses) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Dollar Interest					
Long term debit balances	359	179	3,585	(179)	(359)
Loans to investee companies and others	1,367	684	13,671	(684)	(1,367)
Long term loans received	(105)	(53)	(1,053)	53	105
Convertible debentures (dollar-linked)	313	158	(20,269)	(161)	(324)
Total	1,934	968	(4,066)	(971)	(1,945)
NIS Interest					
Long term loans granted (CPI-linked)	(4)	(2)	1,118	2	4
Long term loans granted (unlinked)	(102)	(73)	2,589	29	44
Long term loans received (unlinked)	2,491	939	(240,400)	(2,222)	(3,828)
Long term loans received (CPI-linked)	5,970	3,712	(361,289)	(309)	(2,346)
Debentures (CPI-linked)	22,160	999	(147,081)	(11,040)	(22,090)
Convertible debentures (CPI-linked)	2,218	1,115	(169,323)	(1,126)	(2,264)
Marketable debentures (CPI-linked)	5,903	12,918	(675,907)	(3,447)	(6,652)
Loans in foreign currency	73	36	(10,136)	(36)	(73)
Total	38,709	19,644	(1,600,429)	(18,149)	(37,205)
Euro Interest					
Loans in foreign currency	480	185	(23,236)	(419)	729
Total	480	185	(23,236)	(419)	729
Total Interest	41,123	20,797	(1,627,731)	(19,539)	(38,421)

Sensitivity to changes in market prices:

	Gains (Losses) from changes		Fair Value	Gains (Losses) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
Investment in marketable securities	33,281	16,641	332,807	(16,641)	(33,281)
Structured deposits	1,353	677	13,534	(677)	(1,353)
Total	34,634	17,318	346,341	(17,318)	(34,634)

Sensitivity to changes in exchange rates:

	Gains (Losses) from changes		Fair Value	Gains (Losses) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
<u>Dollar/NIS</u>					
Cash and cash equivalents	4,777	2,389	47,768	(2,389)	(4,777)
Short-term investments	15,757	7,879	157,571	(7,879)	(15,757)
Trade accounts receivable, accounts receivable and debit balances	1,055	526	10,540	(526)	(1,055)
Investment in investees	6,157	3,078	61,571	(3,078)	(6,157)
Trade accounts payable, accounts payable and credit balances	(974)	(486)	(9,731)	486	974
Bank credit	(171)	(85)	(1,708)	85	171
Long-term bank loans received	(10,251)	(5,125)	(102,508)	5,125	10,251
Long-term loans given	8,541	4,270	85,407	(4,270)	(8,541)
Rental income	99	49	988	(49)	(99)
Rental payments	(209)	(105)	(2,091)	105	209
Forward transactions	909	398	(111)	(625)	(1,137)
Total	25,690	12,788	247,696	13,015	(25,918)
<u>Foreign currency (mainly euro)</u>					
Cash	3,841	1,920	38,399	(1,920)	(3,841)
Deposits and loans given	3,034	1,517	30,340	(1,517)	(3,034)
Short-term credit	(3,124)	(1,562)	(31,239)	1,562	3,124
Short-term credit (including current maturities of long-term bank loans)	(4,240)	(2,120)	(42,398)	2,120	4,240
Long-term loans and other liabilities	(780)	(391)	(7,804)	391	780
Investment in investees and other companies	2,458	1,230	24,588	(1,230)	(2,458)
Accounts receivable and debit balances	16	8	158	(8)	(16)
Trade accounts payable	(15)	(7)	(59)	7	15
Telit shares	7,427	3,713	74,270	(3,713)	(7,427)
Total	8,617	4,308	86,255	(4,308)	(8,617)

Transactions from trading in the derivatives market

As of the balance sheet date, a subsidiary of Urdan, Aloni, entered into forward transactions for the purchase of dollars versus the shekel in an amount of \$2.2 million, purchased at rates of between NIS 4.156 to 4.241 to the dollar, which, as of the balance sheet date generated a loss of NIS 111 thousand.

The aforementioned transactions are for a period ending on June 29, 2007. The maximum derivatives position of Aloni during the period was in call options to purchase \$2.5 million.

Subsequent to the balance sheet date, in April 2007, Technologies invested \$1,850 thousand in a structured deposit for a one-year period, based on the shekel-dollar exchange rate.

Polar Communications invested in structured deposits based on interest rates, exchange rates or share prices, the balance of which as of March 31, 2007 was NIS 13.5 million.

In view of the existence of dollar liabilities on the books of the Company and the private companies under its control, the Company and the private companies under its control occasionally enter into transactions to hedge against the risk of a change in the exchange rate of the dollar.

As of the balance sheet date, the Company and Leader have no positions in derivatives.

In addition to the above, the Company and Leader, by themselves and through a subsidiary of theirs, trade in the "Maof" derivatives market through the purchase and sale of derivative financial instruments, so that the maximum exposure deriving from this activity does not exceed NIS 15 million for each of them. The Company and Leader equally share the risks, expenses and income deriving from these activities.

In the reporting period, the Company and Leader decided to increase the scope of their exposure for trading in derivatives on the stock exchange in Romania by €1.5 million, which will be divided equally between the Company and Leader.

12. Report of linkage bases (in reported NIS millions):

As of March 31, 2007	Unlinked	CPI- linked	foreign currency- linked	Other/ Non- monetary	Total
Assets:					
Cash and cash equivalents	617.0	-	241.9	-	858.9
Short-term deposits and marketable securities	127.5	19.2	185.2	0.9	332.8
Current maturities and loans granted	9.9	9.6	7.1	-	26.6
Trade accounts receivable	397.5	2.0	110.8	-	510.3
Accounts receivable and debit balances	63.2	22.3	17.9	22.6	126.0
Inventory and projects in process	-	-	-	429.4	429.4
Investment real estate	-	-	-	672.0	672.0
Long-term investments in investee and other companies	50.5	205.0	110.0	240.3	605.8
Long-term deposits and loans granted	62.9	22.7	93.0	-	178.6
Fixed assets, net	-	-	-	414.1	414.1
Other assets and deferred charges	-	-	-	122.1	122.1
Assets allocated to discontinued operations	-	-	-	352.4	352.4
Total assets	1,328.5	280.8	765.9	2,253.8	4,629.0
Liabilities:					
Short-term credit from banks and others	307.0	227.0	61.1	-	595.1
Trade accounts payable	116.4	9.0	105.7	-	231.1
Liabilities for short sales	304.2	-	-	-	304.2
Accounts payable and credit balances	160.3	82.6	35.4	17.8	269.1
Dividends payable	30.3	-	-	-	30.3
Advances from customers	-	-	-	106.1	106.1
Long-term liabilities to banks and others	299.8	439.3	212.2	1.0	952.3
Debentures	-	648.3	60.0	-	708.3
Convertible debentures	-	100.9	24.0	-	124.9
Accrued severance pay, net	0.3	-	-	12.0	12.3
Deferred taxes	-	-	-	12.3	12.3
Total liabilities	1,218.3	1,507.1	498.4	149.2	3,316.8
Minority interest	-	-	-	702.7	702.7
Receipts on account of options issued in subsidiaries	-	-	-	18.7	18.7
Liabilities allocated to discontinued operations	-	-	-	293.7	293.7
Shareholders' equity	-	-	-	240.9	240.9
	1,218.3	1,507.1	498.4	1,405.2	4,629.0
	110.2	1,226.3	267.5	848.6	-

As of December 31, 2006	Unlinked (*)	CPI- linked(*)	foreign currency- linked(*)	Other/ Non- monetary(*)	Total
Assets:					
Cash and cash equivalents	207.8	-	228.4	-	436.2
Marketable securities	277.4	23.8	168.2	0.9	470.3
Current maturities and loans granted	11.9	1.3	5.0	-	18.2
Trade accounts receivable	321.2	-	90.2	-	411.4
Accounts receivable and debit balances	103.2	21.2	38.1	24.2	186.7
Inventory and projects in process	-	-	-	492.4	492.4
Real estate	-	-	-	482.1	482.1
Long-term investments in investees and other companies	48.8	236.1	104.9	198.9	588.7
Long-term deposits and loans granted	62.3	27.5	39.0	-	128.8
Fixed assets, net	-	-	-	585.2	585.2
Other assets and deferred charges	-	-	-	122.5**	122.5
Assets allocated to discontinued operations	-	-	-	334.9**	334.9
Total assets	1,032.6	309.9	673.8	2,241.1	4,257.4
Liabilities:					
Short-term credit from banks and others	371.3	245.8	158.2	-	775.3
Trade accounts payable	118.5	11.4	81.4	-	211.3
Accounts payable and credit balances	167.5	59.8	41.7	0.5	269.5
Advances from customers	-	-	-	117.9	117.9
Long-term liabilities to banks and others	340.6	434.1	139.8	1.0	915.5
Debentures	-	528.8	60.1	-	588.9
Convertible debentures	-	98.8	30.4	-	129.2
Accrued severance pay, net	0.3	-	-	10.6	10.9
Deferred taxes	-	-	-	12.0	12.0
Liabilities allocated to discontinued operations	-	-	-	250.3	250.3
Long-term liabilities	998.2	1,378.7	511.6	392.3	3,280.8
Minority interests	-	-	-	689.0**	689.0
Receipts on account of options issued in subsidiaries	-	-	-	17.7	17.7
Shareholders' equity	-	-	-	269.9**	269.9
	998.2	1,378.7	511.6	1,368.9	4,257.4
	34.4	(1,068.8)	162.2	872.2	-

(*) Reclassified

(**) Restated

The Company thanks its employees for their contribution to the Company and its shareholders for the trust they placed in us.

Itschak Shrem-Chairman of the Board

Yair Fudim, CEO and Director

Date: May 27, 2007

Consolidated Balance Sheets**Reported amounts**

	March 31 2007	March 31 * 2006	December 31 * 2006
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets			
Cash and cash equivalents	856,744	388,763	436,155
Deposits and short-term investments	32,712	16,199	34,839
Marketable securities	300,125	399,766	435,498
Current maturities and loans receivable	28,728	3,627	18,238
Trade receivables	510,314	403,876	411,402
Other receivables	126,031	**116,005	**186,727
Inventory and work-in-process	429,417	283,636	492,353
	2,284,071	1,611,872	2,015,212
Real estate	412,496	483,161	292,450
Real estate for investment	259,479	160,697	189,693
Investments and long-term loans			
Investments in investee and other companies	605,785	682,547	588,657
Loans and deposits	178,640	118,863	128,833
	784,425	801,410	717,490
Fixed assets	414,141	658,555	585,196
Other assets and deferred expenses	122,117	**95,140	**122,499
Assets attributed to discontinued operation	352,356	343,458	334,944
	4,629,085	4,154,293	4,257,484
Current liabilities			
Credit from banks and others	615,584	598,086	775,292
Suppliers and service providers	231,063	217,202	211,360
Accounts payable and credit balances	296,087	260,818	264,776
Liability due to selling short of securities	304,184	6,835	4,675
Payable in respect of dividend	30,359	14,379	-
Customer deposits	106,126	88,387	117,864
	1,583,403	1,185,707	1,373,967
Long-term liabilities			
Credit from banks and others	952,296	993,447	915,551
Debentures	708,330	605,969	588,941
Debentures convertible into shares	104,425	142,632	129,219
Employee retirement benefit, net	12,279	**11,804	10,901
Deferred taxes	12,342	9,272	12,035
	1,789,672	1,763,124	1,656,647
Minority interest	702,663	**729,495	**688,979
Receipts from share options issued by subsidiaries	18,697	25,554	17,641
Liabilities attributed to discontinued operation	293,707	185,673	250,377
Shareholders' equity	240,943	**264,740	**269,873
	4,629,085	4,154,293	4,257,484

(*) Reclassified, among other things due to discontinued operation.

(**) Restated

Date of approval: May 27, 2007

Consolidated Statements of Operations**Reported amounts**

	For the three months ended		For the
	March 31	March 31	year ended
	2007	*2006	December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Income			
Income from sales, services, consulting, management and underwriting	553,471	361,480	1,462,508
Gain on marketable securities, net	18,287	22,724	42,389
Gain on sales of investments, loans and assets, net	5,960	48,026	126,197
Company's equity in earnings of investment, net	913	166	9,097
	578,631	432,396	1,640,191
Costs and expenses			
Cost of sales and services	374,970	**260,319	**1,020,453
Selling and marketing	55,507	51,692	180,743
General and administrative	58,552	**47,820	**218,564
Financing expenses, net	23,824	26,005	136,376
	512,853	385,836	1,556,136
	65,778	46,560	84,055
Earnings before taxation income			
Taxes on income	(30,486)	(12,302)	(34,571)
Earnings from operations after taxes on income	35,292	34,258	49,484
Minority interest in earnings of subsidiaries, net	(24,018)	** (10,865)	**643
	11,274	23,393	50,127
Earning before cumulative effect as at beginning of year of change in accounting principles, net			
Cumulative effect as at beginning of year of change in accounting principles, net	-	619	619
Loss from discontinued operation	(9,164)	(11,505)	(26,615)
Net earnings for the period	2,110	12,507	24,131
Net earning per share capital:			
Basic earning per share:			
Earning from operating activities	0.63	**1.30	**2.78
Earnings from cumulative effect as at beginning of year of change in accounting principles, net	-	0.03	0.03
Loss from discontinued operation	(0.51)	(0.64)	(1.48)
Net earnings	0.12	0.69	1.33
Diluted earnings per share:			
Earning from operating activities	0.21	**1.11	**2.00
Earnings from cumulative effect as at beginning of year of change in accounting principles, net	-	0.03	0.03
Loss from discontinued operation	(0.25)	(0.57)	(1.31)
Net earnings	(0.04)	0.57	0.72

(*) Reclassified, among other things due to discontinued operation.

(**) Restated

Statements of Changes in Shareholders' Equity**Reported amounts**

	Share capital	Premium on shares and capital reserves	Receipts from issuance of options	Adjustments from the translation of financial statements of autonomous foreign investees of an affiliate	Loans to employees for the purchase of shares	Company shares held by the Company and subsidiary	Dividend proposed	Retained losses	Total
	NIS thousands								
Balance as at January 2007 (Audited)	25,665	166,877	3,857	(2,502)	(1,162)	(11,364)	30,359	58,143	269,873
Three month period ended March 31, 2007 (Unaudited)									
Effect of implementation of new standard accounts	-	-	-	-	-	-	-	1,334	1,334
Conversion of options into shares of the Company	42	(42)	-	-	-	-	-	-	-
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	-	(1,455)	-	-	-	-	(1,455)
Dividend declared in the current period	-	-	-	-	-	-	(30,359)	-	(30,359)
Purchase of company shares	-	-	-	-	-	(560)	-	-	(560)
Net earnings for the period	-	-	-	-	-	-	-	2,110	2,110
Balance as at March 31, 2007 (Unaudited)	25,707	166,835	3,857	(3,957)	(1,162)	(11,924)	-	31,228	240,943

Statements of Changes in Shareholders' Equity (cont'd)**Reported amounts**

	Share capital	Premium on shares and capital reserves	Receipts from issuance of options	Adjustments from the translation of financial statements of autonomous foreign investees of an affiliate	Loans to employees for the purchase of shares	Company shares held by the Company and subsidiary	Dividend proposed	Retained losses	Total
	NIS thousands								
Balance as at January 2006 (Audited)	25,548	166,539	3,201	(102)	(1,199)	(7,300)	14,379	*63,141	264,207
Three month period ended March 31, 2006 (Unaudited)									
Inclusion of negative goodwill in retained earnings (*)	-	-	-	-	-	-	-	943	943
Splitting of capital component from convertible debentures (*)	-	-	592	-	-	-	-	-	592
Conversion of options into shares of the Company	112	(112)	-	-	-	-	-	-	-
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	-	1,860	-	-	-	-	1,860
Dividend declared in the current period	-	-	-	-	-	-	** (14,379)	-	(14,379)
Capital reserves of investee company	-	83	-	-	-	-	-	-	83
Purchase of company shares	-	-	-	-	-	(1,073)	-	-	(1,073)
Net earnings for the period	-	-	-	-	-	-	-	*12,507	12,507
Balance as at March 31, 2006 (Unaudited)	<u>25,660</u>	<u>166,510</u>	<u>3,793</u>	<u>1,758</u>	<u>(1,199)</u>	<u>(8,373)</u>	<u>-</u>	<u>76,591</u>	<u>264,740</u>

(*) Restated

(**) Reclassified

Statements of Changes in Shareholders' Equity (cont'd)**Reported amounts**

	Share capital	Premium on shares and capital reserves	Receipts from issuance of options	Adjustments from the translation of financial statements of autonomous foreign investees	Loans to employees for purchase of shares	Company shares held by the Company and subsidiary	Dividend declared subsequent to balance sheet date	Retained earnings	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Balance as at January 1, 2006 (Audited)	25,548	166,539	3,201	(102)	(1,199)	(7,300)	14,379	*63,141	264,207
Changes in the year ended December 31, 2006 (Audited)									
Inclusion of negative goodwill in retained earnings	-	-	-	-	-	-	-	1,230	1,230
Splitting of capital component from convertible debentures	-	-	592	-	-	-	-	-	592
Conversion of options into shares of the Company	117	(117)	-	-	-	-	-	-	-
Purchase of Company shares	-	-	-	-	-	(4,064)	-	-	(4,064)
Capital reserves of investee company	-	455	-	-	-	-	-	-	455
Benefit due to allocation of option warrant	-	-	64	-	-	-	-	-	64
Repayment of loan to employees for purchase of shares	-	-	-	-	37	-	-	-	37
Dividend	-	-	-	-	-	-	(14,379)	-	(14,379)
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	-	(2,400)	-	-	-	-	(2,400)
Dividend declared subsequent to balance sheet date	-	-	-	-	-	-	**30,359	**(30,359)	-
Net profit for the year	-	-	-	-	-	-	-	*24,131	24,131
Balance as at December 31, 2006 (Audited)	25,665	166,877	3,857	(2,502)	(1,162)	(11,364)	30,359	58,143	269,873

(*) Restated

(**) Reclassified

Consolidated Statements of Cash Flows**Reported amounts**

	For the three months ended		For the
	March 31	March 31	year ended
	2007	2006*	December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities:			
Net earnings	2,110	12,507	**24,131
Adjustments required to reconcile cash from operating activities (Annex A)	73,792	(612)	** (42,309)
Net cash inflow (outflow) from operating activities - continued	75,902	11,895	(18,178)
Net cash inflow (outflow) from operating activities - discontinued	(32,187)	26,237	51,221
Net cash inflow from operating activities	43,715	38,132	33,043
Cash flows from investing activities:			
Purchase of fixed assets, real estate and amounts charged to projects under construction and other assets	(100,073)	(14,709)	(124,559)
Proceeds from sale of fixed assets and other assets	8,310	4,643	35,093
Proceeds from sale of marketable securities, short-term investments and deposits, net	458,794	66,753	59,856
Investments in investee and other companies (including through loans and capital notes), net	(20,395)	(75,962)	(132,330)
Changes in deposits and loans granted, net	(7,428)	8,718	(43,139)
Proceeds from sale of investment in investee and other companies	44,119	31,149	275,464
Companies formerly fully or proportionately consolidated no longer consolidated and activities sold (Annex D)	-	(121)	(121)
Companies formerly proportionately consolidated initially fully consolidated (Annex C)	-	2,277	(13,113)
Net cash inflow from investment activities - continued	383,327	22,748	57,151
Net cash outflow from investment activities - discontinued	(6,429)	(767)	(62,983)
Net cash inflow (outflow) from investment activities	376,898	21,981	(5,832)
Cash flows from financing activities:			
Purchase of treasury shares	(560)	(1,073)	(4,064)
Issuance of shares in proportionately consolidated companies (Annex E)	-	-	6,718
Dividend to minority in subsidiaries	(13,464)	(9,475)	(47,272)
Repayment of loans and capital notes, net	(69,892)	*(78,425)	(41,348)
Issuance of marketable securities of subsidiaries	7,266	22,229	77,427
Receipt (repayment) of short-term credit, net	(92,740)	(44,297)	75,279
Repayment of loans for the purchase of company shares	-	-	37
Issue of debentures and convertible debentures in consolidated companies, net	120,487	43,066	80,315
Receipts from issuance of shares in subsidiary	20,391	-	-
Dividend	-	-	(14,379)
Repayment of debentures and convertible debentures in consolidated companies	(8,499)	(61,532)	(222,101)
Net cash inflow from financing activities - continued	(37,011)	(129,507)	(89,388)
Net cash inflow (outflow) from financing activities - discontinued	33,752	(28,408)	(40,466)
Net cash outflow from financing activities	(3,259)	(157,915)	(129,854)
Translation differences with respect to cash balances in autonomous investee companies - continued	314	-	-
Translation differences with respect to cash balances in autonomous investee companies - discontinued	(1,629)	(203)	2,740
Decrease in cash and cash equivalents - continued	(4,550)	(2,938)	(52,228)
Increase (decrease) in cash and cash equivalents - discontinued	420,589	(95,067)	(47,675)
Balance of cash and cash equivalents at beginning of period	436,155	483,830	483,830
Balance of cash and cash equivalents at end of period	856,744	388,763	436,155
(*)	Reclassified		
(**)	Restated		

Consolidated Statements of Cash Flows (cont'd)**Reported amounts****Annex A -
Adjustments required to reconcile cash from
operating activities**

	For the three months ended		For the
	March 31	March 31	year ended
	2007	*2006	December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Income and expenses not involving cash flows:			
Depreciation and amortization	11,287	**11,749	**47,326
Company's equity in losses (earnings) of investee companies less of dividend received, net	(12,301)	** (908)	** (10,651)
Minority interest in results of subsidiaries, net	24,018	**10,865	** (643)
Gain on marketable securities and deposits, net	(20,893)	(19,412)	(34,142)
Expenses (income) from financing activities	3,216	164	10,466
Deferred taxes, net	22,819	1,371	(5,912)
Increase (decrease) in liability for employee severance benefits, net	1,528	3,281	1,405
Loss (gain) on sale and amortization of investments and assets, net	6,087	(27,626)	(44,706)
Cost of share-based payment transactions	823	160	526
Loss from discontinued operation	9,164	11,505	26,615
Cumulative effect as at beginning of year of change in accounting principles, net	-	(619)	(619)
Changes in asset and liability items			
Decrease (increase) in trade receivables and other receivables	(77,152)	(5,308)	(69,090)
Decrease (increase) in inventory and in land business inventory holdings, net	27,222	18,022	24,795
Increase (decrease) in suppliers and service providers	77,974	(3,856)	12,321
	73,792	(612)	(42,309)

(*) Reclassified, among other things due to discontinued operation.

(**) Restated

Consolidated Statements of Cash Flows (cont'd)**Reported amounts****Annex B - Non-cash transactions**

	For the three months ended		For the
	March 31	March 31	year ended
	2007	2006	December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Proceeds from sale of investment in investee	-	-	10,952
Proceeds from sale of fixed assets on credit	-	-	49
Purchase of fixed assets on credit	2,110	2,941	2,609
Conversion of debentures into shares of subsidiary	10,500	3,564	18,545
Amounts receivable due to proceeds from sale of land, building for rent and fixed assets	-	-	579
Dividend to minority in subsidiaries	30,580	8,564	-
Dividend proposed	30,359	14,379	-
Exercise of option warrants in subsidiary	80	-	229
Conversion of convertible securities in subsidiary	-	741	-

Annex C - Initially fully or proportionately consolidated companies and acquisition of activities

	For the three months ended		For the
	March 31	March 31	year ended
	2007	2006	December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Working capital, net (excluding cash and cash equivalents)	-	(1,064)	(3,040)
Long-term liabilities	-	(3,962)	58
Excess cost upon liabilities	-	5,357	5,357
Fixed assets, net	-	-	(5,274)
Goodwill created upon acquisition	-	2,998	2,998
Long-term receivable and given loans	-	(1,052)	(125)
Other assets	-	-	(13,087)
	-	2,277	(13,113)

Consolidated Statements of Cash Flows (cont'd)**Reported amounts****Annex D - Companies formerly fully or proportionately consolidated
no longer consolidated and activities sold.**

	For the three months ended		For the
	March 31	March 31	year ended
	2007	2006	December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Working capital, net (excluding cash and cash equivalents)	-	(54)	(54)
Fixed and other assets	-	2,557	2,557
Long-term liabilities	-	(2,220)	(2,220)
Capital gain (loss) on sale or issuance to third party	-	(404)	(404)
	-	(121)	(121)

Annex E – Issuance of shares in proportionately consolidated initially fully consolidated companies

	For the three months ended		For the
	March 31	March 31	year ended
	2007	2006	December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Working capital, net (excluding cash and cash equivalents)	-	-	(2,239)
Other assets, net	-	-	134
Minority interest	-	-	8,823
	-	-	6,718