

Shrem, Fudim, Kelner and Co. Ltd.

Directors' Report on the Company's State of Affairs As of June 30, 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 six and three-month periods ended June 30, 2007 ("the reporting period" or "the quarter", respectively), which also includes an update of significant changes or developments 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.

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 2.7.5 below. As a result of the exercise of the said option, Leader effectively holds 30% of the capital of Polar Investments and accordingly it ceased consolidating the financial statements of Polar Investments in its financial statements as from the second quarter of 2007, and the investment in Polar Investments is presented as at June 30, 2007 on the equity basis.

The Company ended the reporting period with net income of NIS 12.4 million, compared with net income of NIS 3.4 million in the same period last year, and with net income of NIS 10.3 million in the quarter, compared with a loss of NIS 9.1 million in the same quarter last year.

The Company's areas of activity after Polar Investments has become an affiliated company as described above are as follows –

Capital markets: - The Company is active on 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.

Real Estate and Infrastructures – The Company operates through directly and indirectly held investees – Leader Real Estate, Leader International and Leadmas.

Industry: - Through Urdan and the companies controlled by Urdan it 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.

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

Trade and Services – Mainly through investees of Polar Communications - Reshet and Barak Printing.

The Company is engaged, directly and through its investee companies, in the purchase, founding, improvement and business 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.

On August 23, 2007, Leadmas Properties Limited (hereinafter – Leadmas), an investee company of Leader Real Estate International Limited (hereinafter – International), published a prospectus for the public issuance of shares and options (Series 1) on the Tel Aviv Stock Exchange.

The total amount of NIS 42 million was raised in the issuance (net of issuance expenses). As a result of the aforementioned issuance, the holding of International in Leadmas declined from 50% to 42.2%. Leader Real Estate is anticipated to record a gain from the decline in its rate of holding in the amount of NIS 3.2 million in its financial statements for the third quarter of 2007.

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 Paragraph 2.7.3 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 28 million and subsequent to the balance sheet date, Leader Capital Markets declared an additional dividend of NIS 10 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, Leader 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 \$250 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 In August 2004 the Knesset passed in the third reading Amendment No. 24 of the Securities Law – 1968, which mainly changes the method of underwriting issuances of securities in Israel (“the Underwriting Law”).

The Underwriting Law adopts some of the underwriting methods practiced in the U.S. and Western Europe, and it makes it possible, among other things, to significantly reduce the period of the underwriter's exposure to fluctuations in the capital market that could occur from the date the underwriting commitment is given until the date of the sale of the securities to the public.

In July 2007, regulations took effect intended to arrange various matters as required by the Underwriting Law, and their applicability was conditioned on their publication.

Because of the short period of time that has elapsed since the new underwriting arrangement took effect, the Company is unable to assess the extent of the influence of the change on the activities of the capital market segment.

2.1.4 The results of the capital market segment in the reporting quarter indicated income of NIS 84.7 million, compared with income of NIS 45.5 million in the same period last year (in the same period last year, the segment's results included the Company's share in the gain of NIS 22 million from the decline in the shareholding percentage of Leader Capital Markets). The segment's income in the quarter totaled NIS 43.4 million, compared with income of NIS 7.7 million in the same quarter last year.

Since year 2007, the results of the capital market segment also include the activities of the new Sphera funds, as described previously. Likewise, the segment's results 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 7.5 billion, which include investment portfolios (including funds) totaling NIS 5.5 billion and provident funds totaling NIS 2.0 billion.

2.2 Real estate and infrastructures

As of the date of this report, most of the activities of the real estate companies are carried out through Leader Real Estate, directly and through International. Presently, Leader Real Estate is involved in projects in Germany and Eastern Europe (mainly in Romania, Bulgaria, Latvia, Croatia and Russia), totaling more than €300 million (the share of Leader Real Estate is €125 million). The equity invested by Leader Real Estate in these projects totals €44 million. In most of the projects, the share of Leader Real Estate or International is 50%.

- 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") (the owner of property called Lungomare), which is wholly-owned by the third party, and the assignment of 50% of shareholder loans in the Croatian Company to a Holland company that holds shares in this 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, 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.

In July 2007, Leader Real Estate, through a subsidiary, entered into an agreement with the same third party to purchase 50% of the shares of two Croatian companies ("the additional Croatian companies", owners of property called Lovercica and Costabela), wholly-owned by the said third party, and the assignment of 50% of the shareholder loans in the additional Croatian companies to the Holland company. The additional Croatian companies are the registered owners of properties in Croatia encompassing more than 20 thousand square meters, zoned for residential construction.

In July 2007, the subsidiary paid to the third party, as noted, for the purchase of 50% of the additional Croatian companies and the assignment of 50% of the shareholder loans in the additional Croatian companies, the sum of €5 million and has also undertaken to pay an additional sum of €1 million.

Proximate to the publication date of this report, the Company's board of directors approved an undertaking of Leader Holland for its purchase of half of the rights of a third party in an agreement in which it has undertaken with the current shareholders of a Croatian company called Grupa ("Grupa"), to purchase all of the share capital of Grupa they own ("share purchase agreement"). Following the closing of the purchase, the third party and Leader Holland will each own 50% of the share capital of Grupa. The consideration that Leader Holland will pay for the purchase is comprised of €4.2 million (including related costs and due diligence testing), and half of the amounts that the third party has undertaken to pay to the current shareholders of Grupa pursuant to the share purchase agreement – in other words, a sum not to exceed €5.1 million (Holland Leader's share). The closing of the transaction pursuant to the share purchase agreement, is expected during September 2007.

Grupa owns 100% of the share capital of another foreign company that owns a real estate property zoned for residential construction on the Estrian Peninsula encompassing 12,500 square meters and on which buildings stand that are earmarked for demolition. Pursuant to the share purchase agreement, the other foreign company will be merged into Grupa, so that following the merger, its assets will be held by Grupa.

Additionally, the undertaking will include additional arrangements, such as the manner in which directors will be appointed in Grupa, mechanisms for investing in other assets, etc.

- 2.2.2 In April 2007, Leader Real Estate, through an investee (25%), 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 11 commercial properties in Germany at a total cost of €54 million.

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 In the reporting period, Leader Real Estate signed an agreement to purchase shares in International (formerly S.L. Real-Estates Limited) 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 **Presented below is a description of noteworthy events during the reporting period related to International**

- (a) International's undertaking through the Cyprus company Leadmas, the shares of which were listed for trading subsequent to the balance sheet date, as explained below –

In the reporting period, International signed an agreement to purchase 50% of the shares of Leadmas, a Cyprus company, in consideration for €4,382 thousand, and in addition has undertaken to provide a shareholder loan to this company of €7,445 thousand. The investment was made in two stages, based on the progress of the projects in which the Cyprus company was engaged.

For details on the said projects, see Note 3.B.5 to the financial statements.

On August 23, 2007, Leadmas published a prospectus for a public offering of shares and options (Series 1) on the Tel Aviv Stock Exchange.

The total capital raised (net of issue costs) amounted to NIS 42 million. As a result of this offering, International's shareholding percentage in the subsidiary fell from 50% to 42.5%, and is expected to record a gain in the third quarter of 2007 from the decline in the shareholding percentage of NIS 5 million. Leader Real Estate's share is NIS 3.2 million.

- (b) Presented below is a description of the major projects in which International is involved directly

Romania – Bucharest – Pipera Project

International 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.

International entered into an agreement with the Canaf Partnerships (a corporation controlled by the Company – "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, International 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 International will actually receive from the project company, at the rate of 10% to 12%, as stipulated in the loan agreement.

Romania – Bucharest – Voluntar Project

Subsequent to the balance sheet date, International purchased (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. The property is earmarked for residential construction (100 thousand square meters) and commercial space (8 thousand square meters).

The purchase cost of the shares of the foreign Romanian company is €12.1 million, of which €3.5 million was paid concurrent with the signing of the agreement, whereas the balance of the consideration will be paid not later than 12.10.07, bearing interest stipulated in the purchase agreement.

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

International entered into an agreement with Canaf Partnerships (partnerships managed by a company controlled by the Company) to receive a €2 million loan for a 3-year period. The loan bears annual interest at the fixed rate of 9.5%. International also made a one-off payment of €80 thousand to the general partner in the Canaf Partnerships for development fees.

In addition to the aforesaid, Canaf Partnerships is entitled to participate in the net earnings to be received by International from the project company, at the rate of 10%-12%, as stipulated in the loan agreement.

Russia – project near Moscow

International is negotiating to purchase (through a jointly-owned (50%) Russian subsidiary) 100% of the shares of a Russian company which owns the rights to build 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, International signed a preliminary agreement subject to due diligence with results to its satisfaction. The transaction is expected to close during the third quarter of 2007.

Residential projects – Latvia

1. On 8.6.07 was the closing of the undertaking of a wholly-owned Latvian subsidiary of International to purchase 100% (direct and indirect) of the shares of two Latvian companies owning a property in Riga, encompassing 50 thousand square meters and development rights in a construction project on the property. The project contains 7 buildings, of 3-4 stories each, for a total of 500 residential units. In consideration for the shares, the Latvian companies paid €7 million to the Latvian subsidiary. Additionally, the Latvian companies have debt balances comprised of €4.3 million in bank loans and €0.3 million in shareholder loans that were provided by the sellers, to be repaid in installments. The investment in the project is expected to total €43million.

International 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 9.5%. Additionally, International made a one-off payment of €80 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 International will receive from the project company, at the rate of 5%-5.5%, as stipulated in the loan agreement.

2. Subsequent to the balance sheet date, International purchased 100% of the shares of a Latvian company owning property encompassing 33,000 square meters, at a cost of €8.9 million. The project is expected to contain 44,500 square meters of residential construction, at a total investment of €72 million. €4.7 million of the purchase cost was financed through non-recourse loans from a local bank. The purchase amount was deposited in a trust account until the suspending conditions stipulated in the contract are fulfilled.
 3. International is negotiating the purchase (through Latvian subsidiaries) of an 8,500 square meter property at a total cost of €6.8 million. The project is expected to contain 330 residential units at a total cost of €35 million. Presently, International signed a preliminary agreement which is subject to the approval of the property's building rights. The transaction is expected to close during the third quarter of 2007.
 4. International is negotiating the purchase (through a jointly-owned (50%) Latvian subsidiary) of 100% of the shares of a Latvian company owning a property in the area of the Riga port in Latvia, encompassing 47,000 square meters. The project is expected to contain 81,000 square meters of residential construction, at a total cost of €238 million.
- 2.2.6 In January 2007, a partnership held by Polar International (25.5%) ("the partnership") 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 which 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.

During the second quarter of 2007, some of convertible debenture holders of Persay (including Technologies) served notice of the conversion of the convertible debentures to Class A preferred shares of Persay. Technologies converted all of the debentures it had held into shares of Persay, representing 1.8% of Persay's total share capital.

As a result of the transfer of the first payment by AGS and conversion of the debentures, as aforesaid, the shareholding percentage of Technologies in Persay fell from 78.1% to 72.6%. In the second quarter of 2007, Technologies recorded a gain from the decline in its shareholding percentage in Persay of NIS 758 thousand, while it recorded its share in the losses of Persay of NIS 2 million. The equity value of the investment in Persay on the books of Technologies as of June 30, 2007 is NIS 5.2 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. Regarding the tender offer for the shares of Danbar, see Note 3.A.2 to the financial statements.
- 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.E. 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.

Synergy posted net income of NIS 10.1 million and NIS 8.6 million in the reporting period and the quarter, respectively. The indirect share of Technologies in the income of Synergy for the reporting period and the quarter totaled NIS 1.3 million and NIS 1.1 million, respectively.

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

Likewise, 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.E. undertook to invoke all of the rights offered to it pursuant to the prospectus. Accordingly, the partnership acquired 8,248,690 ordinary shares of Synergy for NIS 9,486 thousand (NIS 1.15 per share).

- F. Voltaire Ltd. ("Voltaire") is a company engaged in the development, marketing and production of connectivity products for broadband communications, and is a target company of the Platinum Fund and of Danbar.

The Company has holdings of 36,162 shares in Voltaire at a total cost of NIS 341 thousand. In February 2007, the Platinum Fund invested \$636 thousand in an offering of \$10 million to existing shareholders in Voltaire (at a value of \$110 million after the money).

Subsequent to the balance sheet date, in July 2007, Voltaire closed its initial public offering on the Nasdaq in the U.S.

Voltaire issued 5,770,000 to the public, at a price of \$9 per share. Moreover, Voltaire gave the underwriters an option, for a 30-day-period, to purchase from it 865,462 additional shares ("underwriters' option"). The proceeds from the offering, net of underwriting commissions and issue costs, totaled \$46 million.

Pursuant to a commitment given to the offering underwriters, the Voltaire shareholders, including the Company, the Platinum Fund and Danbar, will not execute trades in the

securities of Voltaire that they own for a 180-day period from the offering date ("restriction period").

The price of the Voltaire share on the stock exchange proximate to the signing date of this report is \$6.1.

- G. Further to the Company's Periodic Report for the year 2006, the Company and Technologies own 4.7% and 9.3% of the capital of Advanced Technology Acquisition Corporation ATAC ("ATAC"), respectively. During the reporting period, the Company and Technologies purchased 466,667 and 933,333 options for the developers, respectively, at a price of \$1 per option, within the framework of the private placement held concurrent with the closing of the initial public offering ("IPO") of ATAC.

ATAC closed the IPO in the U.S. on June 22, 2007, in which it raised \$172.5 million (gross) as a blank check company, with the objective of merging into it the activity of an Israeli or foreign technology company with operations/representation in Israel, or that plans to establish operations in Israel. As a result of the IPO, the Company and Technologies presently hold 1.2% and 2.5% of the capital of ATAC, respectively.

- 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 30 months after 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.c 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, as from March 31, 2007, Telit was no longer consolidated and its operations 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.

During July 2007, Polar Investments sold an additional 4.5% of the share capital of Telit for £1.2 million. In view of the aforesaid, and because Polar Investments intends to sell additional shares of Telit, Polar Investments classified a part of the Telit shares that it still holds as a marketable investment. Consequently, Polar Investments posted a gain from revaluation of the shares to their market value, as of June 30, 2007, of NIS 6.7 million.

- 2.3.3** In March 2007, Polar Investments sold its entire stake in Aqwise (29.9%) to Elron Electronic 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** Further to the Company's Periodic Report for year 2006, regarding the memorandum of understanding signed by Mediound with a strategic investor on June 20, 2007, Mediound signed an investment agreement with Teva, institutional investors and other

private investors ("the agreement"). Pursuant to the provisions of the agreement, it was agreed that in the first stage, Teva would purchase shares from the Mediwound shareholders (including Polar Communications) totaling \$10 million and will invest \$5 million in Mediwound in consideration for an allotment of shares. Additionally, Mediwound will allot shares to additional investors in consideration for \$15 million. The purchase from the shareholders and the above investment are at a company value for Mediwound of \$100 million before the money. The transaction was closed in August 2007.

- 2.3.5** Subsequent to the balance sheet date, in July 2007, YES issued debentures to institutional investors in a private placement offering totaling NIS 620 million. For additional information and regarding other 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 first quarter of 2007, the shareholders of Reshet-Noga Ltd. ("Reshet") provided additional shareholder loans to Reshet totaling NIS 11 million. Polar Communications' share in these loans, at that time, was NIS 3.3 million.

On June 5, 2007, agreements were signed whereby a wholly-owned subsidiary of Polar Communications ("the subsidiary") sold 10% of the capital and ownership of Reshet to L.I.N. Or, and sold an additional 7% 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.

The transaction, which was conditional on receipt of regulatory approvals, was closed on June 29, 2007. Consequently, Polar Communications posted a pre-tax gain of NIS 16.2 million (after-tax gain of NIS 12.5 million). In consideration for the sale of the said Reshet shares, including for repayment of the pro rata share of the shareholder loans provided by the subsidiary to Reshet, the subsidiary received, subsequent to the balance sheet date, the sum of NIS 36.6 million plus interest from June 29, 2007, and Polar Communications was released from the pro rata share of the guarantees it had furnished to Reshet.

After this transaction, the subsidiary remains with holdings of 13% in the capital and ownership of Reshet.

2.5 Industry

- 2.5.1** EER Environmental and Energy Resources (Israel) Ltd. ("EER") (an affiliate held by the Company, Urdan and Technologies in stakes of 7.5%, 17.4% and 3%, respectively) 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 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"). In the second quarter, 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 requests 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 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 \$71.6 million). Regarding the balance of the guarantee frameworks 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.

In the reporting period, the guarantors provided EER with shareholder loans totaling \$1 million, of which the share of Urdan, the Company and Technologies is \$0.3 million, \$0.6 million and \$0.1 million, respectively, replacing the furnishing of part of the guarantees,

As of the report date, the balance of the guarantees utilized (including through the providing of shareholder loans, as noted) totals \$3 million.

Regarding the request by EER to certain of its shareholders to convert shareholder loans, see Note 3.C to the financial statements.

- 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.

- 2.5.3** Further to the negotiations now being conducted between the subsidiary of Urdan (100%) Orlight Industries (1959) Ltd. ("Orlight") with the controlling shareholder in Cycle Group Inc. ("Cycle"), guarantees were canceled totaling NIS 8.2 million, which were furnished by Orlight in the past in favor of Cycle, toward two banks, and Orlight will pay the sum of \$5.5 million to repay part of Cycle's debt to one of the banks. This sum was charged as "other expenses" in the statement of operations for the second quarter.

Additionally, Orlight will transfer to the controlling shareholder in Cycle all of its holdings in Cycle (a minor stake on a fully-diluted basis), and in a company related to it (15%), the value of which in the books of Orlight were written off in the past.

2.6 Digital Printing

During and subsequent to the reporting period, the board of directors of Polar Communications resolved to increase the amount of the loans to Nipson, by an additional sum of up to €5.5 million. As of the date of this report, €5.3 million had been transferred. In total, the loans given to Nipson as of June 30, 2007 and as of the date of this report amount to €9.3 million and €1.6 million, respectively.

The losses of the digital printing segment increased to NIS 14.3 million in the reporting period, compared with a loss of NIS 6.5 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 improvement in the sales of new equipment in the second half of 2007, compared with the first half of the year, although it stated that because of the low level of sales in the first half of 2007, the results of Nipson for the full year 2007 are expected to be significantly lower than earlier forecasts. Nipson also reported that it expects continuation of the modest increase in revenues from disposable products.

2.7 Other events

- 2.7.1** In the reporting period, 9,755,182 par value of debentures (Series B) (NIS 8,000 thousand par value by an interested party) of the Company were converted to 1,311,549 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 1,824,818 par value. As a result of the conversion, the shareholders' equity of the Company increased to NIS 9.1 million. Subsequent to the reporting period, an additional 420,000 par value of debentures (Series B) were converted to 60,000 ordinary shares, NIS 1 par value each, of the Company.

As of the publication date of the financial statements, the balance of the debentures of the Company (Series B) is 1,824,818 par value.

Likewise, during 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** In June 2007, a wholly-owned subsidiary of the Company sold, in an off-exchange transaction, 12,744,000 par value of straight debentures (Series D) of the Company for NIS 13 million. Subsequent to the balance sheet date, another wholly-owned subsidiary of the Company purchased 500,000 par value of straight debentures (Series D) of the Company. Therefore, presently, the subsidiaries hold 14,756,000 par value of straight debentures (Series D) of the Company, out of a series of 90,000,000 par value that were issued pursuant to the Company's prospectus from June 2005.

- 2.7.3** 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").

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

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

- 2.7.4** 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.

In addition, during the reporting period, investors who are not interested parties in Leader converted 4,000,000 par value of debentures, Series B and 270,000 par value of debentures, Series C, to 579,963 ordinary shares of Leader.

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

During the reporting period, 60,000 options (Series J), 28,151 options (8/04) and 66,667 options (11/04) 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.

2.7.5 Private placement in Polar Investments to a corporation controlled by Mr. Feldman:

Further to the investment agreement between Polar Investments and a company controlled by Mr. Gil Feldman ("the Investor") from December 2006, and its amendments from May and June 2007, on 15.2.2007 and 6.6.2007, the Investor transferred advances to Polar Investments totaling NIS 20.7 million and NIS 10 million, respectively, and on 15.7.2007 ("the closing date"), the Investor paid Polar Investments NIS 135.6 million.

Accordingly, on the closing date, shares were allotted to the Investor and shares registered to bearer were deposited with a trustee, all as provided in the agreement. See Note 4.C to the financial statements.

Regarding the option agreement and shareholders agreement between Leader and the Investor, see Note 3.B.2 to the financial statements.

After closing the allotment transaction, as of the publication date of this report, Leader effectively holds 30% of the share capital of Polar Investments, and accordingly, beginning from the second quarter of 2007, the consolidation of Polar Investments in the financial statements of Leader was discontinued, and the investment in Polar Investments in the books of Leader as of June 30, 2007 is stated at its equity value.

2.7.6 In August 2007, Polar Investments published a "shelf prospectus" for the issuance of five series of CPI-linked debentures and five series of options exercisable for debentures.

Polar Investments is able to raise funds pursuant to this prospectus for two years from its publication date.

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 June 2007:

	As of June 30, 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	1,389.5	101.7	116.7	111.2
Real estate	222.1	-	-	-
Investment real estate	35.7	-	-	-
Investments and loans in investees (affiliates) and other	678.9	329.6	310.2	328.0
Fixed assets	299.6	22.2	24.3	24.2
Other assets and deferred charges	75.6	-	1.5	1.5
Total assets	2,701.4	453.5	452.7	464.9
Current liabilities	857.5	50.2	54.3	62.6
Long-term liabilities	1,000.2	138.3	123.8	126.5
Minority interest	568.5	-	9.6	5.9
Receipts on account of options issued by subsidiaries	10.2	-	-	-
Shareholders' equity	265.0	265.0	265.0	269.9
Total liabilities and shareholders' equity	2,701.4	453.5	452.7	464.9

(*) 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 June 30, 2007 amounted to NIS 265.0, compared with NIS 269.9 million as of December 31, 2006, representing 59% 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 12.4 million, from the increase in shareholders' equity of NIS 9.1 million, as a result of the conversion of debentures, as described previously, offset by the NIS 30.4 million dividend distributed in the reporting period.

- Current assets amounted to NIS 116.7 million as of June 30, 2007, compared with NIS 111.2 million at the end of 2006. The increase in current assets is expressed mainly in increases in the balances of cash and marketable securities of the Company.
- Investments and loans in investees and other companies amounted to NIS 310.2 million at the end of June 2007, compared with NIS 328 million at the end of December 2006. The decrease is due to

the dividend from Leader, as described above, which was deducted from the Company's share in the earnings of investees of NIS 4.3 million.

- The financial liabilities of the Company and the private companies under its control amounted to NIS 178.1 million, compared with NIS 189.1 million at the end of 2006. The decrease is due mainly to the conversion of convertible debentures to capital during the reporting period. The Company's net financial liabilities as of the end of June 2007, net of its liquid resources, amount to only NIS 61 million.

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

General

The Company ended the reporting period with net income of NIS 12.4 million, compared with net income of NIS 3.4 million in the same period last year, and net income of NIS 10.3 million in the quarter, compared with a loss of NIS 9.1 million in the same quarter last year.

Profitability in the reporting period was characterized by income from the capital market segment, especially from the activity of the Sphera Fund and other funds managed by the Company.

The following table presents data from the statements of operations of the Company and the private companies under its control in reported NIS millions of June 2007:

	First Half 2007	First Half 2006	Quarter II 2007	Quarter II 2006
Revenues from consultation, management, and participation in the earnings of funds	37.5	18.5	21.6	9.2
Income (loss) from long-term investments, net	(1.4)	4.7	(0.6)	4.6
Income (loss) from marketable securities, net	13.0	(1.0)	8.5	(4.3)
Total other costs and other expenses	<u>(22.3)</u>	<u>(18.3)</u>	<u>(12.4)</u>	<u>(8.4)</u>
Income before financing, net	26.8	3.9	17.1	1.1
Financing expenses, net	<u>(5.2)</u>	<u>(5.5)</u>	<u>(3.2)</u>	<u>(3.8)</u>
Income (loss) after financing expenses, net	21.6	(1.6)	13.9	(2.7)
Income taxes	(0.6)	(0.7)	(0.2)	(0.2)
Company's share in results of investees, net	4.3	8.1	4.2	(5.9)
Minority interest in results of subsidiaries, net	<u>(12.9)</u>	<u>(2.4)</u>	<u>(7.6)</u>	<u>(0.3)</u>
Net income (loss) for the period	<u>12.4</u>	<u>3.4</u>	<u>10.3</u>	<u>(9.1)</u>

(*) 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 37.5 million, compared with NIS 18.5 million in the same period last year. Total revenues in the quarter totaled NIS 21.6 million, compared with NIS 9.2 million in the same quarter last year.

The said increase in the reporting period is a result of the increase in the Company's share in management fees and participation in the earnings of the Sphera Fund and the new funds, as described previously, due to the improved yields in the reporting period.
- During the reporting period, the Company presented income from marketable securities of NIS 13.0 million, compared with a loss of NIS 1.0 million in the same period last year and income of NIS 8.5 million in the quarter, compared with a loss of NIS 4.3 million in the same quarter 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 of NIS 4.3 million 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 8.1 million in the same period last year (the same period last year included a gain of NIS 22 million from the decline in the shareholding percentage in Leader Capital Markets, due to its public offering).
- Total other costs and expenses amounted to NIS 22.3 million in the reporting period, compared with NIS 18.3 million in the same period last year. The increase was due mainly to the increase in expenses for salaries and bonuses for managers, deduced from the performance of the private investees and the consolidated results of the company. The total other costs and expenses in the quarter amounted to NIS 12.4 million, compared with NIS 8.4 million in the same quarter last year.
- The net financing expenses totaled NIS 5.2 million and NIS 5.5 million in the reporting period and in the same period last year, respectively, and NIS 3.2 million and NIS 3.8 million in the quarter and in the same quarter last year. The decrease in financing expenses in the reporting periods compared with the same periods last year was due mainly to the decrease in the amount of the Company's liabilities.

Consolidated operating results

The Group's consolidated revenues from sales, services, consultation, management and underwriting totaled NIS 920.0 million in the reporting period, compared with NIS 729.2 million in the same period last year (includes NIS 366.6 million this quarter compared with NIS 367.7 million in the same quarter last year). Presented below are the major changes in the composition of revenues between the reporting periods:

The inclusion of the results of Polar Investments as an affiliated company, as from the second quarter of 2007, in the item "Company's share in results of affiliates, net", as a result of the exercise of the Investor's options, as discussed previously, an increase in the sales turnover, due to the sale of the "Gerard" Building in Manhattan, New York by Polar International in the first quarter of 2007, 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 15.7 million, compared with NIS 67.4 million in the same period last year (NIS 9.7 million in the quarter compared with NIS 18.7 million in the same quarter last year). The income in the reporting period originates 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. In the second quarter of 2007, the item also included expenses of NIS 4.6 million, most due to the one-time write-off for a guarantee that was furnished in the past in favor of Cycle, as described in Par. 2.5.3 above.

Net financing expenses in the reporting period totaled NIS 39.1 million, compared with NIS 80.3 million in the same period last year (total of NIS 15.3 million in the quarter, compared with NIS 54.3 million in the same quarter last year). The financing expenses of Polar Investments for the second quarter of 2007, as well as its other expenses, were expressed in the item "Company's share in the results of affiliates, net".

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

	First Half 2007	First Half 2006	Quarter II 2007	Quarter II 2006
Revenues from sales, services, consultation management and underwriting	920.0	729.2	366.6	367.7
Income from long-term investments, assets, etc., net	15.7	67.3	9.7	18.7
Income from marketable securities, net	40.5	13.9	22.2	-
Company's share in earnings of investees, net	0.4	2.3	-	2.8
Total revenues	976.6	812.7	398.5	389.2
Costs of sales and services	627.1	503.5	252.1	246.1
Selling and marketing expenses	99.9	91.9	44.4	46.5
Loss from marketable securities, net	-	-	-	8.8
General and administrative expenses	111.8	104.2	53.2	50.0
Company's share in losses of investees, net	-	-	0.6	-
Financing expenses, net	39.1	80.3	15.3	54.3
Total expenses	877.9	779.9	365.6	405.7
Income (loss) before taxes on income	98.7	32.8	32.9	(16.5)
Taxes on income	(41.3)	(11.4)	(10.9)	0.9
Income (loss) after taxes on income	57.4	21.4	22.0	(15.6)
Minority interest in losses (earnings) of subsidiaries, net	(35.8)	(12.0)	(11.7)	1.6
Cumulative effect as of the beginning of the year of change in accounting principles, net	-	0.6	-	-
Income (loss) from discontinued operations	(9.2)	(6.6)	-	4.9
Net income (loss) for the period	12.4	3.4	10.3	(9.1)

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

(*) 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 35.7 million, deriving from the profitability of the reporting period and from the dividend received from investees totaling NIS 25.5 million.

Net cash flows provided by investing activities in the reporting period totaled NIS 0.2 million. These cash flows derived mainly from the proceeds on the sale of marketable securities of NIS 5 million, which was offset by the Company's investment in investees and other companies.

Cash flows used in financing activities totaled NIS 46.6 million in the reporting period. The cash flows were used mainly for the payment of a dividend of NIS 30.4 million, the payment of a dividend to the minority shareholders in a subsidiary of NIS 9.1 million, and the repayment of bank credit of NIS 19.0 million, which was offset by the sale of debentures that were held by a wholly-owned subsidiary of the Company for proceeds of NIS 12.9 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 June 30, 2007, the liabilities of the Company and companies under its control to banks and others and debentures, net of liquid resources, totaled NIS 61 million.

7. Directors with accounting and financial expertise

There were no significant changes in the reporting period from that 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 about 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. During the reporting period, a written resolution was adopted by the Audit Committee on 6.6.07. Likewise, meetings of the audit committee were held on 29.3.07, 27.5.07, 12.7.07 and 30.8.07.

9. Financial statement approval process

The Company's board of directors meets to discuss the financial statements and approve them. The Company's board of directors is comprised of seven members, including two directors from the public. Every member of the board of directors has accounting and financial expertise.

The Company's board of directors is the organ with ultimate control over the financial statement approval process.

Invited to and present at the meeting of the board of directors at which the financial statements are discussed and approved are the Company's independent auditors, who are required to present their main findings, if any, that arose during the audit or review process.

Through a detailed presentation by the Company's officers, including: Company Chairman, Mr. Itzchak Shrem, Company CEO, Mr. Yair Fudim, Deputy CEO and CFO, Mrs. Regina Unger, the board of directors evaluates, the significant issues in the financial reporting, including transactions that are not in the ordinary course of business, if any, the material assessments and critical estimates made in the financial statements, the reasonableness of the data, the accounting policies applied and changes that occurred therein, the application of fair disclosure principles in the financial statements

and accompanying information. Where necessary, the board of directors demands that it be presented with comprehensive reviews of matters having especially significant effects.

10. 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.

11. 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 215 thousand and NIS 1,063 thousand, respectively. The amount of contributions in 2006, consolidated and Company, was NIS 436 thousand and NIS 2,522 thousand, respectively.

12. Adoption of International Financial Reporting Standards (IFRS)

In July 2006, the International Accounting Standards Board published Accounting Standard No. 29 – "Adoption of International Financial Reporting Standards (IFRS)" ("Standard 29"). Standard 29 provides that companies that are subject to and report in accordance with the Israeli Securities Law, 1968, will prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS") as from the reporting periods commencing January 1, 2008 (i.e., as from the financial statements for the first quarter of 2008). According to the provisions of Standard 29, companies may elect early adoption of the Standard and prepare their financial statements in accordance with IFRS Standards as from the financial statements published after July 31, 2006.

The first-time adoption of IFRS Standards will be done in accordance with the provisions of International Financial Reporting Standard No. 1 (IFRS1) – "First-Time Adoption of IFRS Standards". In financial statements prepared in accordance with IFRS Standards, in the year of the first-time adoption, the Company is required to present comparative figures for only one year.

Moreover, Standard 29 requires companies that prepare their financial statements in accordance with the IFRS Standards for the first time, for periods commencing January 1, 2008, to include a note to the financial statements for the year 2007 (which will be prepared in accordance with Israeli GAAP) contain the balance sheet data as of December 31, 2007 and statement of operations data for the year 2007, after the principles of recognition, measurement and presentation of the IFRS Standards have been applied to them.

The Group is preparing to adopt IFRS Standards, and as such is examining the expected significant effects on the Group as a result of adoption of these Standards.

Following publication of Standard 29, the Company established a team headed by Regina Unger, the Company's CFO, to deal with the adoption of the international standards in the Company.

The order of the actions and stages of work prescribed by the appointed team were reported in the Company's Directors' Report for the year 2006.

Until the publication date of these financial statements, the Company, together with the auditors and professional experts, prepared an examination, analysis and preliminary estimates of the expected significant quantitative effects on its consolidated financial statements as a result of the adoption of IFRS Standards, including on matters for which there are several alternative accounting policies and/or exceptions that may be adopted in accordance with IFRS1.

Based on the status of the Group's preparations at the present time, and subject to the changes that could derive from continuation of the process, as described previously, provided below is information on the items in the Company's consolidated financial statements that are expected to be affected significantly by the transition to IFRS reporting, as identified to date, accompanied by explanations of those effects and the relevant IFRS Standards.

For reasons of caution, it should be stated that the accounting policies for its consolidated financial statements selected by the Company in accordance with IFRS Standards (as described below), and their quantitative implications for the financial statement items, as provided below, are subject to changes in the possible choices to be made by the Company in the future, to changes in the International Financial Reporting Standards (IFRS Standards and the interpretations to be published thereon), to changes resulting from additional information that will be obtained during the preparation and approval of the full financial statements in accordance with IFRS Standards, and/or from decisions/interpretations that will be prescribed in connection with the application of IFRS Standards in Israel. Likewise, the effects of these items provided below could also be affected by potential changes in tax laws as a result of the transition to IFRS reporting. Therefore, the information and estimates provided below about the expected significant quantitative effects related to these items, as a result of the transition to IFRS Standards, are not necessarily final and could actually change in the future, positively or negatively, with respect to the information and estimates provided in this Report.

We emphasize that the information presented below is not reviewed or audited by the Company's independent auditors.

Wherever "the Company" or "the Group" is mentioned, it refers to the Company and its subsidiaries.

Explanations of the quantitative effects of the transition to reporting in accordance with IFRS Standards ("IFRS reporting"):

Options that were issued to investors- According to Israeli GAAP, receipts are included in the Company's shareholders' equity totaling NIS 3.2 million, for options that the Company allotted in the past to investors, the exercise price of which is linked to the CPI, and stated separately are receipts of NIS 20.5 million for options that were allotted by subsidiaries of the Company (hereafter together – "options").

In accordance with the provisions of International Standard IAS 32 – "Financial Instruments: Presentation", options that constitute a "financial liability", by virtue of their having an exercise price that is not fixed (for reasons including their linkage to the CPI), are therefore to be presented in the Company's consolidated balance sheet in the Group's liabilities. The measurement of these liabilities will conform to the provisions of International Standard IAS 39 – "Financial Instruments: Recognition and Measurement"; i.e., they are to be stated at the fair value of the said options on every balance sheet date, with the changes in fair value to be charged to the statement of operations.

With the transition to IFRS reporting, as of January 1, 2007, the balances of the receipts for the Company's options and the subsidiaries, as described previously, will be reversed, and a long-term liability of NIS 42.2 million, representing the fair value of the options as of the said date, will be presented. The Company's retained earnings balance will decrease by NIS 7.1 million, the minority interest will decrease by NIS 10.3 million and the premium will decrease by NIS 1.1 million.

As of June 30, 2007, the effect of the transition to IFRS reporting will be expressed in losses from derivative financial instruments totaling NIS 7.0 million, losses from affiliated companies of NIS 2.2 million, a decrease of NIS 4.4 million in minority interest, and increase in long-term liabilities of NIS 9.8 million and a decrease in the investment in affiliates of NIS 3.8 million.

Convertible debentures – The Company issued several series of debentures convertible into shares of the Company. The debentures are linked to the CPI. In accordance with the provisions of Accounting Standard No. 22 of the Israel Accounting Standards Board – "Financial Instruments: Disclosure and Presentation", these debentures constitute a complex financial instrument that includes a liability element and a capital element. Accordingly, the proceeds received in the debenture issuance were divided into these elements, in the manner provided in Standard 22.

According to the provisions of International Standard IAS 32 – "Financial Instruments: Presentation", since the conversion element is linked to the CPI and is not fixed, it constitutes a financial liability and not a capital element. The conversion element will be measured in accordance with the provisions of International Standard IAS 39 – "Financial Instruments: Recognition and Measurement", based on their fair value, with the changes in the fair value of this element charged periodically to the statement of operations.

In addition, subsidiaries also issued linked debentures, as noted, and the effect described below is the effect on the consolidated financial statements of the Company.

With the transition to IFRS reporting, as of January 1, 2007, the liabilities stated as convertible debentures will increase by NIS 20.1 million, the capital element that was allocated to this element, in accordance with Standard 22 (which was included in the item "options"), amounting to NIS 0.7 million will be reversed, the premium balance will increase by NIS 11.0 million, against a reduction in the retained earnings balance of NIS 24.1 million and the minority interest will decrease by NIS 6.3 million.

As of June 30, 2007, the effect of the transition to IFRS reporting will be expressed in losses on derivative financial instruments of NIS 2.9 million, in losses in the results of affiliates of NIS 2.3 million, an increase in the minority interest of NIS 0.7 million, an increase in the premium of NIS 15.5 million and a decrease in the investment in affiliates of NIS 4.0 million.

Venture capital investments of venture capital funds – In accordance with IFRS Standards, the investments of venture capital funds in venture capital companies are classified as investments to be accounted for at fair value through gains and losses, in accordance with the provisions of IAS 39 "Financial Instruments: Recognition and Measurement". According to Israeli GAAP, these investments are treated as venture capital investments in accordance with Accounting Standard No. 1 and are stated at cost net of a decline in value that is not temporary.

Therefore, with the transition to IFRS reporting, as of January 1, 2007, the investments in affiliates and other companies will increase by NIS 7.1 million. Accordingly, the retained balance of the Company as of such date will increase by NIS 4.9 million and the minority interest will increase by NIS 2.2 million.

As of June 30, 2007, the effect of the transition to IFRS reporting on the above investments is not materially different from the effect of the transition as of January 1, 2007, as discussed previously. Likewise, the transition to IFRS reporting is not expected to create a material effect from the change in the measurement of the investments, on the statement of operations to which the changes in these investments are charged, for the period ended June 30, 2007 ("reporting period"), compared with the amounts that were charged to these items in accordance with Israeli GAAP during the said period.

Liabilities for employees – In accordance with IFRS Standards, the liabilities for employee severance pay are calculated in accordance with the provisions of IAS 19 – "Employee Benefits", based on the present value of the "defined benefit liability", which is measured on an actuarial basis and takes into account future salary costs, the percentage of employee turnover, etc. The present value of the liability is determined by discounting the expected future cash flows. Likewise, the liability will be presented on a net basis (after deducting deposits made by the Group for termination benefits) only if the said funded provisions meet the definition of "plan's assets" in accordance with the provisions of IAS 19. Likewise, in accordance with IFRS Standards, the liability for employee vacations should be calculated on an actuarial basis.

In accordance with Israeli GAAP, accrued severance pay is presented at full value, and is calculated based on the number of years of employment multiplied by the last monthly salary of each employee (one monthly salary for each year of employment) on the date of the financial statements. Likewise, the liability for severance pay stated in the balance sheet is the net liability, after deducting the funded severance payments.

The liability for employee vacations is calculated according to Israeli GAAP based on the number of accrued vacation days multiplied by the last salary.

The Group elected – as its accounting policy – the "corridor method" for the purpose of the accounting treatment of the actuarial gains (losses) from valuation of the plan according to IAS 19. As allowed by the provisions of IFRS1, the Group elected the exception related to IAS 19, whereby, with the transition to IFRS reporting, the Group will recognize all the net actuarial gains and losses for severance pay and vacation in one net sum in retained earnings (after deducting tax effect) of NIS 1.3 million, and accordingly, the retained earnings balance of the Company as of such date will increase by NIS 0.7 million and the minority interest will increase by NIS 0.7 million.

As of June 30, 2007, the effect of the transition to IFRS reporting on the liability items is not materially different from the effect of the transition as of January 1, 2007, as aforesaid. Likewise, the change from the transition to IFRS reporting is not expected to create a material effect on the measurement of the liabilities in the statement of operations items to which the changes in liabilities are recorded for the period ended June 30, 2007 ("reporting period"), compared with the amounts that were charged to these items in accordance with Israeli GAAP during the said period.

Embedded derivatives – In accordance with IFRS Standards, the embedded derivatives are to be distinguished from hybrid instruments. For example, when a company enters into a contract (including a rental contract) in a currency other than the functional currency of one of the major parties to the contract, there is an embedded derivative in the transaction, which should be separated from the rental contract base (the host contract), in accordance with the provisions of IAS 39. Embedded derivatives that were separated will be measured at their fair value, with the changes in fair value charged to the statement of operations.

Some of the Group companies have entered into operating rental contracts stated in the dollar, which is not the functional currency of any of the major parties to the said rental agreements.

Therefore, with the transition to IFRS reporting, as of January 1, 2007, the embedded derivatives in the said rental agreements will be measured at their fair value and stated as an asset totaling NIS 2.1 million, and accordingly, the balance of the Company's retained earnings as of this date will increase by NIS 0.6 million and the minority interest will increase by NIS 1.5 million.

The fair value of the embedded derivatives as of June 30, 2007 totals an asset of NIS 2.9 million. The net change in the fair value of the said embedded derivatives for the reporting period, which reflects a net gain of NIS 0.8 million, is expected to be charged to "gains on derivative financial instruments" in the consolidated statement of operations for the said period, which will be prepared in accordance with IFRS Standards, in The effect of separating the embedded derivatives, for the said period, is not material.

Capitalized leasehold rights of Israel Lands Administration ("ILA") – In accordance with IFRS principles, the costs for leasehold rights from ILA are to be classified as an operating lease, according to the provisions of IAS 17 – "Leases", which means that the capitalized amounts for the land that were paid for these land rights, which constitute advance lease payments, will be amortized on a straight line basis over the periods of the above rights. In accordance with Israeli GAAP, these capitalized amounts are stated in the current financial statements in the Company's fixed assets as land, and are not depreciated.

Accordingly, with the transition to IFRS reporting as of January 1, 2007, the prepaid expenses balance will increase for the said leasehold rights by the total sum of NIS 19.4 million, the balance of fixed assets will decrease by a total of NIS 26.2 million, deferred tax receivable will increase by NIS 1.6 million and the balance of the Company's retained earnings will decrease by NIS 1.0 million (net of the minority interest of NIS 4.2 million).

As of June 30, 2007, the effect of the transition to IFRS reporting on the said items from the land leases is not expected to be materially different from the effect of the transition on them as of January 1, 2007.

The subsidiary has excess cost allocated to land leased in operating leases, for which the quantification of the difference is not yet complete. The Company will update the information regarding this quantification in its subsequent financial statements.

Investments in securities – In accordance with Israeli GAAP, the Company classified some of its investments in securities as non-current investments that are measured on the cost basis, net of declines in value that are not temporary. In accordance with IFRS, the Company will classify these investments as "financial assets available for sale", in accordance with IAS 39, and they will be measured at their fair value on every balance sheet date. Changes in fair value will be charged to a capital reserve for financial assets available for sale, except for declines in value that will be charged to the statement of operations. The effect of the transition as of January 1, 2007 is expected to be expressed in an increase in investments in affiliates and other companies of NIS 30.6 million. Accordingly, the capital reserve for financial assets available for sale will increase by NIS 10.0 million and the minority interest will increase by NIS 20.6 million.

As of June 30, 2007, the effect of the transition to IFRS reporting on the above investments is not materially different than the effect of the transition on them as of January 1, 2007, as aforesaid. Likewise, the transition to IFRS reporting is not expected to create a material effect for the change in the measurement of the investments, on the statement of operations items to which the changes in these investments are recorded for the period ended June 30, 2007 ("the reporting period"), compared with the amounts that were charged to these items in accordance with Israeli GAAP during the said period.

Additionally, in the reporting period, an affiliate classified part of its short-term investments in the securities described above in accordance with Israeli GAAP, and therefore, recognized income of NIS 6.8 million (Company's share – NIS 2.0 million).

In accordance with IFRS Standards, the said income will be reversed in the reporting period and income from affiliates, net will decrease by NIS 2.0 million, the minority interest will decrease by NIS 4.8 million against the said investment in the affiliate of NIS 6.8 million.

Put and call options – As part of the transaction between a subsidiary and a third party from December 2005 ("the transaction"), there are options between the subsidiary and the third parties as follows:

The third party was given an option to purchase the balance of the subsidiary's holdings in an affiliate, within two years of the closing of the transaction, and that third party was given an additional option to purchase the balance of the subsidiary's holdings in the affiliated company within 5 years of the closing date of the transaction (call options). The subsidiary was given an option to sell to the balance of its holdings in the affiliate to that third party, within 5 years of the closing date (put option).

In accordance with Israeli GAAP, the above options were not expressed in the financial statements of the subsidiary.

In accordance with international accounting standards, according to IAS-39, the described options are to be measured, on every balance sheet date, at their fair value (as derivative financial instruments). The fair value of the options, as of the transition date to IFRS Standards, will be charged against the Company's retained earnings. The changes in the fair value of the described options will be periodically charged to the statement of operations.

The effect of the transition as of January 1, 2007 is expected to be expressed in an increase in the balance of investments in affiliates and other companies of NIS 1.3 million, and a liability will be presented for the options of NIS 2.2 million, retained earnings will decrease by NIS 0.2 million and the minority interest will decrease by NIS 0.7 million.

Likewise, as of June 30, 2007, the effect of the transition to IFRS reporting on the above options is not expected to be material.

Contractors, developers and combination transactions –

- A. Revenue recognition** – In accordance with Israeli GAAP, revenue from the sale of homes by developer-contractors is recognized throughout the construction period of the homes.

According to IFRS, revenue from the sale of homes by developer-contractors is recognized when the homes are conveyed to the buyers. Likewise, with the transition to IFRS, advances from customers for homes sold in projects in which revenue was not yet recognized (which, according to Israeli GAAP, were stated net of inventory of projects in progress) were classified to advances from customers, in the balance of accounts payables and credit balances.

- B. Combination transactions** – The existing accounting treatment for combination transactions is presentation of the land at the projected cost of the construction services against a liability to provide construction services that is discharged at the rate of the project's completion.

In accordance with IFRS Standards, on the purchase date of the land, the land will be recorded in the books of account against a liability to the seller of the land at the fair value of the projected future amounts to be paid to the seller of the land. The liability to the seller of the land is discharged according to actual payments to the seller. The liability to the seller of the land is updated in every cut-off period, according to the fair value at that time.

- C. Capitalized credit costs** – In accordance with Israeli GAAP, certain credit costs for land and inventory of buildings and projects under construction were not capitalized, because they do not meet the definition of a "qualified asset", as defined in Accounting Standard No. 3 of the Standards Board. Therefore, these costs are charged to the statement of operations when incurred.

In accordance with IFRS Standards, these assets meet the definition of "qualified asset" as defined in IFRS, and therefore, the said credit costs may be capitalized.

- D. Capitalized selling expenses** – In accordance with Israeli GAAP, certain selling expenses on the sale of homes were capitalized to the inventory of homes and projects under construction.

In accordance with IFRS Standards, these expenses are recorded to the statement of operations when incurred. Likewise, certain expenses will be classified as fixed assets.

In view of the aforesaid in Par. A-D above, with the transition to IFRS reporting, as of January 1, 2007, the balance of the inventory of projects under construction and the balance of land will increase by NIS 137.2 million and NIS 91.3 million, respectively, the balance of accounts receivable and debit balances will increase by NIS 3.3 million, fixed assets will increase by NIS 1.1 million, the balance of accounts payables and other credit balances (for advances from customers) will increase by NIS 112.7 million, the balance of credit from banks and others will increase by NIS 4.1 million, and the balance of other loans and liabilities (mainly for the liability to the seller of the land) will increase by NIS 116.1 million.

Additionally, with the transition to IFRS, revenues from sales and services for the six-month period ended June 30, 2007 in an affiliate are expected to increase against an increase in the cost of sales and services for the said period. Moreover, in the said period, selling expenses in an affiliate are expected to increase. The total effect on the Company in this period will be a decrease in the income of affiliates of NIS 0.6 million.

Subsidiary's transaction with its controlling shareholder – With the transition to IFRS reporting, as of January 1, 2007, the capital reserve recorded by a subsidiary in the past for a transaction with a controlling shareholder, in the amount of NIS 0.7 million will be reversed and the retained earnings balance will be reduced by the same amount.

The effect of the transition to IFRS reporting deriving from the aforesaid on the statement of operations for the reporting period is not expected to be material.

Capitalization of credit costs – A subsidiary is engaged through corporations that it holds in the purchase and sale of various real estate properties in the U.S., occasionally while rezoning them before the sale and renovating them. In accordance with Israeli GAAP, these assets do not meet the definition of a "qualified asset", and therefore, credit costs for them were not capitalized.

Regarding the credit costs that may be capitalized to those assets in accordance with IFRS, the existing quantitative information as of this date regarding the element of the assets meeting the definition of "qualified assets" out of the total assets at hand, is not complete. Therefore, disclosure is not given of the credit costs to be capitalized with the transition to IFRS Standards.

Financial guarantees – In accordance with IFRS Standards, according to the provisions of IAS 39 (Financial Instruments: Recognition and Measurement), certain financial guarantees given by the Company are to be recognized as a liability and measured, at the time of initial recognition, at their fair value. In accordance with Israeli GAAP, these guarantees are not expressed in the financial statements except when the terms for recognition of a provision for a contingent liability were fulfilled as of the balance sheet date.

Goodwill – In accordance with Israeli GAAP, the balances of goodwill deriving from the purchase of subsidiaries were amortized from the acquisition date to December 31, 2005. On January 1, 2006, the amortization of goodwill was discontinued, in accordance with the provisions of Accounting Standard No. 20 (Amended) of the Standards Board – "The Accounting Treatment of Goodwill and Intangible Assets in the Acquisition of an Investee".

As allowed by the provisions of IFRS1, the Group elected an exception related to IFRS 3 "Business Combinations", whereby in IFRS reporting, Standard No. 3 will be applied only for business combinations that occurred as from the transition date to IFRS reporting, i.e. as from January 1, 2007 ("the transition date"). According to this exception, the value of the goodwill will be determined as of the transition date based on its value in accordance with Israeli GAAP as of such date, after making three adjustments to its value provided in IFRS1, if relevant. One of the required adjustments is application of the provisions of IAS 36 – "Impairment of Assets", to examine for a decline in the value of goodwill as of the transition date, even if there are no signs that its value has declined.

Accordingly, in order to examine for a decline in the value of goodwill as of the transition date, the Group applied the provisions of IAS 36. The goodwill was allocated to the relevant cash-generating units. After making such allocation and examining for a decline in value in accordance with the provisions of IAS 36, the Group reached the conclusion that in accordance with the IFRS Standards, there was no decline in the value of the goodwill allocated to investments as of January 1, 2007.

Based on aforesaid, the effect of the transition to IFRS reporting is not expected to be material.

Likewise, as of June 30, 2007, the effect of the transition to IFRS reporting on goodwill is not expected to be material.

Investment in another company – In accordance with IFRS Standards, an impairment provision recorded in the past on non-current investments that are accounted for by the cost method, as done in the Company's financial statements prepared in accordance with Israeli GAAP, may not be reversed. Therefore, with the transition to IFRS reporting as of January 1, 2007, the balance of the Company's

non-current investment in another company (a company in which the Company does not exert significant influence) will decrease by NIS 1.7 million and correspondingly, retained earnings will decrease by NIS 0.5 million and the minority interest will decrease by NIS 1.2 million.

The effect of the transition to IFRS reporting on the Company's financial statements as of June 30, 2007 for the above investment, is not expected to be materially different from the effect of the transition to IFRS reporting as of January 1, 2007, as described above.

Deferred income from issuances to third parties – In accordance with Israeli GAAP, a gain generated to a company from an issuance to a third party of an affiliate at the research and development stage, which has not yet effected significant sales, is recorded as deferred income and is charged to the statement of operations on a straight line basis over a three-year period or up to the company's share in this affiliate's losses in the said period (whichever is higher and cumulatively). In accordance with IFRS Standards, a gain from an issuance to a third party so created will be charged to the statement of operations on the date generated and will not be deferred. Therefore, with the transition to IFRS reporting as of January 1, 2007, the entire deferred income balance as of such date, NIS 3 million, created in the issuance to a third party, will be reversed, the retained earnings balance will increase by NIS 0.8 million and the minority interest will increase by NIS 0.8 million.

Additionally, as a result of the aforesaid, in the financial statements that will be presented with the transition to IFRS reporting as of June 30, 2007 and for the reporting period, the deferred income from the issuance to a third party generated to a subsidiary in the reporting period totaling NIS 1.6 million will be reversed, net income for this period will increase by NIS 1.1 million and the minority interest will increase by NIS 0.5 million.

Adjustments from the translation of the financial statements of the Company's investees – In accordance with an exception of IFRS1, the Company elected to reverse the balance of the capital reserves for translation of the financial statements of investees totaling NIS 2.5 million. Accordingly, with the transition to IFRS reporting as of January 1, 2007, retained earnings of the Company will increase as of January 1, 2007 by NIS 2.5 million.

Minority interest – In accordance with Israeli GAAP, minority interest is classified as a separate item between long-term liabilities and shareholders' equity. With the transition to IFRS reporting, the minority interest will be reclassified as a special element in the Company's shareholders' equity, which will increase accordingly. Considering the implications of the transition to IFRS reporting, the balance of minority interest as of January 1, 2007, which will be reclassified to the Company's shareholders' equity, as noted, totals NIS 691 million.

Long-term loans containing financial covenants – Under IFRS, bank loans of a subsidiary totaling NIS 24 million as of January 1, 2007 were stated as short-term loans, whereas under Israeli GAAP, these loans were classified as long-term loans. The change in classification was made in view of the fact that the subsidiary was not in compliance with the financial covenants stipulated by the banks for these loans on the balance sheet date.

Capitalization of general and administrative expenses – In accordance with Israeli GAAP, general and administrative costs are periodic expenses that are not to be charged to the statement of operations, except for costs that can be clearly and absolutely identified with an individual project and with it alone. These costs will be charged to the cost of the project and will be part of the total project.

In accordance with IFRS Standards, general and administrative costs will be charged to the statement of operations as long as they do not necessarily generate revenues. With the transition to IFRS reporting, as of January 1, 2007, the balance of land is expected to decrease by NIS 4.3 million against a decrease in the retained earnings balance of NIS 1.2 million and a decrease in the minority interest balance of NIS 3.1 million

12. 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					
Loans to investee companies and others	1,543	771	15,426	(771)	(1,543)
Long term loans received	12	7	(16,276)	(7)	(14)
Convertible debentures (dollar-linked)	220	111	(11,869)	(193)	(388)
Total	1,775	889	(12,719)	(971)	(1,945)
NIS Interest					
Long term loans granted (CPI-linked)	(162)	(116)	5,825	(51)	(19)
Long term loans received (unlinked)	1,381	493	(164,069)	(1,336)	(2,277)
Long term loans received (CPI-linked)	4,032	2,868	(173,668)	1,074	162
Debentures (CPI-linked)	1,814	914	(79,149)	(928)	(1,869)
Marketable debentures (CPI-linked)	25,305	12,671	(515,816)	(12,709)	(25,456)
Total	32,370	16,830	(926,877)	(13,950)	(29,459)
Euro Interest					
Loans in foreign currency	480	185	(23,236)	(419)	729
Total	480	185	(23,236)	(419)	729
Total Interest	34,625	17,904	(962,832)	(15,340)	(30,675)

Sensitivity to 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	18,897	9,449	188,971	(9,449)	(18,897)
Structured deposits	1,162	581	11,622	(581)	(1,162)
Total	20,059	10,030	200,593	(10,030)	(20,059)

Sensitivity to changes in foreign currency/NIS 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	878	439	8,787	(439)	(878)
Short-term investments	12,848	6,423	128,476	(6,423)	(12,848)
Trade accounts receivable, accounts receivable and debit balances	1,334	674	13,474	(674)	(1,334)
Investment in investees	-	203	4,054	(203)	-
Trade accounts payable, accounts payable and credit balances	-	101	2,016	(101)	-
Long-term bank loans received	-	72	1,439	(72)	-
Long-term loans granted	3,660	1,830	36,598	(1,830)	(3,660)
Forward transactions	531	318	(106)	(106)	(319)
Total	19,251	10,060	194,738	(9,848)	(19,039)
<u>Foreign currency (mainly euro)</u>					
Cash	2,261	1,130	22,608	(1,130)	(2,261)
Deposits and loans given	1,525	763	15,254	(763)	(1,525)
Short-term credit	(3,329)	(1,664)	(33,287)	1,664	3,329
Short-term credit (including current maturities of long-term bank loans)	(4,717)	(2,359)	(47,171)	2,359	4,717
Accounts receivable and debit balances	14	7	142	(7)	(14)
Total	(4,246)	(2,123)	(42,454)	2,123	4,246

Transactions from trading in the derivatives market

In May 2007, Urdan and the subsidiary Itung entered into a forward transaction for the purchase of the CPI for one year at a 1% increase (relative to the base CPI for May 2007), for a total sum of NIS 60 million. As of the balance sheet date, the value of these trades totaled NIS 0.4 million.

As of the balance sheet date, a subsidiary of Aloni entered into forward transactions for the purchase of dollars versus the shekel in an amount of \$1.0 million, purchased at rates of between NIS 4.137 and 4.134 to the dollar, which, as of the balance sheet date had total value of NIS 106 thousand.

The aforementioned transactions are for a period ending on August 31, 2007. The maximum derivatives position of Aloni during the period was in call options to purchase \$2.2 million.

The maximum holding of Aloni in derivatives during the reporting period was on March 31, 2007. These transactions are for hedging purposes.

Polar Communications invested in structured deposits based on interest rates, exchange rates or share prices, the balance of which as of June 30, 2007 was NIS 11.6 million.

During the reporting period, in April 2007, Technologies invested \$1.85 million in a structured deposit for a period of one-year, based on the dollar/shekel exchange rate.

During the reporting period, in June 2007, Technologies executed a forward trade on the CPI for a one-year period, in the amount of NIS 51 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.

In June 2007, Leader executed a forward trade for the purchase of CPI, for a one-year period at an increase of 1.9% (relative to the base CPI for April 2007), for a total sum of NIS 100 million. As of the balance sheet date, the value of this trade is not material.

In addition, Leader has a structured deposit based on a dollar/shekel exchange rate, the balance of which as of June 30, 2007 was NIS 11 million.

In June 2007, the Company executed a forward trade on the CPI for a one-year period, for a total of NIS 51 million. The value of the trade as of the publication date of this report is NIS 0.8 million.

As of June 30, 2007, the Company has open forward trades for the purchase of \$5 million for NIS 25.5 million. This trade is until July. Likewise, the Company has a trade for the purchase of €2 million for \$5 million until September 2007. These trades did not have a material effect on the Company's results in the reporting period.

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.

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

As of June 30, 2007	Unlinked	CPI- linked	foreign currency- linked	Other/ Non- monetary	Total
Assets					
Cash and cash equivalents	121.4	-	93.9	-	215.3
Deposits, short-term investments and marketable securities	154.6	1.7	159.5	0.9	316.7
Current maturities and loans granted	-	0.2	-	-	0.2
Trade accounts receivable	354.2	-	94.3	-	448.5
Accounts receivable and debit balances	61.5	25.0	21.5	16.8	124.8
Inventory and projects in process	-	-	-	262.7	262.7
Real estate earmarked for sale	-	-	-	21.3	21.3
Investment real estate	-	-	-	257.8	257.8
Long-term investments in investees and other companies	36.9	321.7	19.0	275.2	652.8
Long-term deposits and loans granted	6.2	10.9	9	-	26.1
Fixed assets, net	-	-	-	299.6	299.6
Other assets and deferred charges	-	-	-	75.6	75.6
Total assets	734.8	359.5	397.2	1,209.9	2,701.4
Liabilities					
Short-term credit from banks and others	93.4	155.5	62.0	-	310.9
Trade accounts payable	120.2	-	80.3	-	200.5
Accounts payable and credit balances	137.1	63.7	39.8	2.4	243
Advances from customers	20.4	-	-	82.7	103.1
Long-term liabilities to banks and others	95.0	204.0	123.4	-	422.4
Debentures	-	478.4	-	-	478.4
Convertible debentures	-	62.5	12.1	-	74.6
Accrued severance pay, net	0.4	-	-	11.7	12.1
Deferred taxes	-	-	-	12.6	12.6
Total liabilities	466.5	964.1	317.6	109.4	1,857.6
Minority interest	-	-	-	568.5	568.5
Receipts on account of options issued in subsidiaries	-	-	-	10.3	10.3
Shareholders' equity	-	-	-	265	265
	466.5	964.1	317.6	953.2	2,701.4
	268.3	(604.6)	79.6	256.7	-

As of December 31, 2006	Unlinked (*)	CPI- linked(*)	foreign currency- linked(*)	Other/ Non- monetary(*)	Total
Assets:					
Cash and cash equivalents	207.7	-	228.4	-	436.1
Marketable securities	274.7	20.0	172.0	0.9	467.6
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	102.9	21.3	38.1	24.5	186.8**
Inventory and projects in process	-	-	-	492.3	492.3
Real estate	-	-	-	483.7	483.7
Long-term investments in investees and other companies	48.7	236.1	108.2	195.0	588.0
Long-term deposits and loans granted	62.7	27.2	39.0	-	128.9
Fixed assets, net	-	-	-	583.7	583.7
Other assets and deferred charges	-	-	-	122.5**	122.5
Assets allocated to discontinued operations	-	-	-	335.5**	335.5
Total assets	1,029.8	305.9	680.9	2,238.1	4,254.7
Liabilities:					
Short-term credit from banks and others	373.7	245.8	158.2	-	777.7
Trade accounts payable	113.7	11.0	81.4	-	206.1
Accounts payable and credit balances	166.9	60.3	41.7	0.5	269.4
Advances from customers	-	-	-	117.9	117.9
Long-term liabilities to banks and others	340.7	434.1	139.8	1.0	915.6
Debentures	-	528.9	60.1	-	589.0
Convertible debentures	-	98.8	30.4	-	129.2
Accrued severance pay, net	0.5	-	-	10.4	10.9
Deferred taxes	-	-	-	12.0	12.0
Liabilities allocated to discontinued operations	-	-	-	250.4	250.4
Long-term liabilities	995.5	1,378.9	511.6	392.2	3,278.2
Minority interests	-	-	-	689.0**	689.0
Receipts on account of options issued in subsidiaries	-	-	-	17.6	17.6
Shareholders' equity	-	-	-	269.9**	269.9
	995.5	1,378.9	511.6	1,368.7	4,254.7
	34.3	(1,073.0)	169.3	869.4	-

(*) 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: August 30, 2007

**Shrem, Fudim, Kelner and
Company Ltd.**

**Financial Statements
As at June 30, 2007
(Unaudited)**

Consolidated Balance Sheets**Reported amounts**

	June 30 2007	June 30 *2006	December 31 *2006
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets			
Cash and cash equivalents	215,253	349,528	436,155
Deposits and short-term investments	36,093	89,133	32,053
Marketable securities	280,595	395,635	435,498
Current maturities and loans receivable	211	16,518	18,238
Trade receivables	448,521	420,135	411,402
Other receivables	124,818	** 142,331	**186,727
Inventory and work-in-process	262,703	396,945	492,353
Investment in real estate designated for sale	21,289	-	-
	1,389,483	1,810,225	2,012,430
Real estate			
Investment property	222,096	402,362	292,450
	35,737	136,252	191,234
Investments and long-term loans			
Investments in investee and other companies	652,856	720,142	588,125
Loans and deposits	26,093	93,858	128,833
	678,949	814,000	716,958
Fixed assets			
	299,561	592,484	583,655
Other assets and deferred expenses			
	75,587	**105,109	**122,499
Assets attributed to discontinued operation	-	323,856	335,476
	2,701,413	4,184,288	4,254,702
Current liabilities			
Credit from banks and others	310,924	568,793	777,705
Suppliers and service providers	200,530	215,478	206,165
Accounts payable and credit balances	242,957	238,393	269,451
Customer deposits	103,083	100,445	117,764
	857,494	1,123,109	1,391,185
Long-term liabilities			
Credit from banks and others	422,428	1,089,268	915,551
Debentures	478,400	618,232	588,941
Debentures convertible into shares	74,546	152,822	129,219
Employee retirement benefit, net	12,212	**12,334	10,901
Deferred taxes	12,603	9,856	12,035
	1,000,189	1,882,542	1,656,647
Minority interest			
	568,516	**695,022	**688,979
Receipts from share options issued by subsidiaries			
	10,257	17,987	17,641
Assets attributed to discontinued operation	-	211,542	250,377
Shareholders' equity			
	264,957	**254,086	**269,873
	2,701,413	4,184,288	4,254,702

Date of approval: August 30, 2007

* Reclassified due to inter alia, discontinued operation.

** Restated.

Consolidated Statements of Operations**Reported amounts**

	For the six months ended		For the three months ended		For the year ended
	June 30 2007	June 30 * 2006	June 30 2007	June 30 * 2006	December 31 * 2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Income					
Income from sales, services, consulting, management and underwriting	920,053	729,162	366,582	367,682	1,462,508
Gain on marketable securities, net	40,495	13,887	22,208	-	42,389
Gain on sales of investments, loans and assets, net	15,682	67,363	9,722	18,656	126,197
Company's equity in earnings of investment, net	352	2,130	-	2,825	9,097
	976,582	812,722	398,512	389,163	1,640,191
Costs and expenses					
Cost of sales and services	627,095	**503,506	252,125	**246,106	**1,020,453
Selling and marketing	99,886	91,880	44,379	46,478	180,743
Loss on marketable securities, net	-	-	-	8,837	-
General and administrative	111,821	**104,228	53,269	**50,016	**218,564
Company's equity in loss of investment, net	-	-	561	-	-
Financing expenses, net	39,124	80,283	15,300	54,278	136,376
	877,926	779,897	365,634	405,715	1,556,163
Earnings before taxation income	98,656	32,825	32,878	(16,552)	84,055
Tax benefit (Taxes on income)	(41,348)	11,383	(10,862)	919	(34,571)
Earnings (losses) from operations after taxes on income	57,308	21,442	22,016	(15,633)	49,484
Minority interest in earnings of subsidiaries, net	(35,757)	** (12,096)	(11,739)	**1,586	**643
Earnings (losses) from operation activities	21,551	9,346	10,277	(14,047)	50,127
Cumulative effect as at beginning of year of change in accounting principles, net	-	619	-	-	619
Earnings (loss) from discontinued operation	(9,164)	(6,556)	-	4,949	(26,615)
Net earnings (losses) for the	12,387	3,409	10,277	(9,098)	24,131
Net earning per share capital*:					
Basic earnings (losses) per share:					
Earnings (losses) from continuing operations	1.17	0.52	0.54	(0.78)	2.78
Earnings from cumulative effect as at beginning of year of change in accounting principles, net	-	0.03	-	-	0.03
Earnings (loss) from discontinued operation	(0.5)	(0.36)	-	0.28	(1.48)
	0.67	** 0.19	0.54	** (0.5)	** 1.33
Diluted earnings (losses) per share:					
Earnings (losses) from continuing operations	0.51	(0.43)	0.26	(0.78)	2.00
Earnings from cumulative effect as at beginning of year of change in accounting principles, net	-	(0.01)	-	-	0.03
	(0.26)	(0.18)	-	0.09	(1.31)
Earnings (loss) from discontinued operation	0.25	** (0.60)	0.26	** (0.69)	** 0.72

* Reclassified due to inter alia, 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 earnings	Total
	NIS thousands								
Balance as at January 1, 2007 (Audited)	25,665	166,877	3,857	(2,502)	(1,162)	(11,364)	30,359	58,143	269,873
Six month period ended June 30, 2007 (Unaudited)									
Effect of implementation of new accounting principles	-	-	-	-	-	-	-	1,334	1,334
Conversion of debentures into shares	1,312	7,815	-	-	-	-	-	-	9,127
Dividend declared and paid	-	-	-	-	-	-	(30,359)	-	(30,359)
Purchase of company shares	-	-	-	-	-	(1,069)	-	-	(1,069)
Splitting of capital component from convertible debentures	-	138	(138)	-	-	-	-	-	-
Conversion of employee options into shares of the Company	44	(44)	-	-	-	-	-	-	-
Dividend									
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	-	3,629	-	-	-	-	3,629
Capital reserves of investee company									
Repayment of loans to employee for purchase of shares	-	-	-	-	35	-	-	-	35
Issue of warrants									
Net earnings for the period	-	-	-	-	-	-	-	12,387	12,387
Balance as at June 30, 2007 (Unaudited)	27,021	174,786	3,719	1,127	(1,127)	(12,433)	-	71,864	264,957

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 earnings	Total
	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
Six month period ended June 30, 2006 (Unaudited)									
Inclusion of negative goodwill in retained earnings	-	-	-	-	-	-	-	1,230	1,230
Splitting of capital component from convertible debentures	-	-	592	-	-	-	-	-	592
Purchase of company shares	-	-	-	-	-	(1,379)	-	-	(1,379)
Conversion of employee options into shares of the Company	115	(115)	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	-	(14,379)	-	(14,379)
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	-	141	-	-	-	-	141
Capital reserves of investee company	-	164	-	-	-	-	-	-	164
Repayment of loans to employee for purchase of shares	-	-	-	-	37	-	-	-	37
Issue of warrants	-	-	64	-	-	-	-	-	64
Net earnings for the period	-	-	-	-	-	-	-	***3,409	3,409
Balance as at June 30, 2006 (Unaudited)	25,663	166,588	3,857	39	(1,162)	(8,679)	-	67,780	254,086

** 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 of an affiliate	Loans to employees for the purchase of shares	Company shares held by the Company and subsidiary	Retained earnings	Total
	NIS thousands							
Balance as at April 1, 2007(Audited)	25,707	166,835	3,857	(3,957)	(1,162)	(11,924)	61,587	240,943
Three month period ended June 30, 2007 (Unaudited)								
Splitting of capital component from convertible debentures	-	138	(138)	-	-	-	-	-
Conversion of debentures into shares	1,312	7,815	-	-	-	-	-	9,127
Purchase of company shares	-	-	-	-	-	(509)	-	(509)
Conversion of employee options into shares of the company	2	(2)	-	-	-	-	-	-
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	-	5,084	-	-	-	5,084
Issuance of warrants								
Repayment of loans to employee for purchase of shares								
Capital reserves of investee company	-	-	-	-	35	-	-	35
Net losses for the period	-	-	-	-	-	-	10,277	10,277
Balance as at June 30, 2007 (Unaudited)	27,021	174,786	3,719	1,127	(1,127)	(12,433)	71,864	264,957

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	Retained earnings	Total
	NIS thousands							
Balance as at April 1, 2006 (Audited)	25,660	166,510	3,793	1,758	(1,199)	(8,373)	**76,591	264,740
Three month period ended June 30, 2006 (Unaudited)								
Inclusion of negative goodwill in retained earnings	-	-	-	-	-	-	287	287
Purchase of company shares	-	-	-	-	-	(306)	-	(306)
Conversion of employee options into shares of the company	3	(3)	-	-	-	-	-	-
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	-	(1,719)	-	-	-	(1,719)
Issuance of warrants	-	-	64	-	-	-	-	64
Repayment of loans to employee for purchase of shares	-	-	-	-	37	-	-	37
Capital reserves of investee company	-	81	-	-	-	-	-	81
Net losses for the period	-	-	-	-	-	-	*** (9,098)	(9,098)
Balance as at June 30, 2006 (Unaudited)	<u>25,663</u>	<u>166,588</u>	<u>3,857</u>	<u>39</u>	<u>(1,162)</u>	<u>(8,679)</u>	<u>67,780</u>	<u>254,086</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
Purchase of company shares	-	-	-	-	-	(4,064)	-	-	(4,064)
Issuance of options	-	-	64	-	-	-	-	-	64
Capital reserves of investee company	-	455	-	-	-	-	-	-	455
Conversion of debentures into shares of the Company	117	(117)	-	-	-	-	-	-	-
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	-	(2,400)	-	-	-	-	(2,400)
Repayment of loan to employees for purchase of shares	-	-	-	-	37	-	-	-	37
Dividend	-	-	-	-	-	-	(14,379)	-	(14,379)
Dividend declared subsequent to balance sheet date	-	-	-	-	-	-	**(30,359)	**(30,359)	-
Net earnings 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 six months ended		For the three months ended		For the year ended
	June 30	June 30	June 30	June 30	December 31
	2007	*2006	2007	*2006	*2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities:					
Net earnings (losses)	12,387	**3,409	10,277	**(9,098)	**24,131
Adjustments required to reconcile cash from operating activities (Annex A)	133,983	**(30,355)	60,191	**(8,861)	*(44,450)
Net cash flows provided by (used in) continuing operating activities	146,370	(26,926)	70,468	(17,959)	(20,310)
Net cash flows provided by (used in) discontinued operating activities	(32,187)	69,983	-	43,746	51,221
Net cash outflow from (used to) operating activities	114,183	43,057	70,468	25,787	(30,902)
Cash flows from investing activities:					
Purchase of fixed assets, real estate and amounts charged to projects under construction and other assets	(224,539)	**(35,469)	(124,466)	**(20,760)	**(143,941)
Proceeds from sale of fixed assets and other assets	8,897	22,288	587	17,585	35,093
Proceeds (purchase) from sale of marketable, securities short-term investments and deposits, net	126,475	60,574	(332,319)	(27,975)	(101,033)
Investments in investee and other companies (including through loans and capital notes), net	(78,109)	(156,216)	(57,714)	(80,254)	(132,330)
Changes in deposits and loans granted, net	319	8,183	7,747	(535)	(43,139)
Proceeds from sale of investment in investee and other companies	45,117	155,464	998	124,484	275,464
Initially fully or proportionately consolidated companies and acquisition of activities (Annex C)	-	-	-	-	(13,113)
Companies formerly fully or proportionately consolidated no longer consolidated and activities sold (Annex D)	(90,234)	(121)	(90,234)	-	(121)
Companies formerly proportionately consolidated initially fully consolidated (Annex E)	-	(6,682)	-	(8,959)	-
Net cash flows provided by (used in) continuing investing activities	(213,624)	47,961	(596,951)	3,586	78,946
Net cash flows provided by (used in) discontinued investing activities	(6,429)	(54,512)	-	(31,949)	(84,778)
Net cash inflow from investment activities	(220,053)	(6,551)	(596,951)	(28,365)	(5,832)

* Reclassified due to, inter alia, discontinued operation.

** Restated.

Consolidated Statements of Cash Flows**Reported amounts**

	For the six months ended		For the three months ended		For the year
	June 30	June 30	June 30	June 30	December 31
	2007	*2006	2007	*2006	*2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	
Cash flows from financing activities:					
Purchase of company shares by subsidiary	(1,069)	(1,379)	(1,069)	(306)	-
Issue of debentures and convertible debentures in consolidated companies, net	121,431	59,717	944	16,651	80,315
Sale of shares of subsidiary	-	978	-	-	-
Issuance of debentures and convertible debentures (net of issuance expenses) into shares of the Company	12,923	-	12,927	-	-
Dividend to minority in subsidiaries	(52,213)	(34,104)	(38,749)	(24,629)	(47,272)
Receipt (repayment) of loans and capital notes, net	(65,713)	(29,344)	(4,179)	49,381	(41,348)
Issuance of marketable securities of subsidiaries	8,253	46,838	987	25,587	725,081
Receipt (repayment) of short- term credit, net	(156,012)	(23,939)	(63,272)	20,358	** 80,474
Repayment of convertible debentures in consolidated companies	(9,193)	(137,299)	(694)	(75,767)	(222,101)
Receipts on account of shares	20,391	-	-	-	-
Proceeds from sale of subsidiary	-	978	-	-	-
Repayment of loans for purchase of shares	35	37	35	37	37
Dividend	(30,359)	(14,379)	(30,359)	(14,379)	(14,379)
Issuance of rights in proportionately consolidated partnership (Annex F)	-	-	-	-	6,718
Net cash flows provided by (used in) continuing financing activities	(150,153)	(132,734)	(113,142)	(3,367)	(84,193)
Net cash flows provided by (used in) discontinued financing activities	33,752	(67,914)	-	(39,506)	(40,466)
Net cash outflow from (used in) financing activities	(116,401)	(200,648)	(113,142)	(42,873)	592
Translation differences in respect of cash balances in autonomous investee companies - continuing operations	(3,495)	98	(1,866)	301	592
Translation differences in respect of cash balances in autonomous investee companies - discontinued operations	(314)	2,324	-	(275)	2,198
Increase (decrease) in cash and cash equivalents	(5,178)	(50,119)	-	(27,984)	71,875
Balance of cash and cash equivalents at beginning of period	(220,902)	(111,601)	(641,491)	(17,439)	(24,974)
Balance of cash and cash equivalents at end of period	215,253	349,528	215,253	349,528	436,155

* Reclassified due to, inter alia, discontinued operation.

** Restated.

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

	For the six months ended		For the three months ended		For the year ended
	June 30 2007	June 30 *2006	June 30 2007	June 30 *2006	December 31 2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Income and expenses not involving cash flows:					
Depreciation and amortization	22,828	**22,755	11,541	**11,303	**47,326
Company's equity in losses (earnings) of investee companies less of dividend received, net	(8,081)	** (2,450)	4,220	** (2,162)	**10,651
Minority interest in results of subsidiaries, net	35,724	** (4,742)	11,706	** (13,404)	** 780
Loss (gain) on marketable securities and deposits, net	(38,543)	(16,985)	(17,650)	2,427	(34,142)
Expenses from financing activities, net	8,667	22,024	5,451	21,860	10,466
Deferred taxes, net	20,785	3,817	(2,034)	2,466	(5,912)
Increase (decrease) in liability for employee severance benefits, net	2,272	984	744	622	1,405
Gain on sale and amortization of investments and assets, net	(7,598)	(42,901)	(13,685)	(15,349)	(44,706)
Cost of share-based payment transactions	1,674	873	851	450	-
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	(3,455)	(5,124)	73,697	16,948	(67,459)
Decrease (increase) in inventory and in land business inventory holdings, net	77,319	(24,424)	50,097	(37,987)	24,795
Increase (decrease) in suppliers and service providers	13,227	11,676	(64,747)	6,546	7,126
	133,983	30,335	60,191	8,861	(44,450)

* Reclassified due to, inter alia, discontinued operation.

** Restated.

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

	For the six months ended		For the three months ended		For the year ended
	June 30	June 30	June 30	June 30	December 31
	2007	2006	2007	2006	*2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Amount receivables in respect of sale investments	-	4,400	-	4,400	-
Conversion of convertible bonds into Company shares	9,127	-	9,127	-	-
Liability to invest in other companies	-	175	-	175	-
Proceeds from sale of long-term investment	-	6,732	-	6,732	-
Purchase of fixed assets and land on credit	2,110	3,664	-	723	2,609
Sale on credit of fixed assets and land on credit	-	-	-	-	49
Amount payables in respect of issuance expenses	-	-	-	-	-
Conversion of debentures into shares of subsidiary	10,723	11,565	375	7,388	18,545
Dividend in kind for minority	-	38,816	-	38,816	-
Exercise of options by employees of subsidiaries	80	-	-	-	229
Conversion of options by employees	44	115	2	3	117
Proceeds from realization of investments in investee and other companies	-	-	-	-	10,952
Amounts receivable in respect of taxes on land, rental building and fixed assets	-	-	-	-	579
Sale of shares of Reshet Noga Ltd. by Polar Communications	21,000	8,000	-	-	-

Annex C - Initially fully or proportionately consolidated companies and acquisition of activities**Assets and liabilities of the subsidiaries as at date of consolidation**

	For the six months ended		For the three months ended		For the year ended
	June 30	June 30	June 30	June 30	December 31
	2007	2006	2007	2006	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Working capital, net (exclude cash and cash equivalents)	-	-	-	-	(3,040)
Fixed assets	-	-	-	-	(5,274)
Goodwill acquired upon acquisition	-	-	-	-	2,998
Long-term receivable and loans granted	-	-	-	-	(125)
Other assets	-	-	-	-	(13,087)
Excess cost attributed to liability	-	-	-	-	5,357
Long term liabilities	-	-	-	-	58
	-	-	-	-	13,113

* Reclassified due to, inter alia, discontinued operation.

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 six months ended		For the three months ended		For the year ended
	June 30 2007	June 30 2006	June 30 2007	June 30 2006	December 31 2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Working capital, net (exclude cash and cash equivalents)	31,160	(54)	31,160	-	(54)
Investment and long-term loans	(272,377)	-	(272,377)	-	-
Fixed and other assets, net	(124,745)	2,557	(124,745)	-	2,550
Long term liabilities	790,340	(2,220)	790,340	-	(2,220)
Minority interest	140,888	-	140,888	-	-
Balance of loans and investments which left at the time of exit from consolidation	152,814	-	152,814	-	-
Capital gain (loss) on sale or issuance to third party	-	(404)	-	-	(404)
Proceeds on credit	(207,000)	-	(207,000)	-	-
Real estate and investment property	(542,665)	-	(542,665)	-	-
Assets and liabilities attributed to discontinued operation	(58,649)	-	(58,649)	-	-
	<u>(90,234)</u>	<u>(121)</u>	<u>(90,234)</u>	<u>-</u>	<u>(121)</u>

Annex E - Companies formerly proportionately consolidated initially fully consolidated

	For the six months ended		For the three months ended		For the year ended
	June 30 2007	June 30 2006	June 30 2007	June 30 2006	December 31 2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Working capital, net (exclude cash and cash equivalents)	-	(2,095)	-	(1,031)	-
Long term debits	-	(1,052)	-	-	-
Investments and fixed assets, net	-	(132)	-	(132)	-
Other assets, net	-	(7,811)	-	(7,811)	-
Long term liabilities	-	(3,947)	-	15	-
Goodwill created upon acquisition	-	2,998	-	-	-
Excess cost upon liabilities	-	5,357	-	-	-
	<u>-</u>	<u>(6,682)</u>	<u>-</u>	<u>(8,959)</u>	<u>-</u>

Annex F – Issuance of rights in proportionately consolidated partnership

	For the six months ended		For the three months ended		For the year ended
	June 30 2007	June 30 2006	June 30 2007	June 30 2006	December 31 2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Working capital, net (exclude cash and cash equivalents)	-	-	-	-	(2,239)
Other assets	-	-	-	-	134
Minority	-	-	-	-	8,823
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,718</u>