

**ZUR SHAMIR HOLDINGS LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT MARCH 31, 2005**

**UNAUDITED**

**ZUR SHAMIR HOLDINGS LTD.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT MARCH 31, 2005**  
**UNAUDITED**

**INDEX**

	<b><u>Page</u></b>
<b>Auditor's Report of the Interim Consolidated Financial Statements</b>	<b>2</b>
<b>Consolidated Balance Sheets</b>	<b>3 - 4</b>
<b>Consolidated Statements of Profit and Loss</b>	<b>5</b>
<b>Statements of Changes in Shareholders' Equity</b>	<b>6 - 7</b>
<b>Consolidated Statements of Cash Flows</b>	<b>8 - 10</b>
<b>Notes to the Consolidated Financial Statements</b>	<b>11 - 15</b>

-----

The Board of Directors  
Zur Shamir Holdings Ltd.

Dear Sirs,

Re: Review report of unaudited interim consolidated financial statements  
and for the three month period ended March 31, 2005

At your request, we have reviewed the interim consolidated balance sheet of Zur Shamir Holdings Ltd. as at March 31, 2005, and the related consolidated statement of profit and loss, statement of changes in shareholders' equity and consolidated statement of cash flows for the period of three months then ended. Our review was made in accordance with the procedures established by the Institute of Certified Public Accountants in Israel and included, inter-alia, reading the aforementioned financial statements, reading minutes of the meetings of the shareholders and of the Board of Directors and its committees and making inquiries of persons responsible for financial and accounting matters.

We have been furnished with reports of other accountants in respect of the review of the interim consolidated financial statements of certain subsidiaries, whose assets constitute approximately 8% of total consolidated assets as at March 31, 2005 and whose revenues constitute approximately 3.1% of total consolidated revenues for the three month period then ended.

Since the review performed was limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the said interim consolidated financial statements.

Based on our review and the review reports of the other accountants, as mentioned above, we are not aware of any material modifications that should be made to the interim consolidated financial statements in order for them to be in conformity with generally accepted accounting principles and with the Securities Regulations (Periodical and Immediate Statements), 1970, taking into account that data regarding subsidiaries, which are insurance companies, are prepared according to generally accepted accounting and reporting principles prescribed by the Supervision of Insurance Business Law, 1981.

We draw attention to Note 4 of the interim financial statements, regarding an adjustment by way of restatement of the interim financial statements as at March 31, 2004 and for the period of three months then ended, in order to retroactively reflect the effect of the change in respect of the estimate of the life span of buildings for lease and the calculation of depreciation in their respect.

Tel-Aviv,  
May 29, 2005

**KOST FORER GABBAY & KASIERER**  
A Member of Ernst & Young Global

**CONSOLIDATED BALANCE SHEETS**

	<u>March 31,</u>		<u>December 31,</u>	<b>Convenience translation into U.S.\$ in thousands</b>
	<u>2005</u>	<u>2004</u>	<u>2004</u>	
	<u>Unaudited</u>		<u>Audited</u>	
	<u>Reported NIS in thousands</u>			
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	111,848	168,081	186,788	25,647
Short term investments	20,996	6,951	15,525	4,814
Customers	34,685	30,756	34,351	7,954
Insurance companies	46,352	49,709	47,156	10,629
Outstanding premiums	184,244	175,739	186,284	42,248
Debtors and receivables	45,458	69,514	39,273	10,424
	<u>443,583</u>	<u>500,750</u>	<u>509,377</u>	<u>101,716</u>
<b>INVESTMENTS AND LONG TERM LOANS</b>				
Investments of insurance companies	1,188,575	900,837	1,081,130	272,546
Reinsurers' share in insurance reserves and outstanding claims	101,639	57,690	101,842	23,306
Investment in affiliates and others	943	3,662	2,903	216
Long term investments	5,253	10,253	10,830	1,205
Loans	26,569	25,109	26,321	6,093
	<u>1,322,979</u>	<u>997,551</u>	<u>1,223,026</u>	<u>303,366</u>
<b>FIXED ASSETS</b>				
Cost	1,487,643	1,378,617	1,541,881	341,124
Less accumulated depreciation	243,765	207,101 *)	248,801	55,896
	<u>1,243,878</u>	<u>1,171,516</u>	<u>1,293,080</u>	<u>285,228</u>
<b>DEFERRED ACQUISITION COSTS AND OTHER ASSETS, NET</b>				
Other assets and deferred expenses	37,528	47,162	39,573	8,605
Deferred acquisition costs in insurance companies	103,710	82,999	98,283	23,781
Deferred taxes	51,773	48,825	49,716	11,872
	<u>193,011</u>	<u>178,986</u>	<u>187,572</u>	<u>44,258</u>
	<u>3,203,451</u>	<u>2,848,803</u>	<u>3,213,055</u>	<u>734,568</u>

\*) Restatement, see Note 4.

The accompanying notes are an integral part of the consolidated financial statements.

**CONSOLIDATED BALANCE SHEETS**

	<u>March 31,</u>		<u>December 31,</u>	<b>Convenience translation into U.S.\$ in thousands</b>
	<u>2005</u>	<u>2004</u>	<u>2004</u>	
	<b>Unaudited</b>		<b>Audited</b>	
	<b>Reported NIS in thousands</b>			
<b>CURRENT LIABILITIES</b>				
Credit from banking corporations	196,618	259,640	255,569	45,086
Current maturities of convertible capital notes	2,524	9,118	3,609	579
Current maturities of debentures convertible into subsidiary shares	6	9	6	2
Suppliers and service providers	44,745	36,926	48,218	10,260
Insurance companies	16,739	11,717	15,285	3,838
Creditors and payables	132,656	100,199	127,669	30,418
	<u>393,288</u>	<u>417,609</u>	<u>450,356</u>	<u>90,183</u>
<b>LONG TERM LIABILITIES</b>				
Convertible capital notes	639	10,960	1,517	147
Capital notes convertible into subsidiary shares	16	32	16	4
Company debentures	100,000	100,000	100,000	22,931
Subsidiary debentures	150,000	-	150,000	34,396
Liability to cover an affiliate's losses	1,143	-	-	262
Loans from banking corporations and others	789,362	901,010	801,919	181,005
Deferred taxes	31,263	27,502	29,126	7,168
Liabilities for severance pay, net	1,519	2,372	1,748	347
	<u>1,073,942</u>	<u>1,041,876</u>	<u>1,084,326</u>	<u>246,260</u>
<b>INSURANCE RESERVES AND OUTSTANDING CLAIMS</b>				
	<u>1,279,921</u>	<u>1,044,819</u>	<u>1,231,369</u>	<u>293,493</u>
<b>MINORITY INTEREST</b>				
	<u>279,964</u>	<u>193,207 *)</u>	<u>270,880</u>	<u>64,197</u>
<b>RECEIPTS ON ACCOUNT OF OPTIONS REALIZABLE INTO SUBSIDIARY SHARES</b>				
	<u>5,010</u>	<u>5,010</u>	<u>5,010</u>	<u>1,149</u>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	211,413	207,032	210,657	48,478
Capital reserves	52,159	39,199	54,461	11,960
Deficiency	(31,072)	(38,775)*)	(32,830)	(7,125)
	<u>232,500</u>	<u>207,456</u>	<u>232,288</u>	<u>53,313</u>
Shares held by the Company	<u>(61,174)</u>	<u>(61,174)</u>	<u>(61,174)</u>	<u>(14,027)</u>
	<u>171,326</u>	<u>146,282</u>	<u>171,114</u>	<u>39,286</u>
	<u>3,203,451</u>	<u>2,848,803</u>	<u>3,213,055</u>	<u>734,568</u>

\*) Restatement, see Note 4.

The accompanying notes are an integral part of the consolidated financial statements.

<u>May 29, 2005</u>			
Date of approval of the financial statements	<u>S. Schneidman</u> Chairman of the Board of Directors	<u>M. Schneidman</u> Member of the Board of Directors and Managing Director	<u>R. Nakar</u> Finance Director

**CONSOLIDATED STATEMENTS OF PROFIT AND LOSS**

	Three months ended		Year ended	Convenience translation into U.S.\$ in thousands
	March 31, 2005	2004 *)	December 31, 2004	
	Unaudited		Audited	
	Reported NIS in thousands (except for earnings per share data)			
<b>Income</b>				
From insurance business	209,673	184,436	785,524	48,079
From lease of assets	27,210	27,335	109,582	6,239
From asset management and stock exchange services	3,190	2,916	11,165	732
From sale of software	2,928	2,144	13,307	671
Other income, net	7,049	10,903	77,984	1,616
	<u>250,050</u>	<u>227,734</u>	<u>997,562</u>	<u>57,337</u>
<b>Costs and expenses</b>				
Insurance business	192,148	175,340	715,894	44,060
Maintenance of assets:				
Depreciation	5,741	5,021 **)	21,857	1,316
Others	4,834	3,261	18,003	1,108
From asset management and stock exchange services	4,219	3,413	13,849	968
Cost of software sales	6,250	4,240	19,593	1,433
Administrative and general expenses	1,194	1,873	10,651	275
Financing, net	13,211	18,429	62,465	3,029
	<u>227,597</u>	<u>211,577</u>	<u>862,312</u>	<u>52,189</u>
Income before income taxes	22,453	16,157	135,250	5,148
Income taxes	13,137	8,367	70,990	3,012
Income after income taxes	9,316	7,790	64,260	2,136
Minority share in losses (profits) of subsidiaries	(5,437)	240 **)	(43,285)	(1,247)
Income for the period, before cumulative effect as at beginning of the period	3,879	8,030	20,975	889
Cumulative effect as at beginning of the period of change in accounting policies, net	2,121	-	-	486
Net income for the period	<u>1,758</u>	<u>8,030</u>	<u>20,975</u>	<u>403</u>
Net earnings per NIS 1 nominal value of ordinary shares (in NIS/ in US dollars, respectively):				
<b>Basic</b>				
Before cumulative effect, net	0.07	0.15 **)	0.34	0.02
Cumulative effect, net	(0.04)	-	-	0.01
Net income for the period	<u>0.03</u>	<u>0.15</u>	<u>0.34</u>	<u>0.01</u>
<b>Diluted</b>				
Before cumulative effect, net	-	0.14 **)	-	-
Cumulative effect, net	-	-	-	-
Net income for the period	<u>***)</u>	<u>0.14</u>	<u>***)</u>	<u>***)</u>

\*) Reclassified.

\*\*) Restatement, see Note 4.

\*\*\*) Not applicable for this year.

The accompanying notes are an integral part of the consolidated financial statements.

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserves</u>	<u>Adjustments due to translation of subsidiaries' financial statements</u>	<u>Deficiency</u>	<u>Net of shares held by the Company and subsidiaries</u>	<u>Dividend declared after balance sheet date</u>	<u>Total</u>
	<u>Reported NIS in thousands</u>							
<b>Balance as at January 1, 2004 (Audited)</b>	203,457	12,898	2,213	14,235	(46,805)	(61,174)	-	124,824
Conversion of capital notes	7,200	12,614	-	-	-	-	-	19,814
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	12,501	-	-	-	12,501
Dividend paid	-	-	-	-	(7,000)	-	-	(7,000)
Net income for the year	-	-	-	-	20,975	-	-	20,975
<b>Balance as at December 31, 2004 (Audited)</b>	210,657	25,512	2,213	26,736	(32,830)	(61,174)	-	171,114
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	(3,511)	-	-	-	(3,511)
Conversion of capital notes	756	1,209	-	-	-	-	-	1,965
Dividend declared after the balance sheet date	-	-	-	-	(12,000)	-	12,000	-
Net income for the period	-	-	-	-	1,758	-	-	1,758
<b>Balance as at March 31, 2005 (Unaudited)</b>	211,413	26,721	2,213	23,225	(43,072)	(61,174)	12,000	171,326
	<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserves</u>	<u>Adjustments due to translation of subsidiaries' financial statements</u>	<u>Deficiency</u>	<u>Net of shares held by the Company and subsidiaries</u>	<u>Dividend declared after balance sheet date</u>	<u>Total</u>
	<u>Reported NIS in thousands</u>							
<b>Balance as at January 1, 2004 (Audited)</b>	203,457	12,898	2,213	14,235	(46,805)	(61,174)	-	124,824
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	4,196	-	-	-	4,196
Conversion of capital notes	3,575	5,657	-	-	-	-	-	9,232
Net income for the period	-	-	-	-	8,030 *)	-	-	8,030
<b>Balance as at March 31, 2004 (Unaudited)</b>	207,032	18,555	2,213	18,431	(38,775)	(61,174)	-	146,282

\*) Restatement, see Note 4.

The accompanying notes are an integral part of the consolidated financial statements.

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserves</u>	<u>Adjustments due to translation of subsidiaries' financial statements</u>	<u>Deficiency</u>	<u>Net of shares held by the Company and subsidiaries</u>	<u>Dividend declared after balance sheet date</u>	<u>Total</u>
<u>Convenience translation into U.S. \$ in thousands</u>								
<b>Balance as at January 1, 2004 (Audited)</b>	48,304	5,850	507	6,131	(7,528)	(14,027)	-	39,237
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	(805)	-	-	-	(805)
Conversion of capital notes	174	277	-	-	-	-	-	451
Dividend declared after the balance sheet date	-	-	-	-	(2,752)	-	2,752	-
Net income for the period	-	-	-	-	403	-	-	403
<b>Balance as at March 31, 2004 (Unaudited)</b>	<u>48,478</u>	<u>6,127</u>	<u>507</u>	<u>5,326</u>	<u>(9,877)</u>	<u>(14,027)</u>	<u>2,752</u>	<u>39,286</u>

The accompanying notes are an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three months ended		Year ended	Convenience translation into U.S.\$ in thousands
	March 31,		December 31,	
	2005	2004	2004	
	Unaudited		Audited	
	Reported NIS in thousands			
<b>CASH FLOWS FROM CURRENT ACTIVITIES</b>				
Net income for the period	1,758	8,030 *)	20,975	403
Adjustments required to present cash flows from current activities (A)	(45,662)	(27,492)	(11,795)	(10,470)
Net cash provided by (used in) current activities	(43,904)	(19,462)	9,180	(10,067)
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>				
Acquisition of a subsidiary's shares and bonds form minority	-	(3,901)	(3,901)	-
Exit from consolidation of a previously consolidated subsidiary (b)	(430)	-	-	(99)
Proceeds from realization of affiliates	2,228	-	-	511
Acquisition of fixed assets	(29,139)	(13,372)	(274,065)	(6,682)
Proceeds from sale of fixed assets	50,794	132	146,157	11,647
Realization of securities, net	282	5,772	(3,011)	65
Settlement of long term loans	-	-	6	-
Other assets and deferred expenses	(27)	(50)	(970)	(6)
Granting of long term loans	-	-	(429)	-
Net cash provided by (used in) investment activities	23,708	(11,419)	(136,213)	5,436
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Settlement of convertible capital notes	-	-	(3,985)	-
Settlement of bonds convertible into subsidiary shares	-	-	(19)	-
Issue of bonds of a subsidiary	-	-	145,150	-
Issue of shares to a minority in subsidiaries (net of issue expenses)	9,217	103,803	208,778	2,114
Settlement of long term loans from banking corporations	(62,230)	(14,831)	(208,003)	(14,270)
Receipt of long term loans from banking corporations	10,482	-	102,694	2,404
Increase (decrease) of short term credit from banking corporations, net	(9,178)	11,771	(18,096)	(2,105)
Payment of a dividend to a minority in a subsidiary	-	-	(10,668)	-
Dividend paid	-	-	(7,000)	-
Net cash provided by (used in) financing activities	(51,709)	100,743	208,851	(11,857)
<b>Translation differences in relation to cash balances in foreign autonomic subsidiaries</b>	(3,035)	1,001	7,752	(696)
<b>Increase (decrease) in cash and cash equivalents</b>	(74,940)	70,863	89,570	(17,184)
<b>Balance of cash and cash equivalents at the beginning of the period</b>	186,788	97,218	97,218	42,831
<b>Balance of cash and cash equivalents at the end of the period</b>	111,848	168,081	186,788	25,647

\*) Restatement, see Note 4.

The accompanying notes are an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Three months ended</b>		<b>Year ended</b>	<b>Convenience translation into U.S.\$ in thousands</b>
	<b>March 31,</b>		<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>	<b>2004</b>	
	<b>Unaudited</b>		<b>Audited</b>	
	<b>Reported NIS in thousands</b>			
<b>A. Adjustments required to present cash flows from current activities</b>				
Income and expenses not involving cash flows:				
Minority's share in income of subsidiaries	4,658	(240)*	43,285	1,068
Depreciation and amortization	12,161	11,253 *	47,990	2,789
Impairment in value of fixed assets	-	-	10,305	-
Capital gain, net	(5,980)	(92)	(23,830)	(1,371)
Capital gain from issue to a third party	(1,920)	(10,811)	(68,404)	(440)
Deferred taxes, net	1,143	(939)	1,050	262
Liabilities for severance pay, net	(229)	8	(616)	(53)
Increase in insurance reserves and outstanding claims net of reinsurance	52,564	45,773	182,063	12,053
Increase in deferred acquisition costs in an insurance company	(6,162)	(6,653)	(20,680)	(1,413)
Increase in value of securities, net	(176)	(126)	(494)	(40)
Interest and erosion of loans and long term liabilities, net	2,596	5,652	4,279	595
	<u>58,655</u>	<u>43,825</u>	<u>174,948</u>	<u>13,450</u>
Changes in assets and liabilities:				
Decrease (increase) in customers	(592)	6,534	2,952	(136)
Decrease (increase) in insurance companies, net	2,234	(11,691)	(5,550)	512
Decrease (increase) in outstanding premiums	1,462	(11,955)	(21,595)	335
Increase in investments of insurance companies, net	(108,508)	(41,576)	(217,952)	(24,881)
Decrease (increase) in debtors and receivables	(7,372)	(22,801)	8,277	(1,690)
Increase (decrease) in suppliers and service providers	(3,280)	10,139	22,941	(752)
Increase in creditors and payables	11,739	33	24,184	2,692
	<u>(104,317)</u>	<u>(71,317)</u>	<u>(186,743)</u>	<u>(23,920)</u>
	<u>(45,662)</u>	<u>(27,492)</u>	<u>(11,795)</u>	<u>(10,470)</u>

\*) Restatement, see Note 4

The accompanying notes are an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Three months ended</b>		<b>Year ended</b>	<b>Convenience translation into U.S.\$ in thousands</b>
	<b>March 31,</b>		<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>	<b>2004</b>	
	<b>Unaudited</b>		<b>Audited</b>	
	<b>Reported NIS in thousands</b>			
<b>B. Exit from consolidation of a subsidiary previously consolidated</b>				
Working capital (not including cash and cash equivalents)	(4,547)	-	-	(1,043)
Investment in an affiliate	1,143	-	-	262
Fixed assets, net	1,295	-	-	297
Minority interest	1,679	-	-	385
	<u>(430)</u>	<u>-</u>	<u>-</u>	<u>(99)</u>
<b>C. Material activities not involving cash flows</b>				
Issue of capital against the conversion of convertible capital notes	<u>1,965</u>	<u>9,232</u>	<u>19,814</u>	<u>451</u>
Acquisition of fixed assets against suppliers and service providers	<u>-</u>	<u>-</u>	<u>1,915</u>	<u>-</u>
Sale of a building against debtors and receivables	<u>4,908</u>	<u>-</u>	<u>-</u>	<u>1,125</u>

The accompanying notes are an integral part of the consolidated financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

---

**NOTE 1:- GENERAL**

- a. These financial statements have been prepared in a condensed format as of March 31, 2005, and for the three month period then ended (hereunder - interim financial statements). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as at December 31, 2004 and for the year then ended.
- b. The adjusted interim consolidated financial statements as at March 31, 2004 and for the three months then ended have been translated into U.S. dollars using the representative foreign exchange rate as at that date (U.S. \$ 1 = NIS 4.361) The translation was made solely for the convenience of the reader.

The amounts presented in these financial statements should not be construed to represent amounts receivable or payable in dollars or convertible into dollars, unless otherwise indicated in these financial statements.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

- a. The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board and in accordance with Chapter D to the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies and methods of computation applied in the preparation of the interim financial statements are identical to those applied in the preparation of the latest annual financial statements, except as described in sub-section b below.

- b. Initial adoption of Accounting Standard No. 19 with respect to taxes on income

On January 1, 2005, the Company adopted Accounting Standard No. 19, "Taxes on Income" (hereunder - the Standard) of the Israel Accounting Standards Board. The Standard prescribes the principles for recognition, measurement, presentation and disclosure of taxes on income and deferred taxes in the financial statements. Pursuant to the Standard, the effect of the initial adoption of the Standard was recognized by recording the cumulative effect as of the beginning of the period in which the Standard is adopted.

The major changes promulgated by the Standard in relation to the accounting principles which are currently applied are: recognition of deferred taxes in respect of temporary differences resulting from using a currency for financial reporting purposes that is different than the currency used for tax purposes.

As a result of the initial adoption of the provisions of the Standard, the Company recorded a deferred tax liability in the amount of about NIS 2.9 million (net of minority's share in the amount of about NIS 2.1 million), which was recognized as a loss and recorded as a separate line item in the statement of profit and loss – "Cumulative effect as of the beginning of the period of change in accounting principle, net".

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 3:- DATA REGARDING THE ISRAELI CPI AND THE FOREIGN CURRENCY EXCHANGE RATES**

<u>As at</u>	<u>Israeli CPI in points *)</u>	<u>Representative exchange rate of</u>			
		<u>U.S. dollars NIS</u>	<u>Canadian dollars</u>	<u>Pound Sterling</u>	<u>Euro</u>
March 31, 2005	106.8	4.361	3.596	8.206	5.649
March 31, 2004	106.1	4.528	3.465	8.306	5.535
December 31, 2004	107.4	4.308	3.579	8.308	5.877
<b>Rate of change during the period</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
March 2005 (three months)	(0.6)	1.2	0.5	(1.2)	(3.9)
March 2004 (three months)	(0.1)	3.4	1.7	5.8	0.03
December 2004 (12 months)	1.2	(1.6)	5.0	5.8	6.2

\*) The CPI is at the average basis of 2000 = 100.

**NOTE 4:- RESTATEMENT**

A subsidiary's financial statements as at March 31, 2004 and for the period of three months then ended, were adjusted by way of restatement in order to retroactively reflect the effect of the amendment in the estimate of the life span of buildings for lease in Belgium and the calculation of depreciation in their respect.

The effect of the changes on the financial statements:

In the balance sheet

	<u>March 31, 2004</u>		
	<u>As previously reported</u>	<u>The change</u>	<u>As reported in these financial statements</u>
	<u>Reported NIS in thousands</u>		
<u>Consolidated</u>			
Fixed assets, net	1,172,206	(690)	1,171,516
Minority interest	193,393	(186)	193,207
Shareholders' equity	146,786	(504)	146,282

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 4:- RESTATEMENT (Cont.)**In the statement of profit and loss

	<b>Three months period ended March 31, 2004</b>		
	<b>As previously reported</b>	<b>The change</b>	<b>As reported in these financial statements</b>
	<b>Reported NIS in thousands (except earnings per share data)</b>		
<u>Consolidated</u>			
Depreciation of assets expenses	4,331	690	5,021
Minority share in losses of subsidiaries	54	186	240
Income for the period	8,534	(504)	8,030
Earnings per NIS 1 par value of ordinary shares (in reported NIS)	0.16	(0.01)	0.15

**NOTE 5:- INFORMATION ACCORDING TO BUSINESS SEGMENTS**

	<b>Three month period ended March 31, 2005</b>				
	<b>Insurance</b>	<b>Leasing of assets</b>	<b>Asset management and stock exchange services</b>	<b>Others</b>	<b>Total</b>
	<b>Reported NIS in thousands</b>				
Income from external sources	209,673	27,210	3,190	2,928	243,001
Inter-company income	-	714	-	1,358	2,072
Capital gain and other income	(351)	5,598	-	1,802	7,049
Total	<u>209,322</u>	<u>33,522</u>	<u>3,190</u>	<u>6,088</u>	<u>252,122</u>
Segment results	<u>16,460</u>	<u>11,562</u>	<u>(1,029)</u>	<u>(1,520)</u>	<u>25,473</u>

	<b>Three month period ended March 31, 2004</b>				
	<b>Insurance</b>	<b>Leasing of assets</b>	<b>Asset management and stock exchange services</b>	<b>Others</b>	<b>Total</b>
	<b>Reported NIS in thousands</b>				
Income from external sources	184,436	27,335	2,916	2,144	216,831
Inter-company income	-	708	-	1,150	1,858
Capital gain and other income	238	10,665	-	-	10,903
Total	<u>184,674</u>	<u>38,708</u>	<u>2,916</u>	<u>3,924</u>	<u>229,592</u>
Segment results	<u>8,666</u>	<u>15,671 *)</u>	<u>(497)</u>	<u>(2,096)</u>	<u>21,744</u>

\*) Restatement – see Note 4.

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 5:- INFORMATION ACCORDING TO BUSINESS SEGMENTS (Cont.)**

	Year ended March 31, 2004				Total
	Insurance	Leasing of assets	Asset management and stock exchange services	Others	
	Reported NIS in thousands				
Income from external sources	785,524	109,582	11,165	13,307	919,578
Inter-company income	-	2,852	-	6,408	9,260
Capital gain and other income	54,128	23,856	-	-	77,984
Total	839,652	136,290	11,165	19,715	997,562
Segment results	121,069	49,070	(2,684)	(6,286)	161,169

\*) Restatement – see Note 4.

**NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD**

- a. On March 23, 2005 a subsidiary Direct Insurance - Financial Investments Ltd. (hereunder – Direct Insurance), signed an agreement with Formula Veissman Technologies (S.V.T.) Ltd. (hereunder – Formula), according to which Formula will invest in a subsidiary of Direct Insurance, Idit I.D.I. Technologies Ltd. (hereunder – Idit), the amount of about NIS 8.7 million. As a result of this investment Direct Insurance's share in Idit decreased to about 40.5% (fully diluted 35.6%).

As a result of the aforementioned, Direct Insurance will record capital gain in the amount of about NIS 5.5 million, that will be spread over three years or to the extent of Direct Insurance's share in Idit's losses, according to the higher of the two.

During the reporting period Direct Insurance recorded a profit in the amount of NIS 1.8 million. Beginning from March 31, 2005 Idit is recorded as an affiliate in the financial statements.

- b. A subsidiary of Adgar Investments and Development Ltd. (hereunder – Adgar), sold an office building in Great Britain for the consideration of about NIS 54 million. As a result of the sale Adgar recorded capital gain in the amount of about NIS 5.5 million.

**NOTE 5:- CHANGES IN COMPANY'S EQUITY**

- a. During the reporting period 147,274 capital notes (Series B) were converted into 73,637 preferred shares of NIS 1 nominal value.  
During the reporting period 1,501,293 capital notes (Series C) were converted into 682,406 preferred shares of NIS 1 nominal value.
- b. In relation to the distribution of a dividend after the balance sheet date see Note 8(a) below.
- c. In relation to the conversion of capital notes after the balance sheet date see Note 8(d) below.

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 7:- EVENTS AFTER THE BALANCE SHEET DATE**

- a. In April 2005 the Company's Board of Directors decided to distribute a dividend in the amount of NIS 12,000 thousand which constitutes about 19.9% of the issued and paid-up share capital, so that whoever held a share on May 4, 2005 will be entitled to the dividend payment. The dividend was paid on May 19, 2005.
- b. On April 20, 2005 the Company raised the amount of NIS 140 million from corporate investors by way of the issue of bonds. The bonds are linked to the CPI and bear interest linked to the CPI at a rate of 5.6% per annum. The fund will be settled in six equal annual payments, beginning from April 30, 2008 up to and including 2013. The interest will be paid annually beginning from April 30, 2006.

The Company committed to recording the issued bonds for trade on the Tel-Aviv Stock Exchange no later than August 31, 2005.

Until the bonds are registered for trade, the funds received are deposited in with a trustee.

- c. During April 2005, a subsidiary of Adgar, that is a subsidiary of the Company, purchased an office building situated in Toronto, Canada, on an area of about 9,300 square meters. About 54% of the building space is occupied. Based on the current rate of occupancy, the annual rental fees are about Canadian \$ 0.6 million.

The cost of the building is about Canadian \$ 14 million that in the first stage will be financed from the internal sources, however negotiations are being held for the financing of part of the transaction through external sources.

- d. In April-May 2005, capital notes (Series B) in the amount of 174,270 nominal value each, were converted into 87,135 preferred shares of NIS 1 nominal value each.
- e. In April 2005 a subsidiary of Direct Insurance submitted a draft prospectus of a public issue of deferred liability deeds in the amount of NIS 265,000 thousand.

On May 26, 2005 the Ma'alot Grading Committee, the Israel Company for Securities Grading Ltd., determined a grading of A+ for the deferred liability deeds proposed according to the draft prospectus.

- f. On April 21, 2005 the General Assembly of the Company approved the entitlement of the Company's Managing Director to receive an annual bonus beginning from the year 2005. The amount of the bonus will be determined as a proportion of the Company's profit before tax.

The payment of the bonus is on condition that there will be an annual a profit before tax in the amount of NIS 20 million. On the amount of annual profit before tax between NIS 20 million and NIS 50 million the bonus rate will be 1%, on the amount of annual profit before tax above NIS 50 million the bonus will be paid at a rate of 2%.

From the annual profit before tax, there will be each year a deduction of the deficiency before tax that was recorded in previous years and was not deducted from the profit for the bonus.

The maximum bonus amount will be in the amount of NIS 3 million.

-----