Delek Group

FINANCIAL STATEMENTS

AS OF JUNE 30, 2005





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IMPORTANT

This document is an unofficial translation from the Hebrew original of the updates to the 2004 annual report of Delek Group Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority.

The Hebrew version submitted to the TASE and the Israeli Securities Authority shall be the sole binding version.

Update of Chapter A (Corporate Description)

To the Annual Report of Delek Group Ltd (herein: the "Company") for the year 2004[1]

1. To Paragraph 2 of the Annual Report - Areas of Operations

On April 29, 2004 a transaction was completed for the purchase of a refinery and crude oil transportation pipeline in the city of Tyler in the State of Texas, USA[2]. In light of the completion of the transaction, the Company started to deal in a new area of activity which is the oil refining sector (herein: "refining sector") including the production of various oil products.

For details concerning the refining sector see paragraph 6, below, of this update.

2. Update To Paragraph 7 of the Annual Report – Energy Sector

2.1 Update To Paragraph 7.19 of the Annual Report – Material Agreements

After the date of the balance sheet, the partners of the Yam Thetis project signed two additional agreements to supply natural gas, with American-Israel Paper Mills Ltd. and with APP Delek Ashkelon Ltd. (a private company controlled by Delek Group).

3. Update to Paragraph 9 of the Annual Report – Real Estate Sector

3.1 Initial Public Offering of Delek Real Estate Ltd. (herein: "Delek Real Estate"):

During the month of June, a subsidiary of Delek Real Estate Ltd had an initial public offering on the Tel-Aviv Stock Exchange. As a result of the public offering and the conversion of bonds of an institutional entity who converted before the offering, a profit was created for the Company of approximately NIS 110 million. From the said amount, approximately NIS 93 million was listed during the second quarter of the year and approximately NIS 17 million will be listed in the third quarter of the year. For additional details see note 3A of the financial statements of the Company. Similarly, see the immediate report from June 19, 2005.

3.2 Update to Paragraph 9.3 of the Annual Report – Details Regarding Real Estate in England

On July 15, 2005 after the date of the balance sheet, the subsidiary Delek Belron International Ltd. (herein: "Delek Belron") through foreign subsidiaries of it, completed a transaction for the sale of 55% of the rights in four income generating properties in England and a refinancing of these properties and it completed a transaction for the sale of all its rights in five income generating properties in England to third parties.

3.3 Update to Paragraph 9.5 of the Annual Report – Investments Abroad

Regarding the purchase of seven properties in Germany by a subsidiary of Delek Belron see the immediate reports from March 30, 2005 and from April 3, 2005.

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[1] The update includes changes of new essential events which occurred in the business of the Company for any area described in the annual report. The update deals with a number of paragraphs in Chapter A (Corporate Description) for the Annual Report for the year 2004.

[2] See also the immediate report of May 1, 2005 and the quarterly report of the Company from May 30, 2005.

4. Update to Paragraph 14 of the Annual Report – Other Operations

4.1 Update to paragraph 14.1 of the Annual Report – Desalination

In August, 2005 the facility for the desalination of seawater in Ashkelon started operations. This facility is the largest and most advanced of its type in the world. The desalination facility has daily flows of approximately 170,000 cubic meters of desalinated water, where its operation is planned to be in stages – in the first stage, the expectation is that it will supply approximately 50 million cubic meters of water per year and in the second stage it is expected that the facility will reach its full capacity and have 100 million cubic meters of desalinated seawater flow per year. The operation of the desalination facility in Ashkelon started after receiving approval of the Ministry of Health, the Water Commissioner, Desalination Authority and the Ministry of the Environment. It should be noted that the addition of a specific investment and without disturbing the continuous operation of the facility it is possible to increase the capacity of the facility to 120 million cubic meters per year.

4.2 Update to Paragraph 14.2 of the Annual Report – Power Generating Station

As stated in the annual report of the Company, the completion of the power generating station and its operation is dependent upon the delivery of gas to it. Due to the delay in the delivery of gas to the site of the facility, owing to delays whose source was with the government, the completion and operation of the facility is being delayed. The gas was to be transported to the facility through a national gas transmission system that in the future is to be erected by a government company that was established by the State. The gas transmission company expects that the system will be established and will be operative by the end of July, 2006. With that, there is no certainty that the government gas transmission company will stand by its goals.

5. Update to Paragraph 15 of the Annual Report – Biochemical Sector

5.1 Initial Public Offering of Gadot Biochemical Industries Ltd. (herein: "Gadot")

During the months of May, 2005 Gadot (consolidated company) completed an initial public offering of shares and convertible bonds on the Tel-Aviv Stock Exchange. The net proceeds that Gadot received for the offering totaled approximately NIS 119 million, where a total of approximately NIS 80 million from it related to the convertible bond offering and the rest relates to the share offering.

As a result of the offering, the rate of holding of the Company in Gadot declined to 64% (fully diluted to approximately 55%). The profit that was due to the Company as a result of the offering of Gadot totaled approximately NIS 10 million. For additional details see note 3B of the financial reports of the Company. Similarly see the immediate report form May 18, 2005 and from June 19, 2006.

6. Refining Sector

As was noted in the Company's annual report for the year 2004, on March 13, 2005 Delek US Holdings, Inc. (herein: "**Delek USA**") signed an agreement to purchase a refinery and crude oil transportation pipeline of 104 km's in length. This transaction was competed on April 29, 2005 and Delek USA purchased, via three subsidiaries of the subsidiary Delek Refining Inc. (herein: "**Delek Refining**") the refinery and pipeline.. The refinery is located in Tyler, Texas and at the date of this report has a production capacity of 57,000 barrels of oil per day (herein: "**the Refinery**"). The maximum daily amount of crude oil that can be transported through the oil pipeline is estimated at 26,000 barrels. The investment for the purchase of the refinery and the pipeline totaled approximately $72 million[3] (including inventories). The transaction was financed using an equity investment of the Delek Group in the amount of $35.5 million and loans, including credit facilities, in a total aggregate amount of $300 million from foreign banks[4].

Delek Refining was incorporated prior to the purchase of the refinery while its operations in the refining sector started with the purchase of the refinery on April 29, 2005.

6.1 General Information on the Area of Activity

6.1.1 What is Refining?

Oil refining is a process in which the various compounds of crude oil are separated into various products such as such as gasoline, diesel fuel, and the like.
The refining process includes a number of main stages, including: A separation process where crude oil is separated into groups of products, fractionation processes where they change the chemical makeup of the materials that were separated to make more highly value added products, refining processes whose purpose is to purify and cleanse the products created during the separation process, and finally – finishing processes whose purpose is to make the products compatible with the standards and specifications demanded by the law or by agreements with specific customers (for example: adding fuel additives).

6.1.2 General Environment and the Influence of External Factors

As a refining company, Delek Refining is exposed to trends, events and developments in the regional fuel market in which it operates in the US, that have or may have an influence on its the competitors activities, including:

A. Volatility in the price of fuels in the world in general and in the area of operations of Delek Refining in particular – The crude oil that Delek Refining purchases is the main cost of production. The price of crude oil is determined by the price of fuels in the international markets. The price that Delek Refining pays for crude oil is determined by the market price change formula, in conjunction with the international price of crude oil. The price of fuel products is also determined on the basis of prices in international markets. Delek Refining purchases about 60% of the crude oil from local suppliers (in eastern Texas) through swap transactions (see paragraph 6.10, below). The remaining supply is purchased from suppliers in western Texas and from additional international sources.
B. Legal Limitations, Regulatory Developments and Special Constraints Incumbent upon the Refining Sector – Delek Refining is subject to laws, regulations and standards that are set by the authorized authorities in the sector operations, in the federal, state and local levels mainly in the area of environmental controls and standards. See details in paragraphs 6.15 and 6.16, below.

[3] This after adjusting and accounting between the parties according to the conditions of the purchase.
[4] The balance of the credit facility that was not utilized by Delek Refining for the purpose of the transaction is being used by Delek Refining for its on-going activities, as detailed in paragraph 6.12.1, below.

C. Economic Slowdown – Most of the products of Delek Refining are designated for transportation (vehicles and planes). An economic slowdown in the US could reduce demand for flights and the scope of traffic on the roads and therefore reduce the scope of demand for fuel products and reduce the refining margin[5].

6.1.3 Main Barriers to Entry in the Area of Activity

The main barrier of entry to the sector operations is the amount of capital needed to set up new refineries or expand existing ones.

6.1.4 Competition in the Area of Activity and the Main Success Factors

The Refinery is located in the city of Tyler, in east Texas, US. According to the Oil and Gas Journal, there are about 90 refineries operating in the US today, 25 of which operate in the State of Texas.

Delek Refining is considered a refinery with a small production capacity in the market in which it operates and its main competitors in the sector are the large refining companies and the mid-size and other small refiners operating in its area.

According to a survey conducted in 2004 and published in January, 2005 by the Department of Energy Information Administration (EIA) and the Oil and Gas Journal, since 1976 no large refineries were built in the US even though there has been an increase in the demand for fuel products. The companies active in the sector concentrate, therefore, on increasing their production capacity mainly by increasing the production capacity of existing refineries, or by purchasing existing refineries.

Oil products like those produced by Delek Refining are traded in the international market and therefore the prices of the products of Delek Refining are prone to high daily volatility. Delek Refining acts, therefore to contract with customers according to the price formula that reflects the changes in the market price at the time of the execution of the transaction.

Delek Refining estimates that the main success factors in the refinery sector are the refining margins in the international markets, choosing the optimal mix of the types of crude oil, locating its supply sources, available capital and timely operation of refining facilities.

6.2 Products and Services

The products marketed by Delek Refining include petroleum and oil products as follows:

- Gasoline types – for combustion in gasoline engines, used, amongst others, as fuel for gasoline powered vehicles.
- Diesel types – for combustion in diesel engines, for heating and for industry.
- Kerosene – Fuel for jet planes and for heating.
- Coke – For combustion in industry.
- Propane, Propylene and Butane mixtures – used mainly in the petrochemical industry.

[5] The refining margin is the difference between the sale price of the end products (gasoline, diesel) according to prices in the international market and the purchase price of crude oil in the international markets.

6.3 New Products

In light of changes in the environmental standards of the state of Texas which will go into effect starting the month of October, 2005, Delek Refining has started to manufacture Texas Low Emission Diesel, which is a low-sulfur diesel. See also, paragraph 6.16, below.

6.4 Customers

Delek Refining has customers who directly purchase fuel products from it and it has customers who purchase from it indirectly, through swap transactions. In the framework of the swap transactions Delek Refining supplies fuel products at the gate of the factory, where the payment for said fuels is performed by receiving fuel products of equal value. The fuel products that Delek Refining receives in consideration for its products it sells via the TEPPCO Pipeline (a pipeline owned by a third party which is connected to a pipeline and terminal system throughout the US) to available customers.

In the course of the first two months of the operations of Delek Refining (from April 29, 2005 to June 30, 2005) about 88% of the customers of Delek Refining were direct customers and the remaining 12% were customers of swap transactions. Most of the fuel products are sold in the local market from supply terminals at the gate of the factory to various fuel suppliers. It should be noted that, amongst others, some major oil companies are customers of Delek Refining. are found, the large fuel companies.

6.5 Marketing and Distribution

About 91%[6] of the sales of Delek Refining are conducted at the gate of the factory through supply stations or railway cars (about 80% of the sales at the gate of the factory are direct sales and 11% are swap transactions). The distributors get the products from roadside tanks and market the fuel products wholesale to industry and transportation and retail to the wider public, mainly through gasoline stations. Its remaining products (about 9%) Delek Refining distributes through an oil pipeline (owned by a third party).

6.6 Competition

Delek Refining operates, as stated, in the state of Texas in the US. Delek Refining has a refinery with a relatively small production capacity and markets mainly to local customers and to customers in swap transactions.

Delek Refining has many competitors, mostly other local refineries and refineries that belong to the large fuel companies. The volume of the production of all the refineries in Texas stands at about 4.4 million barrels per day. To its best knowledge, the market share of Delek Refining stands at about 1.4%. The competition between Delek Refining and its competitors is characterized mainly by competition over the price of the refined fuels, on their quality and their availability, amongst others, taking into consideration the location of the Refinery and its relative proximity to customers in the region of its activity.

What follows are the details of the main ways that Delek Refining deals with the competition and the details of the factors that influence its competitive position:

- The location of the Refinery and its accessibility to local customers provide it a relative advantage for those customers located in the region of its activities.
- Increasing the production capacity of the Refinery[7].
- Constant attention to the quality of its products and improving the quality of its products such that they uphold the standards and specifications required under law and by customer demands.
- Choosing the optimal mix of crude oil types and locating supply sources .

[6] About 3% of these total sales are direct sales of Coke sold at the gate o the factory, executed via railway cars.

[7] From the time that Delek Refining purchased the refinery, its maximum production capacity went from about 54,000 barrels per day to about 57,000 barrels per day.

6.7 Production Capacity

As stated above, the total production capacity of the Refinery, as of the date of this report, is approximately 57,000 barrels per day, dependent upon the type of raw material that is processed and the amount of sulfur that is in it.

During the first two months of its operations (from April 29, 2005 to June 30, 2005), Delek Refining refined about 3,142 thousand barrels and produced from them the following products:

	Thousands of Barrels
Gasoline	1,677
Diesel	1,193
Kerosene	30
Other Products	242
Total	3,142

6.8 Fixed Assets and Facilities

The facilities of Delek Refining in Tyler, Texas are located on land with an area of 645 acres (one acre equals about 4,406 square meters) of which 100 acres are built. The facilities of Delek Refining include refinery units, fractionation processors, additional production units (coke), a facility dealing with sulfur, infrastructure facilities (buildings, storage tanks, pipeline, etc) and service facilities (including tanks). In addition, Delek Refining owns a pipeline for the delivery of crude oil at a length of 104 km's.

6.9 Human Resources

6.9.1 As of June 30, 2005 Delek Refining employed 231 employees, according to the following division:

Department	Refinery	Pipeline
Management	13	1
Production	106	
Maintenance	41	10
Finance and Purchase of Fuels	9	-
Support	19	
Environmental Controls	10	
Marketing and Distribution	18	
Engineering	4	
Total	220	11

6.9.2 **Investment in Training** – Delek Refining conducts safety training to all the employees. Professional employees participate in seminars and professional training. Delek Refining invests resources in the professional training for the production and maintenance employees in their areas of employment and in the area of safety, training is given to all employees according to applicable laws.

6.9.3 **Benefits and Characteristics of Employment Contracts** - Employees of Delek Refining in the areas of production, maintenance, support, environmental control and distribution up to the level of manager are employed in a special collective bargaining agreement. Employees at the level of department manager and above and employees of other departments are employed under personal contracts. As of June 30, 2005 about 168 of the Delek Refining's employees were members of the United Steel Workers union and the agreement with the said union is in effect until the end of 2005.

6.10 Raw Materials and Suppliers

The main raw material used by Delek Refining in its area of operations is crude oil. The crude oil market and its products are commodities markets and are advanced markets with a high level of liquidity both in spot and in futures trading, executed in an organized exchange or with large international entities. Delek Refining purchases its crude oil from various suppliers in the US. In addition, Delek Refining has a crude oil swap agreement in the amount of 35 thousand barrels per day (eastern Texas). According to this agreement, Delek Refining is eligible to receive about 35 thousand barrels of oil per day from suppliers in eastern Texas. The payment is done through the sale of oil that Delek Refining purchases in the city of Cushing in the state of Oklahoma. The rest of the oil is purchased in quick readily available transactions (western Texas and import).

What follows are data dealing with the rate of crude oil purchases from main suppliers as a percent of total purchases of Delek Refining during the first two months of its operations (April 29, 2005 to June 30, 2005):

Supplier	30.6-29.4	
	$ millions	% of Total Purchases
Supplier A	41.7	25%
Supplier B	36.4	22%
Supplier C	32.9	20%

The price that Delek Refining pays for the crude oil it uses is determined, as stated, by the price formula of changing prices in line with the price for crude oil in the international markets.

6.11 Working Capital

6.11.1 Inventory Policy for Crude Oil and Finished Products

The policy of Delek Refining is to hold in inventory crude oil and products at a level that ensures continuous supply of oil products so as to fulfill its obligations to customers. The main factors which influence the level of inventory are as follows:

- The need for a minimal inventory to fill the lower part of the tanks and pipelines.
- The need to maintain a large number of crude oil types for the refining of the various mixtures.
- The situation of the crude oil market and the oil products market and the estimate of Delek Refining regarding the level of expected demand for its products and its production capacity.

Taking into consideration all of the factors described above, the average inventory throughout the first two months of the operations of Delek Refining (April 29, 2005 to June 30, 2005) totaled about 0.5 – 0.6 million barrels of crude oil and about 0.5 – 0.6 million barrels of products. The inventory held days stood at about twenty, on average.

6.11.2 Credit Policy

A. **Credit to Customers**: The total credit days that Delek Refining provides to its customers is between 3-15 days (about 11 days is the average). The average amount of credit to customers totaled about $28 million.

B. **Credit from Suppliers**: The total credit days that Delek Refining receives from its suppliers for the purchase of crude oil is about 35 days (20 days from the end of the month) accompanied usually with a bank letter of credit. The average amount of credit from suppliers totaled about $49 million.

6.12 Financing

Delek Refining finances its operations via bank credit, non-bank credit and through independent sources.

6.12.1 Credit Facility

Delek Refining has a credit facility, which it makes use of for continuing operations and for the purchase of oil, through an American bank totaling about $250 million. The current interest rate is Libor + 2%. This facility also includes letters of credit at an annual interest rate of 2%. This interest rate could change in line with the spread between the assets and liabilities of Delek Refining.

As of June 30, 2005 Delek Refining has used about $163 million of its credit facility (letters of credit).

6.12.2 Loans

As stated above, the acquisition of the refinery was financed by an equity investment of the Delek Group in the amount of $35.5 million. In addition, Delek USA financed the acquisition of the refinery through a bank loan with the guarantee of Delek Group for a total of about $50 million, at an interest rate of Libor + 1.375%, for a period of two years.

6.12.3 Raising of Additional Funds

Delek Refining estimates that at this stage it has no need to raise additional funds to finance continuing operations; however, a sharp raise in the price of crude oil could increase Delek Refining's credit needs. In that case, Delek Refining estimates that it could raise these sums from bank sources and/or non-bank sources.

6.12.4 Credit Restrictions

The main financial criteria that Delek Refining needs to uphold are as follows:

- A minimal adjusted surplus of current assets less financial obligations (herein: "**credit margin**") through the entire period of the loan. If the credit margin is smaller than the minimum required, Delek Refining has undertaken to raise additional temporary capital.
- Rate of (Cash flows from continuing operations (EBITDA) less current investments)/(interest expenses + principal payment on planned loan + income tax payment) greater than the amount set in the loan agreement of Delek Refining and variable for the entire length of the loan.
- There are limits on the scope of investments of Delek Refining over the course of the loan.
- In addition, there are various limitations regarding the distribution of dividends.

As of the date of the report, Delek Refining is in compliance with all the restrictions stated above.

6.13 Liens

In order to guarantee the credit agreement, Delek Refining charged in favor of a consortium headed by an American bank all of the inventory and payments owing from customers.

6.14 Taxation

Delek Refining is a wholly owned subsidiary of Delek USA and therefore its financial reports are consolidated with those of Delek USA for the purposes of taxes and are subject to the tax laws that apply to it. For a detail of the tax laws to which Delek USA is subject, see said paragraph 11.13 of the Delek Group's Annual Report for 2004.

6.15 Environment

Delek Refining is subject to laws, regulations, ordinances and permits regarding environmental controls, set by the authorized authorities in its area of operations, in the federal, state and local levels. These requirements touch on all aspects of the operations of Delek Refining, both in the area of refining and the oil products it produces and in the area of transport (oil pipeline).

Delek Refining is under the supervision of the competent authorities and is in contact with them regarding the various orders and ordinances which it needs to uphold. These demands required Delek Refining to execute changes in the work procedures that were existent in the refinery and to allocate funds (see below, paragraph 6.15.6).

Most of the legislation in the area of environmental controls connected to the activities of Delek Refining deals with areas of air quality, quality of liquid waste, solid/toxic waste and the prevention of ground and groundwater, including the following:

6.15.1 The activities of Delek Refining and most of the products are subject to the requirements of the Federal Clean Air Act ("CAA") – a law for supervision of air quality – and related state and local regulations. The CAA contains provisions that will require capital expenditures in the coming years for the installation of new facilities to prevent air pollution (Air Pollution Control Devices) or modifications to the existing facilities in the Refinery.

6.15.2 In addition, the activities of Delek Refining are subject to the Federal Clean Water Act ("CWA") – a law supervising the quality of liquid waste, the Federal Safe Drinking Water Act ("SWDA") – supervising the quality of drinking water and the Toxic Substances Control Act ("TSCA") – a law supervising toxic substances and to related laws of the states in these areas. The CWA and the SDWA and similar laws prohibit any discharge of liquid waste to various water reservoirs except in strict conformance with permits issued by federal, state or local authorities pursuing to which the liquid waste goes through a purification process. According to TSCA, there must be supervision and reporting on the scope of inventory of hazardous materials and in the scope of their use.

The Refinery has today permits allowing it to release liquid waste to a facility of the city of Tyler where the liquid waste receives additional treatment. This permit is in effect until December 31, 2005. Delek Refining estimates that there is no reason why the permit will not be renewed. However, if the permit is not renewed, the Refinery will incur substantial costs to design, construct and permit an alternate wastewater treatment facility.

6.15.3 Delek Refining is also subject to the Resource Conservation and Recovery Act ("RCRA") –whose purpose is to maintain and renew resources and to similar state and local laws. In addition, Delek Refining is subject to requirements of the Environmental Protection Agency ("EPA") - the agency supervising the environment (dealing mainly with supervision of dangerous materials), and to requirements of other state agencies that limit the methods of disposal for certain hazardous and non-hazardous waste. At the state level Delek Refining is mainly subject to requirements of the Texas Commission on Environmental Quality ("TCEQ") that supervises issues related to the environment.

6.15.4 Similarly, at the federal level, Delek Refining is subject to regulations of the Environmental Protection Agency ("EPA") – the authority for the supervision on the environment (dealing mainly with supervision over hazardous materials), and to directives of the other state authorities limiting the ways of disposing hazardous and non-hazardous materials. At the state level Delek Refining is mainly subject to regulations of the Texas Commission on Environmental Quality ("TCEQ") that supervises dealings related to the environment

6.15.5 It should be noted in addition, the Comprehensive Environmental Response Compensation and Liability Act (**"CERCLA**"). This law imposes liability without regard to fault or the legality of the original conduct on certain classes of persons, who are considered to be responsible for the release of hazardous substances into the environment. These persons include the owner/s or the operator/s of the disposal site/s where the

release occurred and companies that disposed or arranged for the disposal of hazardous materials. Under CERCLA, such persons may be subject to joint and several liabilities for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. In addition, there exist also similar state laws.

6.15.6 Material Investments in the Area of Environmental Controls

A. Prior to the purchase of the refinery and the oil pipeline by Delek Refining the previous owners of the facility were under two investigations by the environmental protection agencies for which was started the execution of a remediation plan for the cleaning and purification of pollution discovered in the soil, groundwater and in sediments in the area of the refinery and oil pipeline.

   At the date of the purchase, the remediation process mentioned above has yet to be completed and Delek Refining assumed the responsibility regarding the existing pollution whose remediation process is still continuing. In addition, Delek Refining also assumed the responsibility of the previous owner regarding said pollutions, at a sum estimated by Delek Refining totaling about $12.1 million[8]. Delek Refining does not have rights of indemnification from the previous owners for environmental damages that were known to it at the time of the purchase and for the said amount, however it has rights to limited compensation (in amount and in time) for expenditures that could be necessary in the future as a result of environmental damages caused prior to the purchase of the refinery, but were not known at the time of acquisition. It should be noted that the said amount of $12.1 million is based on estimates of Delek Refining received from experts in the sector of environmental controls. However, it is possible that Delek Refining expenditures in connection to the above arrangements may be i higher than the above sum.

B. It should also be noted that Delek Refining purchased an insurance policy for environmental damage (Environmental Insurance Policy) that covers certain environmental damages that could be revealed in the future.

C. With the purchase of the refinery and the oil pipeline Delek Refining prepared a comprehensive investment plan in the area of environmental controls for the years 2005-2012. According to the regulations issued by the TCEQ, Delek Refining put up financial security to assure the availability of these monies.

D. In addition to what was said in subparagraph A above regarding the rate of expenses that Delek Refining took upon itself with the purchase of the refinery, what follows is the estimate of Delek Refining relating to its expected material investments necessary to uphold the regulations in the area of environmental controls and the standards of fuel products in the coming years (in $ millions):

	06-2005	**2007**	**2010-2008**	**Total**
Environment	9	3.3	3.8	16.1
Facilities for the Production of Clean Fuels (low sulfur)	16.0	6.0	2.0	24.0
Total	25.0	9.3	5.8	40.1

This statement regarding the estimates of Delek Refining regarding the need for investments in the area of environmental controls is to be considered a forward looking statement based on current information and estimates of Delek Refining relating to expected investments in environmental controls and which may change in the future.

The estimates of Delek Refining regarding investments in environmental controls and standards are dependent upon estimates and factors regarding which there is no certainty,

[8] Delek Refining set aside an allocation for this amount on its accounting books.

for example the complexity and deferring interpretations of government regulations relating to the area of environmental controls, the lack of reliable date regarding the exact nature and extent of the contamination , or that which will be revealed in the future, the extent of required clean up efforts necessary, and the multiplicity of possible solutions with varying costs of alternative remediation requirements, the number of years that remedial and monitoring activity will be required In addition, the legislation and regulations in the area of environmental controls change and are updated regularly and the changes in them can influence the above estimate.
Given the existing date at the report, Delek Refining believes that its estimate regarding future investments in environmental controls which were formulated with the help of experts in the field is adequate. However, in the event that material deviations will occur in the activities of Delek Refining or there will come into effect new environmental control demands, it is possible that this estimate will not be realized and that Delek Refining will incur additional costs.

6.16 Restrictions and Supervision of the Activities of Delek Refining

6.16.1 Business Licenses

Delek Refining operates under the force of many licenses which it received for its activities and amongst them are:

A. License to operate a refinery

B. Licenses to transport oil in the pipeline that it owns.

C. Licenses for refining oil, storing oil and for selling it.

D. Licenses in the area of environmental controls from the various environmental agencies.

E. Licenses to transport fuel products via trucks.

F. Licenses to operate terminals for the sale of fuel products.

G. License to operate an internal radio station.

6.16.2 Standards of Fuel Products

The CAA authorizes the EPA y to require modifications in the formulation of the refined transportation fuel products in order to limit the emissions associated with their final use. In December, 1999 the EPA promulgated national regulations limiting the amount of sulfur to be allowed in gasoline at future dates for transportation (on road). These regulations came into effect in 2004, however they contain provisions under which small refineries may receive a waiver or extension in their implementation. Delek Refining received an waiver that postpones implementation for gasoline until 2007 or 2008, depending on the course Delek Refining chooses to take.

According to the above regulations, from 2006 Delek Refining has to produce highway diesel fuel whose discharge of sulfur does not exceed 15 parts per million ("PPM") while the present standard stands at 500 PPM. As of 2006 Delek Refining intends to uphold the standard of 15 PPM for at least 95% of the diesel (for on-road highway diesel and non-road diesel fuel) that it produces, and in compliance with the waiver plan that the Refinery received.

In addition in 2004 the EPA promulgated regulations limiting the sulfur content in fuels intended for activities such as mining, construction, agriculture, railways and marine use (non road activity).
In addition, it should be noted that the TCEQ also promulgated regulations that come into effect as of October, 2005 requiring the use of only low emission diesel in counties in the state of Texas found east of Interstate-35, . Delek Refining received an approval to meet these requirements by selling low emission diesel that meets the above mentioned federal standard established by the EPA (15 PPM) or alternatively, by using fuel additives approved by the TCEQ.

6.17 Legal Proceedings

As stated in paragraph 6.15.6(A) above, when Delek Refining purchased the refinery and pipeline it assumed certain responsibilities and requirements that were incumbent upon the previous owners for two investigations of the environmental protection authorities against the Refinery. The investigation was opened in regard to the alleged discharge of two dangerous materials by the Refinery.

Prior to the purchase of the Refinery and the oil pipeline by Delek Refining, the previous owners came to an agreement with the environmental protection authorities regarding the two investigations mentioned. In the framework of the agreement, the previous owners agreed to pay a fine and to execute an remediation plan to reduce the discharge of these materials. The previous owner is solely responsible to pay the fine , although since at the time of the acquisition of the Refinery , the remediation plan had yet to be completed by the previous owners, Delek Refining took upon itself the responsibility to complete the necessary operations in line with the plan. As stated, Delek Refining estimates the cost of this liability at about $12.1 million.

Besides these two investigations noted above, the Refinery is not involved today in any investigations regarding environmental matters, health or security.

6.18 Business Goals and Strategies

Delek Refining examines its plans and strategic goals from time to time and updates them in conjunction with developments that occur in the fuel market, the competition and the macro-economic influences on its activities. The activities of Delek Refining are expected to concentrate in the coming years in the following activities:

6.18.1 The production of higher quality fuel products in conjunction with technological developments and environmental demands.

6.18.2 Increasing the production capacity of the Refinery.

6.18.3 Integration of activities of the Refinery and the operations of Delek USA's gasoline stations.

The above estimates regarding the business goals and strategies are to be considered forward looking statements. Not all of the estimates are in the control of Delek Refining and the realization of the goals and the strategies are dependant also upon external factors. In addition, the risk factors detailed below in paragraph 6.19 could influence the ability of Delek Refining to realize the stated goals and strategies.

6.19 Risk Factors

Delek Refining estimates that the main risk factors related to its activities are as follows:

6.19.1 Refining Margin

Delek Refining is exposed to changes in the refining margin. If the refining margin increases , then profitability increases, however, a drop in the refining margin will cause a decrease in the profitability of Delek Refining.

6.19.2 Economic Slowdown in the global and/or local market - A slowdown in the markets could cause a decline in the purchase of fuel products and thereby could have a substantially negative effect on the scope of the orders received and on the price levels of the fuel products and as a result on the activities of Delek Refining.

6.19.3 Exposure to Changes in the prices of raw materials and the products – Delek Refining is exposed to changes in the prices at which it purchases raw materials and to changes in the prices at which it sells its oil products to its customers. Delek Refining from time to time enters into derivative hedge transactions in order to reduce its exposure to these risks.

6.19.4 **Exposure to Changes in USD Interest Rates** - Delek Refining has a credit facility at a variable interest rate based on the Libor with the addition of a bank spread and therefore it is exposed to changes in the USD interest rate.

6.19.5 **Legislative Developments and Changes and Issues in Environmental Controls** – Delek Refining is subject to various laws and regulations related to its activities in the refining sector, mainly in topics related to environmental controls. Delek Refining is therefore exposed to developments, changes and new legal requirements and the possibility that in the future material deviations will be detected or new harsh legal requirements will be added which will require financial costs.

6.19.6 **Entrance of New Competitors** –The entrance of a new competitor or competitors in the geographical area of Delek Refining's activities could reduce Delek Refining's market share and adversely influence the scope of its activities.

6.19.7 What follows is a summary of the risk factors that were described above according to their type (macro risks, sector risks, risks specific to the Group) which were rated, in conjunction with the estimates of the management of the Company, according to their level of influence on the business of the Company – large influence, medium influence, small influence.

	Level of Influence of Risk Factor on the Company's Operations		
	Large Influence	**Medium Influence**	**Small Influence**
Macro Risks		• Economic slowdown in global or local market.	• Exposure to changes in USD interest rates.
Sector Risks	• Refining Margin • Developments and changes in legislation and environmental control topics.	• Exposure to changes in the prices of raw materials and products.	
Risks Specific to Delek Refining		• Entrance of new competitors.	

The level of influence of the risk factors on the business of refining are formulated on the basis of estimates only and in reality the level of influence could be different.

August 29, 2005

Delek Group Ltd.

Board of Directors Report on the Corporation

for the first six months of the year 2005.

The Board of Directors of The Delek Group Ltd. is privileged to submit this Director's report for the six months ending June 30, 2005.

1. Description of the Company and its Business Environment

The Delek Group, Ltd. (herein: the "Company" or the "Group") is a holding and management company that holds three main subsidiaries in which the business activities of the Group in Israel and abroad are concentrated, as follows:

A. Delek Petroleum Ltd. (herein: "Delek Petroleum") – Concentrates on the sale of fuel and oil products and in the operation of gasoline stations and convenience stores in Israel and the US and an oil refinery in the US. In Israel, the operations are executed via Delek the Israel Fuel Company, Ltd. (herein: "Delek Israel") and in the U.S. via Delek USA Holdings Inc. (herein: "Delek USA").

B. Delek Investments and Properties Ltd. (herein: "Delek Investments") – Concentrates on the automotive sector; in oil and gas exploration and production in Israel; in infrastructure projects; in the biochemical industry and in telecommunications.

C. Delek Real Estate Ltd. (herein: "Delek Real Estate") –The key activities of the Group in the real estate sector are executed through the subsidiary Delek Belron, which holds foreign corporations that invest in income generating properties abroad (mainly in England, Canada, Sweden, Germany and Switzerland), while the activities in the area of development and contracting of real estate holdings in Israel are executed through Delek Real Estate and Dankner Investments, Ltd. During the period of the report, Delek Real Estate issued shares to the public through the Tel-Aviv Stock Exchange.

As of June 30, 2005 the Company holds 100% of Delek Petroleum and Delek Investments and 80% of Delek Real Estate.

2. Main Activities During the Period of the Report

The net income of the Group for the period of the report totaled about NIS 266 million vs. about NIS 178 million for the comparable period last year, an increase of about 49%. The second quarter of 2005 ended with a profit of about NIS 180 million vs. about NIS 125 million for the comparable period last year, an increase of about 44%.

The revenues of the Company for the period of the report totaled about NIS 8.6 billion vs. about NIS 7 billion in the comparable period in the previous year, an increase of 23%

The increase in net income during the period of the report and in the second quarter stems mainly from improved business results in the fuels, automotive and real estate sectors. A capital gain for the Company was created totaling about NIS 103 million in light of the public offerings of Delek Real Estate and Gadot Biochemical, that were issued during the second quarter of 2005 (an additional profit of NIS 17 million for the offering of Delek Real Estate will be credited in the third quarter). Similarly, the Company listed for the first time a profit of about NIS 24 million from the two months of activities of the La Gloria refinery in the US, which was purchased in April of this year.

During the period of the report, Delek USA, through subsidiaries, completed the purchase of a refinery with a production capacity of 57,000 barrels per day in the US and which started operation in May, 2005 and a crude oil transportation pipeline with an investment of about NIS 316 million. It should be noted, that in the last months, there was a significant increase in the current refining margin and in the future refining margins in the world in general and in the US in particular. The margin levels are high and if it continues, it is expected to bring the fuel activities in the US in general and the refining operations in particular to be a significant contributor to the cash flows of the Group. Similarly, March, 2005 saw the completion of the purchase of about 10% of the issued shares of Menora Insurance Holdings, Ltd. for about NIS 191 million.

During the period of the report Delek Real Estate and Gadot issued shares, bonds and options to bonds to the public. The total net proceeds for the public share offering (including exercise of options in Delek Real Estate) stood at about NIS 856 million, of that about NIS 344 million was from the exercise of options to bonds of Delek Real Estate after the date of the balance sheet.

A company created for that purpose issued bonds in the US for a total of $275 million in the framework of the Yam Tethys project and the Company issued bonds to the institutional market in Israel for a total of about NIS 500 million. A significant amount of the sums enlisted in these offerings are long term credit which were used to redeem short term credit from banks, which will bring a significant improvement in the working capital of the Group. During the period of the report, the working capital of the Group rose from a deficit of NIS 1,098 million on December 31, 2004 to positive working capital of about NIS 956 million – an increase of about NIS 2,054 million.

A significant amount of the financial, management and organizational resources of the Group are invested in activities whose profits and influences on the profits of the Group will be recognized in the future.

The above refers to the projects in the infrastructure sector such as the desalination plant with a capacity of 100 million cubic meters of water in Ashkelon (whose operations started gradually after the date of the balance sheet), the establishment of the power station for the generation of electricity and the entrance of the Company into the Communications sector (through the purchase of Matav).

A more detailed description regarding the operations of the companies of the Group will appear later in this document.

3. Results of Operations

Contribution by Sector Activity

Following are the details of the net income of the Group, by main sector activities (in NIS in millions):

	3/05-1	6/05-4	6/05-1	6/04-1	2004
Fuel Product Activities	2	37	39	9	9
Oil and Gas Exploration and Production	6	(12)	(6)	-	35
Automotive Activities	65	47	112	91	163
Real Estate Activities	17	17	34	30	119
Biochemical Activities	6	8	14	20	60
Communications Activities	(10)	(10)	(20)	(4)	(26)
Capital Gains and Others	-	93	93	32	43
Total Profit	**86**	**180**	**266**	**178**	**403**

- The consolidated revenues of the Company during the period of the report totaled about NIS 8.6 billion vs. about NIS 7 billion in the comparable period in the previous year. The increase in revenues stemmed mainly from refinery activities in the US during May and June of this year, from fuel operations in the US due to the purchase of 100 gasoline stations and convenience stores in April, 2004 and due to the increase in the price of fuels in the US and Israel.

- The gross profit for the period of the report totaled about NIS 1,083 million vs. about NIS 944 million for the comparable period last year. In the second quarter of the period of the report the gross profit totaled about NIS 628 million vs. NIS 502 million for the comparable period last year. The increase in gross profit stemmed mainly from the operations of the refinery and fuel sector in the US, as stated above, from the operations of the Yam Tethys project which started in March of last year.

- The increase in cost of sales and the costs of operating gasoline stations during the period of the report relative to the comparable period in the previous year stemmed mainly from refinery operations and the purchase of 100 gasoline stations in the US.

- The financing costs of the Group during the period of the report totaled about NIS 241 million, vs. about NIS 145 million for the comparable period in the previous year The increase in financing expenses stemmed, amongst others, from the fact that the comparable period in the previous year included in this item NIS 29 million from the listed share portfolio of Delek Investments and Delek Group which reduced the financing expenses vs. only NIS 2 million for the period of the report, from rate differences for USD loans for financing the operations of the Yam Tethys partnership totaling about NIS 18 million, from crediting balances for the cost of enlisting loans that were taken in the past and redeemed during the second quarter in Delek USA totaling about NIS 14 million, for expenses and increasing the

amount of financing for the purchase of Matav, Dankner Investments, Menora and the refinery in the US.

- Profits from the sale of investments totaling NIS 112 million stemmed from profits from the public offerings of shares in Delek Real Estate and Gadot for NIS 93 million and NIS 10 million, respectively and from the sale of shares in the long term listed share portfolio of the Company in the first quarter of the year.

- Other revenues stemmed mainly from the sale of real estate properties in England, from the sale of a gasoline station in the US and from other items.

- The increase in the item of the portion of the Company in the profits of affiliated companies was mainly due to the listing of a profit from the sale of assets of Shagrir which was an affiliated company of Delek Automotive, for NIS 46 million (effect of about NIS 28 million on the net income after the minority portion) and balanced by a loss of NIS 20 million for Matav which was included in the period of the report vs. the comparable period of the previous year where the results of Matav were partially included for only NIS 4 million.

What follows is the key data for the Consolidated P&L of the Company in NIS in millions:

	1-3/05	4-6/05	1-6/05	1-6/04	2004
Revenues	3,595	5,042	8,637	7,008	14,893
Less excise, customs, purchase tax and royalties	776	901	1,677	1,847	3,529
	2,819	**4,141**	**6,960**	**5,161**	**11,364**
Cost of revenues	2,364	3,513	5,877	4,217	9,337
Gross Profit	**455**	**628**	**1,083**	**944**	**2,027**
Selling, Marketing, Station Operations Expenses	199	259	458	379	814
General & Administrative Expenses	65	93	158	134	308
Operating Profit	**191**	**276**	**467**	**431**	**905**
Financing Expenses, net	98	143	241	145	342
	93	**133**	**226**	**286**	**563**
Profit from realization of profits from subsidiary companies, net	9	103	112	76	100
Other income/(expenses), net	23	17	40	(11)	(28)
Profit before income taxes	**125**	**253**	**378**	**351**	**635**
Income taxes	39	57	96	126	189
Profit after income taxes	**86**	**196**	**282**	**225**	**446**
Portion of profits in partnerships and affiliated companies, net	52	21	73	45	136
Minority portion in consolidated companies, net	(52)	(37)	(89)	(72)	(159)
Profit from continuing operations	**86**	**180**	**266**	**198**	**423**
Accumulated influence from the beginning of the year of changes in accounting rules, net	-	-	-	(20)	(20)
Net Income	**86**	**180**	**266**	**178**	**403**

4. The Financial Situation, Sources of Financing and Liquidity

Working Capital

For the first time in a number of years, in light of the significant capital that was raised during the period of the report, the Group went from negative to positive working capital, such that on December 31, 2004 the working capital deficit stood at NIS 1,098 million vs. positive working capital of NIS 956 million for the period of the report, an increase of NIS 2,054 million.

The main changes for the period of the report vs. the end of 2004 are in the following balance sheet items:

Cash and Short Term Investments

The financial assets of the Group grew during the period of the report from about NIS 746 million to about NIS 1,588 million, an increase of about NIS 842 million.

The main increase stemmed from an increase of about NIS 236 million from the portion of Delek Drilling and Delek Investments in the proceeds of the bond offering abroad and after redeeming loans to Israeli banks, the increase in cash of about NIS 275 million stemming from cash and deposits of Delek Real Estate and an increase of about NIS 274 million from the refinery in the US.

Accounts Receivable

An increase of about NIS 532 million. The increase of about NIS 183 million stemmed from the first time that the refinery in the US was consolidated and in addition, an increase of about NIS 321 million stemmed from the increase in accounts receivable balances in the automotive sector.

Other Accounts Receivable

An increase of about NIS 163 million. The increase stemmed mainly from deposits held in trust and from pre-paid expense payments totaling about NIS 61 million in the real estate sector, from growth of about NIS 21 million for a second profit distribution in the Avner partnership, from an increase of about NIS 34 million in the fuel sector and from an increase of about NIS 27 million stemming from the first time consolidation of the refinery in the US.

Inventory

An increase of about NIS 337 million stemmed mainly from the increase of about NIS 293 million stemming from the first time consolidation of the refinery in the US and from the increase of NIS 50 million in inventory for the automotive sector and a decrease of about NIS 6 million in the fuel sector.

Investments

Total investments in subsidiary companies and others increased by about NIS 228 million, net.

The main increase stemmed from the purchase of 9.99% of the issued shares of Menora Holdings Ltd. that was executed by Delek Investments for the sum of

about NIS 190 million and from an increase in investments executed by Delek Belron through loans from owners in companies held in Germany for a total of about NIS 79 million. On the other hand, there was a decrease in investments as a result of the sale of listed stocks that was presented as permanent investments, for a total of about NIS 18 million.

The decrease in land for rent totaling about NIS 152 million stemmed from the sale of properties in England whose depreciated amount totaled about NIS 163 million and from exchange rate translation differences less depreciation expenses while there were additions for land intended for rent for a total of about NIS 9 million.

The increase in long term loans, deposits and debt totaled about NIS 128 million. The increase stemmed mainly from long term deposits totaling about NIS 107 million that were deposited by Delek Drilling and Delek Investments of the proceeds of the bond offering. These deposits are a cushion for debt service according to the bond agreement and sums that are earmarked to establish the permanent gas reception facility on the Ashdod coast.

Fixed Assets

The fixed asset balance increased by about NIS 225 million, net. The main increase of about NIS 169 million stemmed from the purchase of the refinery in the US and in addition from executing investments in the power station project for the production of electricity in Ashkelon for NIS 29 million.

Short Term Credit from Bank Corporations and Others

There was a decrease of about NIS 807 million, net. The decrease stemmed mainly from redemption of short term loans subsequent to the bond offering and enlistment of long term loans.

Accounts Payable to Suppliers and Service Providers

There was an increase of about NIS 447 million stemming mainly from an increase of about NIS 416 million as a result of the start of operations in the refinery in the US and from an increase in balances to suppliers of Delek Automotive totaling about NIS 56 million.

Long Term Loans

There was an increase of about NIS 535 million. The increase stemmed mainly form long term loans that were used to redeem short term loans mainly in the fuel sector in the US, from an increase in long term loans in Delek Investments balanced by a reduction in long term loans in the real estate sector.

Other Bonds

There was a net increase of about NIS 1,656 million.

The main increase stemmed from a private placement of long term bonds to institutional groups that was executed by Delek Group for a total of about NIS 500 million, from the bond offering to the US institutional market that the Israeli partners of the Yam Tethys project executed from their portion of Delek Drilling and Delek Investments that totaled about NIS 609 million, from the bond offering of Delek Petroleum to institutional groups totaling about NIS 205

million, from the public bond offering of Gadot for a total of about NIS 85 million and the public bond offering of Delek Real Estate for a total of about NIS 194 million.

Shareholder's Equity

The shareholder's equity of the Group as of June 30, 2005 totaled about NIS 1,734 million vs. about NIS 1,545 million on December 31, 2004.

The increase in shareholder's equity stemmed mainly from profits for the period of the report totaling about NIS 266 million, from conversion of bonds to shares by the Company for a total of about NIS 47 million and from the sale of options for shares of the Company for a total of about NIS 21 million, balanced by a dividend totaling NIS 147 million.

Contingent Liabilities

The accountants of the Company draw attention to legal proceedings against the subsidiary companies in their report, for details see note 4 of the financial statements.

5. Financing Sources

A. During the period of the report the Group raised about NIS 500 million through a bond offering to the institutional market in Israel in two series of bonds which were rated AA- by Ma'alot Israel Ratings Agency, as follows:

Series F of bonds of NIS 300 million face value intended to be redeemed in five equal payments during the years 2006-2010, linked to the CPI with an annual interest rate coupon of 5.25%. From the series, about NIS 240 million were issued in January, 2005 at par and NIS 60 million were issued in February at a premium, such that the effective interest rate was 4.85%.

Series G of the bonds with a face value of NIS 200 million and which were issued in March, 2005 and intended to be redeemed in four equal payments from 2008-2011, linked to the CPI with an annual interest rate coupon of 3.95%. The bonds were issued together with options for shares of Delek Group, which were issued in five series with exercise periods of from one to five years. 80 thousand options were issued, with exercise prices ranging from NIS 440 per share for the series to be exercised within one year to NIS 590 per share (before adjustments for dividend distribution) for the series to be exercised within five years, respectively.

It should be noted that recently, Ma'alot increased the rating of the bonds of the Group to AA and rated another series of NIS 300 million for raising of funds.

B. In March, 2005, the project based capital raising was completed where the partners in the Yam Tethys project floated bonds to institutional investors in the US for a total of NIS 275 million. For additional details see the chapter dealing with oil and gas exploration and gas production.

C. Financing in Delek USA

In order to finance the refinery and oil pipeline in the US, Delek USA enlisted loans from banks in the US for about $50 million, carrying a variable interest rate of Libor+1.375% that stands to be redeemed in April, 2007. In addition, in order to finance working capital and the operation of the refinery, Delek USA received from a consortium of US banks a credit facility for four years for a total of an additional $250 million carrying a variable interest rate of Libor+2% , on average.

In order to guarantee the credit that Delek USA received from banks in the US, Delek USA collateralized certain assets and obligated itself to uphold certain financial covenants.

In April, 2005 a subsidiary of Delek USA executed a refinancing and enlisted loans of $205 million from banks in the US in order to redeem loans form banks taken in the past. From the above sum, a loan for $165 million carries a variable rate of interest of Libor +2.75% and stands to be redeemed in quarterly payments of about 0.25% for six years where the rest of the principal (about

94%) will be redeemed in November, 2011. The balance of the $40 million is a current credit facility for five years which carries a variable interest rate of Libor+1.75%.

The $14 million (NIS 60 million) costs relating to the refinancing were deferred and are included in other assets and are to be depreciated over the period of the loan. The balance of the costs of the enlistment of loans that were redeemed, totaling about $3 million (NIS 14 million) were credited to the P&L and included in the item of financing expenses.

In order to guarantee the loans that were received, a subsidiary of Delek USA collateralized to the benefit of the banks all of its assets and obligated itself to uphold certain financial covenants.

D. Conversion of Bonds and Exercise of Options to the Shares of the Company

Until the date of the balance sheet, convertible bonds and options totaling about NIS 68 million were converted to shares of the Company as follows: 36,291,076 of bonds (series A1) of the Company whose carrying value totaled about NIS 37 million, were converted to 100,319 ordinary shares of NIS 1 par value of the Company. 8,999,222 of bonds (series E) of the Company with a carrying value of NIS 10 million were converted to 22,634 ordinary shares of NIS 1 par value of the Company. 49,020 units of series 1 option of the Company were converted to ordinary NIS 1 par value shares of the Company for a total of NIS 21 million.

After the date of the balance sheet, convertible bonds totaling about NIS 18 million were converted to the shares of the Company, as follows: 10,469,979 of bonds (series A1) whose carrying value as of June 30, 2005 totaled about NIS 11 million were converted to 29,296 ordinary shares of NIS 1 par value of the Company. 7,064,271 of bonds (series A2) with a carrying value as of June 30, 2005 totaling about NIS 7 million were converted to 17,341 ordinary shares of NIS 1 par value, of the Company.

E. Other financial obligations of the Company (in non-consolidated statements) as of June 30, 2005 totaled about NIS 62 million (including a total of about NIS 1,057 million in loans, net, to companies of the Group).
Other financial obligations of Delek Investments (in the non-consolidated statements of Delek Investments) as of June 30, 2005 totaled about NIS 399 million (including a total of about NIS 217 million in loans, net, from the companies of the Group).

F. Regarding the public offering of shares and bonds of Delek Real Estate and Gadot, see paragraphs 6C and G, below.

6. Analysis by Sector

A. Oil and Gas Exploration and Production

	1-3/05	4-6/05	1-6/05	1-6/04	2004
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Revenues from gas, after royalties	39	39	78	44	141
Operating profit	22	21	43	23	83
EBITDA	31	32	63	32	110
Financing Expenses	16	33	49	25	39
Group's portion in Avner	4	1	5	6	22
Net income (loss)	6	(12)	(6)	0	35
Total assets	826	817	817	880	837

1. Results of Operations

A. Most of the oil and gas activities are related to the direct and indirect holdings in the Yam Tethys project. The legal status of the groups that hold the project affects the way the results of the joint operations are listed on the financial statements:
   - The results of Delek Drilling, which holds 25.5% of the Yam Tethys project are consolidated in the financial statements of the Company. The minority interest is included in the item, "minority interests and limited partnerships, net".
   - The 4.4% of the Yam Tethys project that is held directly by Delek Investments are fully consolidated in the Group's financial statements.
   - The results of Avner, which holds 23% of the project, are included in one line – Portion of the Group in profits (losses) of partnerships and affiliated companies, net.

B. The Company, (through its holdings in partnerships and in Delek Investments, as stated) sells natural gas to the Israel Electric Company (IEC) from the Mari gas field connected to the Eshkol power station. As a result of this, the Company continues to register current profits before financing expenses and positive cash flows from the operations of the sale of gas.
   The main results are as follows:

   - In the first half of the year, the Group had revenues from the sale of gas, less royalties and less amounts for the fixing of the price of gas to a set USD price by the hedge agreement of about NIS 78 million (from them about NIS 39 million in the second quarter of the year) vs. revenues from the sale of gas less royalties of about NIS 44 million in the comparable half the previous year (revenues recognized starting March, 2004). It should be noted that the daily average demand for

natural gas by the IEC changes, amongst others, in accordance with seasonal changes in electricity demand and in accordance with maintenance work of the IEC. During the entire year 2004, the Company had revenues from the sale of gas (less royalties) of about NIS 141 million.

- In the first half of 2005 the revenues from the sale of gas were presented less NIS 6 million for the price differences between the fixed price of the gas and the actual price, in accordance with the amounts of gas that were set in the hedge transaction signed in 2004.

- The loss in the second quarter of 2005 totaled about NIS 12 million vs. a profit totaling about NIS 6 million in the first quarter of the year was mainly due to the increase in exchange rate differences as a result of the increase of the USD vs. the NIS. It should be noted that the scope of revenues between the two first quarters of the year are not significantly different. The devaluation of the NIS in the second quarter by a rate of 4.9% and in the entire first half of 2005 by a total rate of about 6.2% caused the exchange rate difference. These exchange rate differences are for excess obligations of USD assets. This exposure is an accounting exposure only and not an economic one and therefore the partnership does not hedge against it.

2. <u>Evaluating Business Expenses when the joint results are in USD translated to NIS</u>

Generally accepted accounting principles obligate the presentation of consolidated financial statements in NIS, while they include business results of limited partnerships (Delek Drilling and Avner Oil Exploration) according to the data from their financial reports in NIS. Nevertheless, since all the partnership operations are done in USD – all the sales are in USD, the great majority of fixed assets are purchased in USD and the financing is in USD, the management of the Company assesses, that it is appropriate to analyze the consolidated business results of the Company when they include the business results for the partnership that are done in USD translated to NIS by the technique of autonomous units.

What follows are the data of the portion of the Company in the profit/ (loss) in the oil and gas sector when the results of the limited partnerships are in USD translated to NIS as stated above.

	3/05-1	**6/05-1**	**6/05-1**	**6/04-1**	**2004**
	NIS in Millions	NIS in Millions	NIS in Millions	NIS in Millions	NIS in Millions
Revenues less royalties	41	41	82	46	148
Operating Profit	23	23	46	22	83
Portion of the Company in Avner Results	5	4	9	5	17

Net Income/(Loss) for the Period	10	2	12	(3)	25

The profit based on USD reports translated to NIS of the partnerships in the first half of the year totaled about NIS 12 million vs. a loss of about NIS 3 million in the comparable half in the previous year and a profit of about NIS 25 million for all of 2004. The profit in the second quarter of the year totaled about NIS 2 million vs. a profit of about NIS 10 million in the first quarter.

The main difference between the results in NIS and the results in USD of the limited partnerships stems from the rate differences (NIS/USD) for loans of the limited partnerships whose influence on the results for the first half of 2005 was about NIS 18 million of which about NIS 14 million were in the second quarter.

3. <u>Financing the Yam Tethys Production Facility</u>

- On March 9, 2005 the financing for the project was completed as Delek and Avner Yam Tethys Ltd. (herein: "SPC") issued $275 million of bonds (herein: "the Bonds") in a 144A placement to institutional investors in the US. Of that, $175 million was at a fixed rate of 5.326% annually and $100 million was at a variable rate of three month Libor plus 1.1%, annually. The bonds that were issued are based on the share of Delek Drilling, Delek Investments and Properties Ltd. and Avner Oil Exploration, limited partnerships (herein together: "the sponsors") in the cash flows that will result from the sale of natural gas to the IEC according to the contract from June, 2002. The amount raised was given in separate loans to the Israeli partners at conditions identical to the conditions of the bonds and without mutual guarantees.
  The SPC is a company which was established for the purpose of receiving the new financing by the Israeli partners in accordance with their relative portion in the Yam Tethys project.

  It should also be noted that Moody's, on March 7, 2005 gave a final Baa3 rating to the bonds. The rating company Standard & Poor's gave the bonds a final rating on April 22, 2005 of BBB.

  On July 19, 2005 S&P updated their rating and gave the bonds a "stable outlook".

  For more details see note 8A to the financial statements.

B. Automotive Sector

	1-3/05	4-6/05	1-6/05	1-6/04	2004
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Revenues	769	1,079	8,461	2,018	3,924
Gross profit	89	123	212	245	466

Operating profit	77	102	179	212	402
EBITDA	78	105	183	218	414
Financing (Expenses)/Revenues	17	12	29	4	(22)
Profit After Taxes	61	77	138	140	256
Net income	106	76	182	143	261
Total assets	1,129	1,748	1,748	1,430	1,367

The contribution of the automotive sector to the net income of the Company for the period of the report was about NIS 112 million, vs. about NIS 91 million for the comparable period the previous year.

Delek Automotive Systems Ltd. (herein: "Delek Automotive") is 61.48% held by the Group, as of the date of the balance sheet. It is a publicly traded company with published financial statements. The following are its key points:

Delek Automotive holds 33% of the ownership and control of ADC Ltd. – Formerly Shagrir Towing Services Ltd. (herein: "Shagrir") that is active in the automotive sector. In the first quarter of 2005 a transaction was completed whereby Shagrir sold its goodwill and operations in automotive towing services, roadside assistance and loaner car services including intellectual property rights, the name "Shagrir", its trademarks, the database regarding existing customers, non-tangible rights and related assets and the contracts of Shagrir (herein: the "operations"), and in addition, all the assets and liabilities regarding the operations as detailed in the agreement.
As a result of this transaction, Delek Automotive included in the period of the report a profit of about NIS 46 million (the portion of the Group was about NIS 28 million).

During the course of the second quarter of 2005 Delek Automotive launched two new car models, the new Ford Focus and the Mazda 5 which were successful and the objects of strong demand.

1) The net income of Delek Automotive during the period of the report totaled about NIS 182 million vs. about NIS 143 million for comparable period the previous year. The net income of Delek Automotive without the portion of the sale of goodwill and in the operations of Shagrir as stated above totaled about NIS 136 million.

2) Revenues for the period of the report were about NIS 1,848 million vs. about NIS 2,018 million for the same period in the previous year. The 8% decline in revenues stemmed from a decline in the amount of automobiles sold during the period of the report (16,420 vehicles vs. 18,746 automobiles for the comparable period the previous year).

3) The cost of sales and marketing expenses for the period of the report totaled about NIS 20 million, an increase of about NIS 3 million vs. the comparable period in the previous year. The increase stemmed from an increase in advertising costs of the Group balanced by a decline in commissions to agents.

4) General and Administrative expenses for the period of the report totaled about NIS 13 million, a decline of about NIS 3 million vs. the comparable period in the previous year. The decline stemmed mainly from ending price reductions that a subsidiary of Delek Automotive paid to the Israeli Automobile Company for ending its concession as an importer of Ford products to Israel.

5) During the period of the report Delek Automotive had net financing revenue totaling about NIS 28 million vs. about NIS 4 million for the comparable period the previous year.
   The financing revenue during the period of the report rose mainly due to fair value listing of future transactions which were mainly for economic hedging.

C. Real Estate Sector

	1-3/05	4-6/05	1-6/05	1-6/04	2004
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Revenues	145	137	282	193	503
Gross profit	58	58	116	112	268
Operating profit	48	46	94	104	242
Financing Expenses	55	58	113	89	199
Equity in earnings of affiliates, net	11	24	35	32	109
Net income	19	19	38	34	124
Total assets	4,798	5,021	5,021	3,876	4,940

During June, 2005 Delek Real Estate completed a public offering of ordinary shares, bonds, convertible bonds and options for the same convertible bonds on the Tel-Aviv Stock Exchange. The total proceeds that Delek Real Estate received for the entire offering (including sale of options after the date of the balance sheet, less issuance expenses) totaled about NIS 737 million. For additional details see note 3A of the financial statements.

On May 30, 2005 (before the offering) an agreement was signed between the Company and Delek Real Estate and Mivtachim Workers Social Security Institution (herein: "Mivtachim") whereby Mivtachim will convert the balance of the convertible bonds it holds for shares of Delek Real Estate according to the stock price agreed upon between the sides. For further details see note 3A(3) of the financial statements.

As a result of the said offerings, the holding rate of the Company in Delek Real Estate dropped from about 90% to about 80% (fully diluted after conversion of the bonds and options the holding rate is expected to decline to about 75%). The profit that the Company posted as a result of the said offerings in Delek Real Estate was a total of about NIS 110 million (from that NIS 17 million will be recognized in the third quarter of the year). For additional details see note 3(A) of the financial statements.

1) Results of Operations

The real estate sector contributed about NIS 34 million to the Company's net income in the period of the report vs. about NIS 30 million in the comparable period in the previous year, as follows:

What follows are the data from the reports of Delek Real Estate:

A. Revenues

The revenues from rent in the period of the report totaled about NIS 169 million vs. about NIS 171 million during the comparable period in the previous year.
The decline in revenues of about NIS 2 million stemmed mainly from other revenue from a renter, that was received in the comparable period in the previous year for terminating the period of rental for three floors and for paying a termination commission for a total of about NIS 8 million, from an increase of about NIS 4 million in revenues from rent in Israel from Dankner which was consolidated for the first time on July 1, 2004 and from an increase in revenues from rent in Canada due to an increase in the average exchange rate of the Canadian Dollar during the period of the report.

What follows are the details of revenues from rent (not including revenues from affiliated companies (in NIS in millions) :

	6/05-1	**%**	**6/04-1**	**%**
England	68	40.2	67	39.2
Canada	94	55.6	92	53.8
Other Canadian Revenues from Renter	-	-	8	4.7
Israel	7	4.2	4	2.3
Total	**169**	**100**	**171**	**100**

2) Revenues from the sale of apartments in the period of the report totaled about NIS 107 million vs. about NIS 17 million in the comparable period in the previous year, an increase of about NIS 90 million of which about NIS 58 million stemmed from the consolidation of Dankner Investments' results and about NIS 44 million due to progress in executing and opening of additional stages in the Valley Project in the Israeli town of Ness Tziona.

3) Revenues from the sale of commercial space, offices and land for the period of the report totaled about NIS 5 million which was identical to the comparable period in the previous year.

B. Gross Profit

The gross profit from rentals during the period of the report totaled about NIS 106 million vs. NIS 111 million for the comparable period in the previous year, a decline in gross profit totaling about NIS 5 million.

The decrease in gross profit stemmed mainly from the other income from the renter in the comparable period the previous year as stated in

paragraph A1 above and from a decline in occupancy in the Bell building in Canada.

What follows are the details of the gross profit from rental income according to geographic sector (in NIS in millions):

	6/05-1	6/04-1
England	57	55
Canada	47	47
Canada-Revenues from Other Renter	-	8
Israel	2	1
Total	**106**	**111**

The gross revenue from the sale of apartment inventory in the period of the report totaled about NIS 10 million vs. about NIS 1 million during the comparable period the previous year.
The increase stemmed mainly from the gross profit from the sale of apartments in the Dankner Investments subsidiary which was consolidated for the first time on July 1, 2004 and from progress in the construction and opening of additional stages in the Valley Project in the Israeli town of Ness Tziona.

C. General and Administrative Expenses

G&A expenses for the period of the report totaled about NIS 22 million vs. about NIS 8 million for the comparable period in the previous year.

The increase in these expenses stemmed mainly from the general and administrative expenses of Danker Investments which were consolidated for the first time starting July 1, 2004 and from the reduction of goodwill stemming from the purchase of Dankner Investments.

D. Financing Expenses

Financing expenses for the period of the report totaled about NIS 113 million vs. about NIS 89 million for the comparable period the previous year.
The increase in financing expenses for a total of about NIS 24 million stemmed from financing expenses in Dankner Investments which was consolidated for the first time starting July 1, 2004 and from financing expenses for new loans and for the new bond offerings.

E. Other Revenues

1) In March, 2005 a subsidiary of Delek Real Estate sold all of its rights (75%) in a property in England which was a logistics center of Ericsson and where the balance of the rental period was seven years, for a total of about 22 million Pounds Sterling (about NIS 181 million).
The profit (before taxes) for the subsidiary from the sale was about 1.7 million Pounds Sterling (about NIS 14 million).

2) The other revenues for the period of the report also included profit from an increase in the value of the short term investments in listed shares totaling about NIS 2 million. During the second quarter of 2005, Delek Real Estate sold about 19% of these shares for about NIS 4 million.

F. Cumulative Influence, from the start of the year, of changes in Accounting Rules, net

During the comparable period the previous years, expenses were registered for tax reserves totaling about NIS 19 million for the first time implementation of Standard 19.

2) Investments in affiliated companies

A. During the period of the report a subsidiary of Delek Real Estate purchased 40% of a foreign company that holds commercial centers located 40 km north of Hanover, Germany for a sum of about 2.36 million Euro (about NIS 13 million) through loans of owners. The commercial center is situated on about 23,000 square meters and counts 13 stores and 760 parking spaces. The annual rental fees total about 2.5 million Euro.

B. On April 1, 2005 an affiliated company 40% held by Delek Real Estate, purchased seven foreign companies which own seven income generating properties in western Germany. The affiliated company paid a total of about 282 million Euro for the properties. All of the properties are rented to Deutsche Telekom for periods that end on December 31, 2019. Annual rental fees total about 20 million Euro where the rent increases by a rate of 1.5% per year until 2010 and after that increases by a rate of 1.2%

every year. 93% of the investment of the affiliated company was financed through loans from a local bank
The investment of Delek Real Estate in the affiliated company totaled about 10.8 million Euro (about NIS 61 million) and was done through loans by owners.

C. On April 12, 2005, subsidiaries of Delek Real Estate (herein: the "sellers") contracted a memorandum of understanding with a third party (herein: the "buyers") whereby the buyers offered to purchase from the sellers 55% of the holdings of the sellers in foreign companies (herein: the "shares") that wholly own ownership rights in nine income generating real estate properties in England (herein: the "properties") from 11 income generating real estate properties in England owned by Delek Real Estate.

What follows are the main details of the offer included in the memorandum of understanding:

1) The net cash sum for the sale of the shares will stand at about 19.8 million Pounds Sterling (about NIS 162 million). The sum for the shares is established by basing it on a property value of about 120 million Pounds Sterling (about NIS 984 million) less obligations as of today, to a financial corporation totaling about 84 million Pounds Sterling (about NIS 688 million).

2) The sellers and the buyers will contract an agreement between them based on a business plan formulated and agreed upon for the management of properties.

3) The sellers and the buyers will contract in the shareholder's agreement and include the right of first refusal and a tag/drag along agreement in the case of a transfer of shares; and the protection of minority rights including dilution rights and a buy me/buy you mechanism in the case of deadlock.

Based on the memorandum of understanding mentioned above, on July 15, 2005 the sellers completed the following transactions:

1) Sale of all the rights in five income generating properties in England to third parties.

2) Sale of 55% of the ownership and control of four foreign companies which hold income generating properties in England, to the buyers. In conjunction with the execution of the transaction, the sellers contracted with the buyers in a general shareholder's agreement, amongst others, for the protection of minority rights of the sellers and of adopting a business plan to manage and develop the real estate properties.

3) Executing a refinancing agreement for loans in four companies held after the joint sale, with the banks.

As a result of the completion of the transaction of the sale of five real estate properties and the sale of 55% of the ownership and control of the four companies mentioned above, Delek Real Estate posted a profit totaling about NIS 78 million (about NIS 58 million, after taxes) which will be credited to the P&L during the third quarter of 2005 (profit of about NIS 46 million after the minority portion in Delek Group).

D. In June, 2005 three affiliated companies of Delek Real Estate completed a refinancing of loans that they received from banking corporations based, amongst others, on the fair value of the properties. In the framework of the refinancing, the affiliated companies redeemed old loans totaling about 234 million Pounds Sterling (about NIS 1,919 million) and received new loans totaling about 275 million Pounds Sterling (about NIS 2,255 million).

The new loans that they received are for a period of seven years and carry a fixed annual interest rate of about 6.2%. The new loans that were received are non-recourse loans whose redemption is guaranteed through the properties which are collateralized exclusively which and are cross-collateralized.

As a result of the refinancing stated above, the affiliates have surplus cash (after deduction for the costs of the refinancing and the early redemption penalty for the old loans) totaling about 22 million Pounds Sterling (the portion of Delek Real Estate is about 8 million Pounds Sterling – about NIS 64 million).

In addition to what was stated above and in light of the request of the new lending bank, the holding structure of the companies which hold the affiliated companies changed, such that instead of holding three separate companies which hold real estate properties at rates of 25%, 40% and 45%, the properties were transferred to one new affiliated company which is 35.47% held by one foreign subsidiary after the structural change. The structural change was executed in conjunction with the fair value of the holdings of the shareholders of the three affiliated companies and according to the agreement between shareholders.

As a result of the refinancing, which was based on the higher fair value of the value of the properties in the affiliated companies presented, which was valued in their reports according to international accounting standards, including International Standard 40 in which income generating real estate is presented according to the equity value. The real estate of the affiliated companies in England is examined by outside experts as to their fair value and the profit from an increase in value was included as profit in the second quarter, totaling 11 million Pounds Sterling (about NIS 90 million) - this for the income generating real estate.
The portion of Delek Real Estate in the increase in value of the properties is about 4.5 million Pounds Sterling (about NIS 37 million) and is included in the P&L reports for the six and three months that ended June 30, 2005

as part of the item on the portion of the Company in the profits of affiliated companies. The influence of tax of about 1.1 million Pounds Sterling (about NIS 9.3 million) and the portion of Delek Real Estate in the expenses for the early ending of the loan due to the refinancing which totaled about 2.5 million Pounds Sterling (about NIS 21 million), are also included in this item.
In 2004 Delek Real Estate included profits from the increase in the value of properties, net, totaling about NIS 55 million.

E. After the date of the balance sheet, in August, 2005 foreign companies wholly owned by Delek Real Estate executed a transaction to purchase 45% of the shares of a foreign company that holds an office building in the area of Zurich, Switzerland. The office building includes about 22,800 square meters and is rented to the Swiss bank Credit Suisse until September, 2012. The annual rental fees are about 6.2 million Swiss Francs (about NIS 22.8 million).

D. Israeli Fuel Sector

	1-3/05	4-6/05	1-6/05	1-6/04	2004
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Revenues	1,465	1,588	3,053	2,689	5,719
Gross Profit	115	120	235	235	496
Operating Profit	23	17	40	34	53
EBITDA	39	33	72	67	124
Financing Expenses	22	16	38	32	55
Net Income/(Loss)	3	4	7	0	(11)

The Company's operations in the Israeli fuel sector are implemented through Delek Israeli Fuel Company Ltd. (herein: "Delek Israel"), which is a private company.
Delek Israel is active in the Israeli fuel market including the marketing and distribution of fuel, gasoline and oils as well as in the development, construction and operation of gasoline stations and convenience stores. Delek Israel markets its products to 232 public gasoline stations in Israel.

Sales
Sales of fuels in Israel (including excise taxes) totaled in the period of the report NIS 3,053 million vs. NIS 2,689 million, in the comparable period in the previous year (an increase of 13%).
The revenues of the comparable period in the previous year included sales to one large institutional customer of NIS 136 million. Without sales to the large institutional customer, the volume of sales decreased in the period of the report compared to the comparable period in the previous year by about 3.8% while the price of fuels rose relative to the comparable period in the previous year by about 21.3%. It should be noted in addition, that there was an increase in sales of the subsidiary company Yuniks.

The decrease stemmed mainly from a selective decline in out of station operations mainly due to credit limits to customers and credit risks of customers.

Gross Profit
The gross profit for the period of the report totaled NIS 235 million, similar to the comparable period in the previous year. In the Yuniks subsidiary there was an increase in gross profit of NIS 6 million which was balanced by a decline in gross revenues from fuel operations.

Costs of Sales, Marketing Expenses and G&A
In the period of the report these expenses were NIS 196 million vs. NIS 200 million for the comparable period in the previous year. The decline in this item stemmed mainly from a decrease in salary expenses of NIS 3 million, reduction

in gasoline station maintenance expenses, decrease in advertising expenses of NIS 2 million, while there was also an increase in allowances for doubtful debts totaling about NIS 10 million that was credited in the second quarter of the period.

Profit from Operations

In the period of the report, profit from operations totaled NIS 39 million vs. NIS 35 million in the comparable period in the previous year. The increase in profit from operations stemmed mainly from a decrease in G&A expenses.

Financing Expenses

Financing expenses in the period of the report totaled NIS 38 million vs. NIS 32 million in the comparable period the previous year. The increase in financing expenses stemmed mainly from the higher devaluation during the period of the report which was partially balanced by a smaller increase of the CPI during the period of the report relative to the comparable period in the previous year.

Other Revenues

During the period of the report this item totaled revenues of NIS 3 million vs. expenses of NIS 2 million for the comparable period in the previous year. During the period of the report, in this item were included revenues totaling about NIS 3 million stemming from compensation from the Palestinian Authority for taking control of gasoline station properties of the Company and from assets of the Podesco station in the Judea and Samaria region with the transfer of control of this portion of the Judea and Samaria region to the Palestinian Authority.

Portion of the Company in the Profits of Affiliated Companies

The portion of the Company in profits of affiliated companies in the period of the report totaled NIS 8 million vs. NIS 7 million in the comparable period in the previous year. The increase was due to the increase in the profits of Amisragas affiliate.

Net Income

The net income for the period of the report totaled NIS 7 million vs. a profit of NIS 414 thousand in the comparable period in the previous year.
The increase in profit stemmed mainly from an increase in operating profit and in other revenues.

E. USA Fuel Sector Operations

	3/05-1	6/05-4	6/05-1	6/04-1	2004
	NIS in Millions	NIS in Millions	NIS in Millions	NIS in Millions	NIS in Millions
Revenues	1,041	1,226	2,267	1,808	4025
Gross Profit	136	167	303	263	582
Operating Profit	5	35	40	31	70
EBITDA	24	53	77	64	150
Financing Exp.	7	31	38	16	43
Net Profit/(Loss)	(1)	9	8	9	20

Delek USA operates in the sector of gasoline stations and convenience stores in eight states in the southeast of the United States. Delek USA markets its products to 328 gasoline stations and its operations are concentrated mainly in Tennessee (177 service stations), Alabama (93) and Virginia (36) under the MAPCO Express name. Similarly, Delek USA markets fuel products in Alabama as the exclusive supplier to 83 service stations operated by third parties.
Delek USA operates in markets where the large oil companies and the large department store chains, which also compete by selling oil and other products, are active and therefore, Delek's share in the total American market is inconsequential. However in Nashville and Memphis (in the State of Tennessee) and in northern Alabama, Delek USA owns one of the largest market shares in its area of activity.

About two-thirds of the stations to which Delek USA markets its products are owned by it. The rest are leased or rented by the Company. All of the service stations and convenience stores are operated by Delek USA.

In April, 2004, Delek USA purchased 100 gasoline stations and convenience stores. The increase in sales, gross profit and expenses for the period of the report relative to the comparable period in the previous year are influenced by this purchase since the results for the first quarter of 2004 and for part of the second quarter were not included in the data that follows.

Similarly, in April, 2005 a subsidiary of Delek USA completed a refinancing and enlisted loans from US banks totaling $165 million and an additional $40 million credit facility. Most of these sums were taken for the purpose of redeeming loans that were taken from banks in the past. To guarantee the loans that were received, a subsidiary of Delek USA collateralized all of its assets and in addition obligated itself to uphold certain financial covenants.

Sales

Sales of Delek USA in the period of the report totaled NIS 2,267 million vs. NIS 1,808 million for the comparable period in the previous year.
The increase stemmed mainly from the purchase of the 100 convenience stores and gasoline stations in April of the previous year and from an increase in the price of fuels.

Gross Profit

Gross profit for the period of the report totaled NIS 303 million vs. NIS 263 million in the comparable period in the previous year.
The increase stemmed mainly from the purchase of the 100 convenience stores and gasoline stations in April of the previous year.

Cost of Sales, Marketing and G&A
Cost of Sales, Marketing and G&A expenses for the period of the report totaled NIS 263 million vs. NIS 231 million for the same period in the previous year.
The increase stemmed mainly from the purchase of the 100 convenience stores and gasoline stations that were purchased by it in April of the previous year.

Profit from Operations
In the period of the report, profit from operations totaled NIS 40 million vs. NIS 31 million in the comparable period in the previous year. The increase stemmed mainly from the increase in gross profit as a result of the purchase of 100 convenience stores in April of the previous year.

Financing Expenses:
Financing expenses for the period of the report totaled NIS 38 million vs. NIS 16 million for the comparable period in the previous year. The increase in financing expenses stemmed from an increase in the scope of loans of the Company (mainly due to the purchase of 100 convenience stores and gasoline stations in April of last year and from the purchase of the refinery), from an increase in the interest rate on loans and for a one time expense totaling about NIS 14 million relating to the refinancing of loans of Delek USA.

Other Revenues
Other revenues for the period of the report totaled NIS 10 million vs. expenses of NIS 100 thousand for the comparable period in the previous year. The main revenue in the period of the report stemmed from the sale of a gasoline station and convenience store at a profit of about NIS 10 million.

F. Refinery Operations in the USA

	6/05-5
	NIS in millions
Revenues	842
Gross Profit	103
Operating Profit	44
EBITDA	46
Financing Exp.	8
Net Income	24

On April 29, 2005, Delek USA completed the purchase of the "La Gloria" refinery with a production capacity of about 57,000 barrels of oil per day and crude oil transportation pipeline with a length of 104 km located in the state of Texas in the USA. The purchase was executed through a wholly owned subsidiary, Delek Refining Inc. (herein: "Delek Refining"). The purchase of the refinery and the pipeline totaled about $72 million.
To the estimate of Delek USA, in the coming five years, there will be a need to invest an amount of between $70-90 million for the purpose of improving the purchased asset.

The purchase was financed by Delek USA through loans from banks in the US totaling $50 million and through owner's loans for a total of $35 million from the Group. In addition, for the purpose of financing working capital and the operation of the refinery, Delek USA enlisted from a consortium of US banks a credit facility for four years for an additional $250 million. In order to guarantee the credit that Delek USA received from US banks, Delek USA collateralized certain assets and obligated itself to uphold certain financial covenants.

Sales
The sales of Delek Refining in the quarter totaled about NIS 842 million. Delek Refining sold (including swap agreements) about 3.2 million barrels of refined products, an average of 50 thousand barrels per day.

Gross Profit
Gross profit for the second quarter totaled NIS 103 million. This quarter was characterized by a high level of profitability stemming mainly from an increase in refining margins throughout the quarter.

Operating Expenses, Cost of Sales, Marketing and G&A Expenses
These expenses in the second quarter totaled NIS 59 million. Most of these expenses are current production expenses of Delek Refining and expenses for operating the oil pipeline which the company owns.

Financing Expenses
Financing expenses totaled in the second quarter NIS 8 million. Most of the financing expenses stemmed from a loan of $50 million that was used in order

to purchase the refinery and from current credit expenses from the $250 million credit facility.

Net Income

The net income for the period of the report totaled NIS 24 million - the profit from operations during the months May and June, 2005.

It should be noted that in the last months, there was a significant increase in the current refining margins and the future refining margins in the world in general and in the US in particular. This level of margins has a significant influence on the profitability and the cash flows of the activities of the refinery.

G. Gadot Biochemical Industries

Gadot Biochemical Industries, Ltd. (herein: "Gadot") is a manufacturer of additives and chemicals for the food industry, health supplements and detergents.
Gadot produces granulated fructose, citric acid, citric acid salts and additional minerals and salts. Most of the sales are to the leading food industry and detergent company producers in the US and European markets.

The following are the results of Gadot Biochemical Industries:

	1-3/05	4-6/05	1-6/05	1-6/04	2004
	NIS in Millions	NIS in Millions	NIS in Millions	NIS in Millions	NIS in Millions
Revenues	92	94	186	171	343
Gross Profit	29	29	58	55	111
Operating Profit	17	17	34	34	67
EBITDA	20	21	41	40	80
Financing Exp.	3	--	3	8	7
Net Income	9	12	21	27	86
Total Assets	422	473	473	390	415

On May 24, 2005, Gadot completed a public offering of shares and bonds convertible to shares of Gadot (series A) at the Tel-Aviv Stock Exchange.

In the framework of the offering, 1,231,000 ordinary NIS 0.1 par value shares were offered to the public along with NIS 80,754 thousand face value of convertible bonds, registered as (series A) par value NIS 1 which will be redeemed in two equal annual payments in June of each of the years 2008-2009. The bonds carry an annual interest rate of 4.45% which will be paid in the months of June and December of each year starting with December 1, 2005 to June 1, 2009. The bonds are linked to the CPI (principal and interest) and can be converted into Gadot shares such that until November 30, 2006 each NIS 50 face value of bonds can be converted to one ordinary NIS 0.1 par value share and from December 1, 2006 until May 16, 2009 each NIS 60 face value of bonds can be converted to one ordinary NIS 0.1 par value share. The conversion ratio of the bonds to shares is subject to adjustments (for dividends, share distributions, and the like) as detailed in the conditions of the bond. The total proceeds that Gadot received for the offering (less issuance expenses) totaled about NIS 119 million, from which about NIS 39 million related to the share offering and about NIS 80 million related to the bond offering. The proceeds of the offering were divided between shares and bonds based on the relative value in the first three days of trading on the stock exchange.
As a result of the said offering the holding rate of the Company in Gadot went from 72% to about 64% (fully diluted after the conversion of the bond and the exercise of the options given to Gadot employees, the holding is expected to decline to about 55%). The profit created for the Company as a result of the Gadot offering was about NIS 10 million.

Results of Operations

1) Revenues

Gadot's revenues for the period of the report totaled about NIS 186 million, vs. about NIS 171 million for the comparable period in the previous year. The increase was mainly due to increased production and sales of fructose and citric acid salts.

2) Gross Profit

The gross profit for the period of the report was about NIS 58 million vs. NIS 55 million in the comparable period the previous year.

3) Cost of Sales and Marketing Expenses

Cost of sales and marketing expenses for the period of the report totaled about NIS 18 million vs. NIS 16 million for the comparable period the previous year. The increase was due to an increase in sales and the continued increasing trend in maritime shipping fees.

4) Operating Profit

Operating profit for the period of the report totaled about NIS 34 million vs. about NIS 34 million in the comparable period in the previous year.

5) Financing Expenses

Financing expenses for the period of the report totaled about NIS 3 million vs. about NIS 8 million for the comparable period the previous year.
The decline in financing expenses stemmed from posting the fair value of futures transactions and derivatives that were executed for the purpose of economic hedges, on the day of the balance sheet.

6) Income Taxes

Income tax expenses for the period of the report totaled about NIS 10 million vs. a tax benefit of about NIS 1 million for the comparable period the previous year.
At the end of 2004, Gadot created in its books for the first time, a tax asset in light of the cumulative loss for the purpose of taxes that was established and from the high possibility that the company will utilize the tax credit created from losses carried forward from the previous years. The cumulative loss did not appear in previous reports. As a result of this for the first time Gadot created a tax expense in its books.

7) Net Income

Net Income for the period of the report totaled about NIS 21 million compared about NIS 27 million in the comparable period in the previous

year. The decline in the net income was a result of tax expenses that were posted in Gadot's books for the first time.

H. Matav

During the course of 2004 the Group purchased 40% of the holdings of Matav – Cable Communications Systems, by purchasing 20% of Matav shares from Dankner Investments and then from the purchase of Dankner Investments that held an additional 20% of Matav shares.

Matav is one of the three cable television companies in Israel who together operate under the "Hot" brand. They supply cable TV to 940,000 households in Israel. The three companies also provide broadband internet services to 380,000 households. The three cable companies hold, as partners, Hot Telecom (Matav's share is 26.6%), which started to provide telephony services to the general public in 2005 and until now have about 36,000 telephony subscribers. Matav's portion of the multi-channel cable TV business is 26%.

The following are the data from the financial reports of Matav:

	3/05-1	**6/05-4**	**6/05-1**	**6/04-1**	**2004**
	NIS in Millions	NIS in Millions	NIS in Millions	NIS in Millions	NIS in Millions
Revenues	137	136	273	299	585
Gross Profit	19	18	37	58	112
Operating Profit/(Loss)	(5)	(6)	(11)	6	3
Financing Exp.	12	15	27	28	109
Other Revenue/(Expenses)	1	163	164	(19)	(43)
Net Income/(Loss)	(13)	145	132	(35)	83) (
Total Assets	1,085	1,258	1,258	1,088	1,079

The investment in Matav is reported in the Group's financial statements by the equity method of accounting. The loss recorded by the Group in respect to its investment in Matav during the period of the report amounted to NIS 20 million of which NIS 10 million was in the second quarter of the year. In the comparable period in the previous year the Group posted in the second quarter a loss of NIS 4 million. The balance of the investment in Matav totaled about NIS 385 thousand.

Below, is the analysis of Matav's results of operations:

Revenues:
In the first half of the year Matav revenues totaled about NIS 273 million vs. about NIS 299 million in the comparable period the previous year. The decline in revenues can be explained by a decrease in the number of subscribers and a decline in ARPU. In the second quarter of 2005, revenues totaled about NIS 136 million and about NIS 137 million in the first quarter of 2005. The decline in revenues is explained mainly by a decline in the number of subscribers for cable television services.

Subscribers:

In the second quarter there was a slowdown in the rate of subscribers leaving Matav compared to the first quarter. The number of cable TV subscribers at the end of the second quarter of 2005 totaled about 252.2 thousand vs. about 263.2 thousand subscribers at the end of the comparative quarter the previous year and about 254.2 thousand subscribers at the end of the first quarter of 2005.
There are about 99 thousand subscribers to the broadband internet service of the company.

In the first half of the year the ARPU (average monthly revenue per unit, including VAT) of Matav was about NIS 201.80 vs. about NIS 209.90 in the comparable period in the previous year and in the second quarter of the period of the report it was about NIS 202 vs. about NIS 201.60 in the first quarter of 2005.

The operating expenses for the first half of 2005 totaled about NIS 236 million vs. about NIS 241 million in the first half of 2004 and they include operating costs stemming from the penetration of new services such as VOD.
Operating expenses in the second quarter of 2005 totaled about NIS 118 million, similar to the level of operating expense for the first quarter of 2005.

Gross Profit:
In the first half of the year the gross profit totaled about NIS 37 million vs. about NIS 58 million for the comparable period the previous year. In the second quarter of 2005, the gross profit totaled about NIS 18 million vs. about NIS 19 million in the first quarter of 2005. The main reason for the decline in gross profit is the decline in revenues.

Cost of Sales and Marketing Expenses:
In the first half of the year cost of sales and marketing expenses totaled about NIS 27.9 million vs. about NIS 31 million for the comparable period in the previous year. The decline in marketing expenses is mainly explained by the advertising expenses from the launch of HOT in the first half of 2004.

Sale of Partner Shares
In April of this year Matav sold to Partner about 80% of the Partner shares that it held for about NIS 250 million. The profit due to Matav as a result of the said sale (including for the agreement that the tax authorities gave approving tax obligations regarding the sale of Partner shares) totaled about NIS 170 million. The profit to the Group as a result of said sale, taking into consideration balance of surplus costs assigned to Matav in Partner, totaled about NIS 7 million. After the said sale, Matav holds about 1.2% of the shares of Partner.

I. Additional Activities

1) During the first quarter of 2005 Delek Investments and Properties Ltd. sold certain listed shares which Delek Investments had listed as permanent long term investments. The profit (before taxes) for Delek Investments as a result of these sales totaled about NIS 9 million.

In the comparable half in the previous year, Delek Investments made about NIS 29 million (before taxes) from investments in these shares which reduced financing expenses for the same period.

2) Infrastructure

Delek Investment's desalination of seawater operations are implemented through IDE Technologies which is 50% held by Delek Infrastructure (Delek Infrastructure is a wholly owned subsidiary of Delek Investments).

After the period of the report the desalination plant in Ashkelon, held by Desalination Engineering, started operations. The operation of the desalination plant in Ashkelon is gradual where the first stage will supply 50 million cubic meters of water a year and in the second stage it will supply the full capacity of 100 million cubic meters of desalinated seawater a year, this after receiving the approval of the Ministry of Health, the Desalination Authority and the Ministry of the Environment. The facility has current flows of about 170,000 cubic meters of desalinated water per day.

The activity regarding infrastructure is characterized by large investments in preparatory time of about two to three years where revenues will be received only after that.

3) Menora Holdings, Ltd.

On March 13, 2005 the transaction was completed whereby Delek Investments purchased 9.99% of the issued shares of Menora Holdings Ltd. (herein: "Menora") and this by a private placement of Menora for NIS 191 million. In addition to this, Delek Investments received an option (that can be exercised over a period of 18 months) to purchase from Menora an additional 5% of the issued and outstanding shares of Menora for about $22 million. The investment is presented in the books of Delek Investments as a permanent investment according to the cost method. During the second quarter of the year, a dividend from Menora for NIS 5 million was received.

7. Details Regarding Managing Exposure to Market Risk

There was no substantial change from 2004 during the period of the report.

8. Directors with Financial Experience

There was no substantial change from 2004 during the period of the report.

9. Dividends

A. The Board of Directors decided on March 8, 2005 to distribute a dividend from 2004 profits at a rate of 800% of the paid-in capital shares. The dividend totaled about NIS 77.9 million and was paid on March 31, 2005.

B. The Board decided on March 30, 2005 to distribute an additional dividend from 2004 profits at a rate of 267% of the paid-in capital shares. The dividend totaled about NIS 26 million and was paid on May 3, 2005.

C. The Board decided on May 30, 2005 to pay a dividend from 2005 profits of 435% of the paid-in capital shares. The dividend totaled about NIS 43 million and was paid on July 4, 2005.

D. On August 29, 2005, the Board decided to distribute a dividend from 2005 profits at a rate of 900% of paid-in capital shares. The dividend total was about NIS 90 million and will be paid on September 22, 2005.

10. Critical Accounting Assessments

There was no substantial change from 2004 during the period of the report.

11. Survey of Associates

The Company gave its approval to transfer necessary material for the implementation of a sampling related to a survey of associates from the Institute of Certified Public Accountants in Israel subject to the keeping of the secrecy of the data that will be transferred and subject to a guarantee of no conflict of interests of those conducting the survey.

12. Employees

The Board of Directors wishes to show its respect and appreciation to the management of the Company, to the managements of the subsidiaries and to all the employees whose dedicated work contributes so greatly to the success of the Company.

With respect,

Gabriel Last
Chairman of the Board

Asaf Bartfeld
CEO

DELEK GROUP LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

UNAUDITED

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ERNST & YOUNG

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The Board of Directors
Delek Group Ltd.

Re: Review of unaudited interim consolidated financial statements for the six and three months ended June 30, 2005

At your request, we have reviewed the accompanying interim consolidated balance sheet of Delek Group Ltd. as of June 30, 2005, and the related interim consolidated statements of income, changes in shareholders' equity and the consolidated cash flows for the six and three months then ended. Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned financial statements, reading minutes of 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 and partnerships, whose assets constitute approximately 32% of total consolidated assets as of June 30, 2005, and whose revenues constitute approximately 6% of total consolidated revenues for the six and three months then ended. In addition, we have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain affiliates and partnerships, for which the investment under the equity method of accounting totaled NIS 634 million as of June 30, 2005, and the Company's equity in their earnings for the six and three months then ended totaled NIS 74 million and NIS 21 million, respectively.

A review is substantially less in scope than an audit in accordance with generally accepted auditing standards, and accordingly, we do not express an opinion on the interim consolidated financial statements.

Based on our review and the reports of other accountants referred to 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 in Israel and with the Securities Regulations (Periodic and Immediate Reports), 1970.

We draw attention to the matter discussed in Note 4 to the financial statements regarding claims filed against investees.

Tel-Aviv, Israel
August 29, 2005

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

CONSOLIDATED BALANCE SHEETS

	June 30,		December 31,
	2005	2004	2004
	Unaudited		Audited
	Reported NIS in millions		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	1,170	434	545
Short-term investments	418	167	201
Trade receivables	2,356	1,949	1,824
Other accounts receivable	462	323	299
Inventories	1,383	989	1,046
Buildings and land held for sale	52	19	62
	5,841	3,881	3,977
LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES:			
Investments in investees and other companies	1,760	1,199	1,532
Real estate for rent	2,914	2,877	3,066
Land held for construction	427	171	403
Long-term loans, deposits and receivables	441	310	313
Investments in petrolleum and gas exploration and production	817	880	837
	6,359	5,437	6,151
FIXED ASSETS, NET	2,238	2,000	2,013
OTHER ASSETS AND DEFERRED CHARGES, NET	797	516	741
	15,235	11,834	12,882

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

CONSOLIDATED BALANCE SHEETS

	June 30,		December 31,
	2005	2004	2004
	Unaudited		Audited
	Reported NIS in millions		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	2,592	3,253	3,399
Trade payables	1,530	1,020	1,083
Other accounts payable	720	515	593
Dividend declared	43	-	-
	4,885	4,788	5,075
LONG-TERM LIABILITIES:			
Long-term loans from banks and others	4,944	3,797	4,409
Convertible debentures	567	625	603
Other debentures	2,293	677	637
Receipts on account of options convertible into subsidiary's debentures	47	-	-
Accrued severance pay, net	13	17	14
Deferred taxes	198	136	170
Other liabilities	113	68	67
	8,175	5,320	5,900
MINORITY INTEREST	441	324	362
SHAREHOLDERS' EQUITY	1,734	1,402	1,545
	15,235	11,834	12,882

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

August 29, 2005			
Date of approval of the financial statements	G. Last Chairman of the Board	A. Bartfeld CEO	R. Ben-Dov Vice CEO and Responsible for Financial Matters

CONSOLIDATED STATEMENTS OF INCOME

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2005	2004	2005	2004	2004
	Unaudited				Audited
	Reported NIS in millions (except per share amounts)				
Revenues	8,637	7,008	5,042	3,797	14,893
Less - excise, customs, purchase taxes and royalties	1,677	1,847	901	1,002	3,529
	6,960	5,161	4,141	2,795	11,364
Cost of revenues	5,877	4,217	3,513	2,293	9,337
Gross profit	1,083	944	628	502	2,027
Selling, marketing and gas station operating expenses	458	379	259	200	814
General and administrative expenses	158	134	93	68	308
Operating income	467	431	276	234	905
Financial expenses, net	241	145	143	80	342
	226	286	133	154	563
Gain on sale of investments in investees and in other companies	112	76	103	76	100
Other income (expenses), net	40	(11)	17	(15)	(28)
Income before taxes on income	378	351	253	215	635
Taxes on income	96	126	57	71	189
Income after taxes on income	282	225	196	144	446
Equity in earnings of affiliates and partnerships, net	73	45	21	25	136
Minority interest in earnings of subsidiaries, net	(89)	(72)	(37)	(44)	(159)
Income before cumulative effect of change in accounting principle, net	266	198	180	125	423
Cumulative effect as of the beginning of the period of change in accounting principle, net	-	(20)	-	-	(20)
Net income	266	178	180	125	403
Net earnings per NIS 1 par value of Ordinary shares (in reported NIS):					
Basic earnings					
Income before cumulative effect of change in accounting principle	27.03	20.48	18.29	12.92	43.50
Cumulative effect	-	(2.10)	-	-	(2.10)
Net earnings	27.03	18.38	18.29	12.92	41.40
Diluted earnings					
Income before cumulative effect of change in accounting principle	24.89	19.27	16.34	11.95	41.63
Cumulative effect	-	(1.77)	-	-	(1.77)
Net earnings	24.89	17.50	16.34	11.95	39.86

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Capital reserves	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Reported NIS in millions					
Balance as of January 1, 2005 (audited)	11	771	90	569	104	1,545
Decrease in unrealized losses on interest rate swap transaction of affiliate	-	-	10	-	-	10
Foreign currency translation adjustments for investees *)	-	-	(8)	-	-	(8)
Dividend	-	-	-	(43)	(104)	(147)
Conversion of debentures into Company's shares	-	47	-	-	-	47
Exercise of stock options into Company's shares	-	21	-	-	-	21
Net income	-	-	-	266	-	266
Dividend declared subsequent to balance sheet date	-	-	-	(90)	90	-
Balance as of June 30, 2005 (unaudited)	11	839	92	702	90	1,734

*) Includes an amount of approximately NIS 6 million of foreign currency translation adjustments recognized as a gain in the statement of income due to decrease in holding in subsidiary, see Note 3a.

	Share capital	Share premium	Capital reserves	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Reported NIS in millions					
Balance as of January 1, 2004 (audited)	11	770	50	373	54	1,258
Capital reserve arising on transaction with controlling shareholder	-	-	-	(6)	-	(6)
Decrease in unrealized losses on interest rate swap transaction of affiliate	-	-	7	-	-	7
Foreign currency translation adjustments for investees	-	-	19	-	-	19
Dividend	-	-	-	-	(54)	(54)
Net income	-	-	-	178	-	178
Dividend declared subsequent to balance sheet date	-	-	-	(97)	97	-
Balance as of June 30, 2004 (unaudited)	11	770	76	448	97	1,402

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Capital reserves	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Reported NIS in millions					
Balance as of April 1, 2005 (unaudited)	11	771	84	612	43	1,521
Decrease in unrealized losses on interest rate swap transaction of affiliate	-	-	8	-	-	8
Foreign currency translation adjustments for investees *)	-	-	-	-	-	-
Conversion of debentures into Company's shares	-	47	-	-	-	47
Exercise of stock options into Company's shares	-	21	-	-	-	21
Dividend	-	-	-	-	(43)	(43)
Net income	-	-	-	180	-	180
Dividend declared subsequent to balance sheet date	-	-	-	(90)	90	-
Balance as of June 30, 2005 (unaudited)	11	839	92	702	90	1,734

*) Includes an amount of approximately NIS 6 million of foreign currency translation adjustments recognized as a gain in the statement of income due to decrease in holding in subsidiary, see Note 3a.

	Share capital	Share premium	Capital reserves	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Reported NIS in millions					
Balance as of April 1, 2004 (unaudited)	11	770	76	426	-	1,283
Capital reserve arising on transaction with controlling shareholder	-	-	-	(6)	-	(6)
Decrease in unrealized losses on interest rate swap transaction of affiliate	-	-	6	-	-	6
Foreign currency translation adjustments for investees	-	-	(6)	-	-	(6)
Net income	-	-	-	125	-	125
Dividend declared subsequent to balance sheet date	-	-	-	(97)	97	-
Balance as of June 30, 2004 (unaudited)	11	770	76	448	97	1,402

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Capital reserves	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Reported NIS in millions					
Balance as of January 1, 2004 (audited)	11	770	50	373	54	1,258
Conversion of debentures into Company's shares	-	1	-	-	-	1
Capital reserve arising on transaction with controlling shareholder	-	-	-	(6)	-	(6)
Unrealized losses on interest rate swap transaction of affiliate	-	-	(2)	-	-	(2)
Foreign currency translation adjustments for investees	-	-	42	-	-	42
Dividend	-	-	-	(97)	(54)	(151)
Net income	-	-	-	403	-	403
Dividend declared subsequent to balance sheet date	-	-	-	(104)	104	-
Balance as of December 31, 2004 (audited)	11	771	90	569	104	1,545

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2005	2004	2005	2004	2004 *)
	Unaudited				Audited
	Reported NIS in millions				
Cash flows from operating activities:					
Net income	266	178	180	125	403
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(129)	(131)	(171)	(60)	102
Net cash provided by operating activities	137	47	9	65	505
Cash flows from investing activities:					
Purchase of fixed and other assets	(99)	(240)	(40)	(150)	(376)
Investment in real estate and real estate for rent	(19)	(22)	(13)	(15)	(40)
Proceeds from sale of fixed assets and real estate	186	10	75	5	111
Realization of marketable securities, net	4	77	15	19	65
Collection of long-term loans granted	43	32	10	12	132
Withdrawal of (investment in) deposits, net	(347)	8	63	24	33
Increase in joint ventures for oil and gas exploration	(1)	(19)	(1)	-	(29)
Proceeds from sale of investments in investees and others	30	125	-	87	136
Investment in investees and partnerships	(283)	(308)	(7)	(111)	(333)
Acquisition of businesses and newly consolidated companies (b)	(297)	(104)	(297)	(104)	(384)
Loans granted to others	(22)	(41)	(16)	(11)	(50)
Net cash used in investing activities	(805)	(482)	(211)	(244)	(735)
Cash flows from financing activities:					
Short-term credit from banks and others, net	(627)	175	140	125	(10)
Receipt of long-term loans	1,677	738	1,137	510	1,102
Repayment of long-term loans	(1,526)	(895)	(982)	(496)	(1,108)
Issuance of shares to minority in subsidiaries	162	-	162	-	12
Dividend paid	(104)	(54)	(26)	(54)	(151)
Dividend paid to minority in subsidiaries	(14)	(60)	(14)	(3)	(128)
Sale of debentures held by subsidiary	-	7	-	7	7
Exercise of stock options into Company's shares	21	-	21	-	-
Receipts on account of options convertible into subsidiary's debentures	59	-	59	-	-
Issuance of debentures and convertible debentures, net	1,709	386	292	-	509
Redemption of debentures and convertible debentures	(71)	(21)	(25)	(21)	(48)
Net cash provided by financing activities	1,286	276	764	68	185
Translation differences in respect of cash balances of autonomous investees	7	5	7	(1)	2
Increase (decrease) in cash and cash equivalents	625	(154)	569	(112)	(43)
Cash and cash equivalents at the beginning of the period	545	588	601	546	588
Cash and cash equivalents at the end of the period	1,170	434	1,170	434	545

*) Reclassified.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2005	2004	2005	2004	2004 *)
	Unaudited				Audited
	Reported NIS in millions				
(a) Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Income and expenses not involving cash flows:					
Depreciation, depletion, amortization and write-down of assets	166	139	97	82	295
Deferred taxes, net (1)	16	35	14	11	48
Decrease in accrued severance pay, net	(3)	-	-	-	-
Decrease (increase) in value of loans granted, net	-	(6)	6	(4)	(2)
Gain from sale of fixed assets, real estate and investments, net	(139)	(87)	(113)	(77)	(139)
Equity in undistributed earnings of affiliates and partnerships, net (2)	(27)	(44)	(21)	(25)	(148)
Increase in value of securities and deposits, net	(4)	(29)	(1)	-	(30)
Increase (decrease) in value of long-term liabilities, net	69	16	67	21	(6)
Minority interest in earnings of subsidiaries, net	89	72	37	44	159
Changes in asset and liability items:					
Increase in trade receivables	(569)	(329)	(609)	(280)	(215)
Increase in other accounts receivable	(64)	(29)	(28)	(18)	(30)
Decrease (increase) in inventories	81	(23)	(160)	(24)	(63)
Increase in trade payables	240	103	496	206	166
Increase in other accounts payable	16	51	44	4	67
	(129)	(131)	(171)	(60)	102
(1) Includes cumulative effect as of the beginning of the period of change in accounting principle, net	-	20	-	-	20
(2) Net of dividends received	46	1	-	-	8

*) Reclassified.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2005	2004	2005	2004	2004 *)
	Unaudited				Audited
	Reported NIS in millions				
(b) Acquisition of businesses and newly consolidated companies:					
Working capital deficiency (working capital), net (except cash)	(196)	140	(196)	140	226
Fixed assets, real estate, investments and other assets	(154)	(270)	(154)	(270)	(900)
Goodwill	-	(28)	-	(28)	(255)
Long-term liabilities	53	54	53	54	545
	(297)	(104)	(297)	(104)	(384)
(c) Significant non-cash activities:					
Acquisition of refinery activity by credit	16	-	16	-	-
Increase in investments in oil and gas exploration against liabilities	-	21	-	21	-
Receivables in respect of sale of airplane and real estate for rental	10	59	10	59	-
Decrease in income from accrued interest against decrease in deposits	-	14	-	14	-
Dividend paid to minority in subsidiary and consolidated partnership	85	-	85	-	-
Dividend declared	43	-	43	-	-
Conversion of debentures into Company's shares	47	-	47	-	-

*) Reclassified.

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

NOTE 1:- GENERAL

These financial statements have been prepared in a condensed format as of June 30, 2005, and for the six and three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2004 and for the year then ended ("Annual reports").

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 the Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies and methods of computation followed in the preparation of the interim financial statements are identical to those followed in the preparation of the latest annual financial statements.

b. Below are data about the Israeli CPI and the exchange rates of principal currencies in which the Group transacts:

		Representative exchange rates				
	Israeli CPI	1 Pound	1 CD	1 U.S. dollar	100 Yen	1 Euro
As of	Points *)			N I S		
June 30, 2005	108.0	8.1966	3.7110	4.574	4.131	5.527
June 30, 2004	107.7	8.1472	3.3444	4.497	4.129	5.466
December 31, 2004	107.4	8.3075	3.5787	4.308	4.201	5.877
Increase (decrease) during the period				%		
June 2005 (6 months)	0.5	(1.3)	3.7	6.2	(1.7)	(6.0)
June 2005 (3 months)	1.1	(0.1)	3.2	4.9	1.3	(2.2)
June 2004 (6 months)	1.4	3.8	(1.9)	2.7	0.8	(1.2)
June 2004 (3 months)	1.5	(1.9)	(3.5)	(0.7)	(5.3)	(1.3)
December 2004 (12 months)	1.2	5.8	5.0	(1.6)	2.6	6.2

*) The index on an average basis of 2000 = 100.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Recently published new Accounting Standard:

In July 2005, the Israel Accounting Standards Board issued Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation" ("Standard").

This Standard prescribes principles regarding the presentation of financial instruments and details the proper disclosure required in their respect in the financial statements. The presentation principles apply to the classification of financial instruments or their component parts, on initial recognition as a financial liability, financial asset or equity instrument; the classification of related interest, dividends, losses and gains; and the circumstances in which a financial asset and a financial liability should be offset. This Standard shall apply to financial statements for periods commencing on or after January 1, 2006.

According to the new Standard, compound financial instruments, that include both a liability and an equity component (for example convertible debenture), should be bifurcated between the equity and liability component and each component should be classified separately in accordance with the Standard's guidance. That is in contrast to current accounting principles, according to which the aforementioned financial instrument is classified as a financial liability or a mezzanine item (depending on the probability of conversion). Transaction costs (net of any related income tax benefit) of an equity transaction are accounted for as a deduction from equity, while transaction costs of a financial liability are deducted from the liability and are taken into account, when calculating the effective interest rate.

The new Standard also broadens the definition of a financial liability, thus causing certain financial instruments, which are considered under current accounting guidance to be equity instruments, to be considered as financial liabilities. In addition, the new Standard supersedes Standards No. 48 and 53 of the Institute of Certified Public Accountants in Israel, according to which an investor should record a provision for a probable loss to result from decrease in its interest in the investee, following the conversion of the investee's convertible instruments ("loss provision").

The Standard shall be applied prospectively. Comparative data presented in financial statements for periods beginning on the Standard's effective date will not be restated. Financial instruments that were issued prior to the Standard's effective date will be classified and presented in accordance with the provisions of the Standard beginning on the Standard's effective date. Compound financial instruments, which were issued in prior periods and were not yet converted or redeemed as of the Standard's effective date, will be bifurcated to their components and presented accordingly, beginning on the Standard's effective date. A loss provision included in the financial statements of an investor at the Standard's effective date should be reversed at such date as a cumulative effect in the current period.

The Group is evaluating the effect of the new Standard on its financial condition, results of operations and cash flows, but at this stage it is unable to estimate the aforementioned effect.

NOTE 3:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES

a. 1. During June 2005, a subsidiary, Delek Real Estate Ltd. ("Delek Real Estate"), completed a public issuance of securities, as follows:

(1) 8,200,000 Ordinary shares.

(2) NIS 49,200 thousand par value of debentures (series C) of NIS 1 par value each, redeemable in 4 equal annual payments on May 30 of each of the years 2008 to 2011. The debentures are linked to the Israeli CPI and bear annual interest at the rate of 6% that is payable twice a year on May 30 and November 30 of each of the years from November 30, 2005 through May 30, 2011. The debentures are convertible into Ordinary shares of Delek Real Estate up to May 14, 2011, in such a manner that during the period from the registration of the debentures for trade through May 30, 2008, each NIS 29.65 par value of debentures is convertible into one Ordinary share of Delek Real Estate and during the period from May 31, 2008 through May 15, 2011, each NIS 34.25 par value of debentures is convertible into one Ordinary share of Delek Real Estate (subject to adjustments).

(3) NIS 49,200 thousand par value of debentures (series D) of NIS 1 par value each, redeemable in 6 equal annual payments on May 30 of each of the years 2007 to 2012. The debentures are linked to the Israeli CPI and bear annual interest at the rate of 6% that is payable twice a year on May 30 and November 30 of each of the years from November 30, 2005 through May 30, 2012.

(4) 1,640,000 stock options (series 1), exercisable into debentures (series C) of Delek Real Estate up to July 7, 2005, in such a manner that each stock option (series 1) is exercisable into NIS 100 par value of debentures (series C) in consideration for a cash payment of NIS 92.6, linked to the Israeli CPI.

(5) 3,280,000 stock options (series 2), exercisable into debentures (series D) of Delek Real Estate from their registration for trade through July 7, 2005 (inclusive), in such a manner that each stock option (series 2) is exercisable into NIS 100 par value of debentures (series D) in consideration for a cash payment of NIS 92.6, linked to the Israeli CPI.

The immediate proceed that Delek Real Estate received in consideration for the issuance totaled approximately NIS 284 million (net of issuance expenses of approximately NIS 15 million) and it was attributed to the issued securities based on their relative quoted market prices during the first three trading days; an amount of NIS 124 million was attributed to shares, NIS 51 million was attributed to debentures (series C); NIS 51 million was attributed to debentures (series D), NIS 20 million was attributed to stock options (series 1) and NIS 38 million was attributed to stock options (series 2).

NOTE 3:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES (Cont.)

2. During the period from the date of issuance through June 30, 2005, 390,450 stock options (series 1) were exercised into NIS 39,045 thousand par value of debentures (series C) in consideration for NIS 36 million and 786,287 stock options (series 2) were exercised into NIS 78,629 thousand par value of debentures (series D) in consideration for approximately NIS 73 million.

   Subsequent to the balance sheet date, on July 7, 2005, the remaining stock options were exercised; 1,249,550 stock options (series 1) were exercised into NIS 124,955 thousand par value of debentures (series C) in consideration for NIS 114 million and 2,493,713 stock options (series 2) were exercised into NIS 249,371 thousand par value of debentures (series D) in consideration for approximately NIS 230 million.

   Total issuance proceed from all securities offered under the prospectus of Delek Real Estate (including exercise of options) amounted to approximately NIS 737 million (net of issuance expenses of approximately NIS 18 million).

3. In furtherance to what was stated in Note 20b(5) to the annual reports, on May 30, 2005, an agreement was signed between the Group and Delek Real Estate, on the one part, and Mivtahim National Insurance Institution of the Employees Ltd. ("Mivtahim"), on the other part, according to which Mivtahim will convert the remaining debentures (approximately NIS 67 million) into Delek Real Estate shares based on the issue price as determined in Delek Real Estate prospectus (NIS 24.4 per share), discounted by 11.8% (NIS 21.52 per share). Accordingly, close to the public issuance, Delek Real Estate issued to Mivtahim 3,126,265 Ordinary shares of Delek Real Estate. It was also provided that for the purpose of monetary computation to be performed between the parties, the conversion rate shall be determined based on the average quoted market prices for Delek Real Estate shares during the first 30 trading days, discounted by 10.72%. On July 24, 2005 (the end of the first 30 trading days), the average quoted share price was NIS 14.31 and approximately NIS 12.75 after a discount of 10.72%. Based on the new conversion rate, determined as above, according to a monetary reckoning which took place between Mivtahim and Delek Real Estate, Delek Real Estate paid to Mivtahim an amount of approximately NIS 27 million. The remaining liability in respect of the debentures amounting to approximately NIS 40 million was classified to Delek Real Estate equity.

   Subsequent to the issuances, as stated above, the Group's holding rate in Delek Real Estate decreased to about 80% (on a fully diluted basis the holding rate is expected to decrease to about 75%). As a result of these issuances, the Group derived a gain totaling approximately NIS 110 million (including recognition of deferred credit of approximately NIS 24 million, see Note 20b(5) to the annual reports); an amount of NIS 93 million was reported in the statement of income in the second quarter of 2005 as gain from sale of investments in investees and in other companies and the balance, approximately NIS 17 million, will be reported in the statement of income in the third quarter of 2005 after the final issue price for Mivtahim, as stated above, is determined.

NOTE 3:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES (Cont.)

b. During May 2005, a subsidiary, Gadot Biochemical Industries Ltd. ("Gadot"), completed a public issuance of shares and convertible debentures (series A) on the Tel Aviv Stock Exchange.

As part of the issuance, the public was issued 1,231,000 Ordinary shares of NIS 0.1 par value each and about NIS 80,754 thousand par value of registered convertible debentures (series A) of NIS 1 par value each redeemable in two equal annual payments in June of each of the years 2008 and 2009. The debentures bear annual interest at the rate of 4.45%, payable in June and December of each year from December 1, 2005 through June 1, 2009. The debentures are linked (principal and interest) to the Israeli CPI and are convertible into the shares of Gadot in such a manner the until November 30, 2006 each NIS 50 par value of debentures is convertible into one Ordinary share of NIS 0.1 par value and from December 1, 2006 through May 16, 2009, each NIS 60 par value of debentures is convertible into one Ordinary share of NIS 0.1 par value. The conversion rate of debentures into shares is subject to adjustments (for distribution of dividends, distribution of bonus shares, etc.), as specified in the terms of the debentures. Total proceed that Gadot received for the issuance was approximately NIS 119 million (net of issuance expenses of approximately NIS 6 million); an amount of approximately NIS 80 million was attributed to issuance of debentures and the balance was allocated to shares. The issuance proceed was attributed to shares and convertible debentures based on their relative quoted market prices during the first three trading days.

Subsequent to the issuance, as stated above, the Group's holding rate in Gadot decreased to about 64% (on a fully diluted basis after exercise of debentures and options granted to Gadot employees, the holding rate is expected to decrease to about 55%). As a result of these issuances, the Group derived a gain totaling approximately NIS 10 million which was included in gain from sale of investments in investees and in other companies.

c. On March 13, 2005, Delek Investments and Properties Ltd. ("Delek Investments") closed a transaction to purchase 9.99% of the issued share capital of Menora Holdings Ltd. ("Menora") by a private placement of Menora in consideration for approximately $ 44 million (approximately NIS 191 million). Additionally, Delek Investments was granted an option (exercisable over a period of about 18 months) to purchase additional 5% of the issued and outstanding share capital of Menora in consideration for approximately $ 22 million. The investment is stated in the Group's books as permanent investment at cost.

d. On February 28, 2005, Shagrir Towing Services Ltd. (which is 33.3% owned by a subsidiary) and a wholly owned subsidiary of Shagrir (collectively, "Shagrir") closed a transaction with Pointer of Eden Telecom Ltd. ("the buyer"), whereby the buyer purchases from Shagrir all of Shagrir's activity in the field of automobile towing services, road repairs and loaners and all of the assets and liabilities related to this activity.

The net consideration for the transaction was paid at closing (net of adjustments as stipulated in the agreement) and was placed at approximately NIS 188 million (of the consideration, an amount of NIS 40 million was financed by a loan that Shagrir gave to the buyer). Subsequnt to this transaction, the subsidiary recorded a gain of approximately NIS 46 million (the Group's share is approximately NIS 28 million).

NOTE 3:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES (Cont.)

As part of the selling agreement, Nexus Telocation Systems Ltd., the buyer's parent company ("Nexus"), granted Shagrir an option to purchase up to 25 million Ordinary shares of NIS 0.03 par value each of Nexus that are listed for trade in the U.S.. The option is exercisable from the date of closing up to the end of a 24-month period. The exercise price per share is $ 0.18 (subject to adjustments as explained in the option).

e. As elaborated in Note 5a to the financial statements of Matav Cable Systems Media Ltd. ("Matav") as of June 30, 2005, which are attached to these financial statements, in April 2005, Matav sold to Partner Communications Company Ltd. ("Partner") approximately 80% of the shares of Partner held by Matav in consideration for approximately NIS 250 million. Subsequent to the above sale, Matav derived a gain (including in respect of a settlement reached with the Tax Authorities as to the tax liability relating to the sale of Partner's shares) amounting to approximately NIS 170 million. As a result of what is stated above, and taking into consideration the excess of cost attributed to Matav's investment in Partner, the Group derived a gain amounting to approximately NIS 7 million.

f. In their review on the financial statements as of June 30, 2005 of the affiliate Hof Hacarmel Recreation and Tourism 89 Ltd. ("Hof Hacarmel"), the auditors draw attention to the financial condition of Hof Hacarmel and to its dependency upon continued financing of its activity, primarily by banks.

As of June 30, 2005, Hof Hacarmel has a shareholders' deficiency amounting to approximately NIS 120 million and a working capital deficiency amounting to approximately NIS 311 million. The construction of the apartment hotels Almog and Pnina (which represent the principal properties of Hof Hacarmel) is primarily financed by a bank as part of financial support agreements the balance of credit of which at balance sheet date totals approximately NIS 371 million as well as by long and short-term credit available from related parties the balance of which at balance sheet date totals approximately NIS 36 million (the share of Delek Real Estate is approximately NIS 9.8 million).

The going business operation of Hof Hacarmel is dependent upon continued credit provided mainly by banks. It is the estimate of the management of Hof Hacarmel which is based, among other things, on a financial support agreement with said bank and on a perpetual guarantee provided by related parties in favor of said bank, that Hof Hacarmel will be able to fulfill its obligations and to continue its operations.

As for guarantees that Delek Real Estate provided to Hof Hacarmel, see Note 23b(5) to the annual reports.

g. The Group encloses to its financial statements the financial statements of the affiliate, Matav.

NOTE 4:- CONTINGENT LIABILITIES

a. 1. In previous years, two requests to authorize class action lawsuits at substantial amounts were filed against an affiliate, Amisragas - the American Israeli Gas Corporation Ltd. ("Amisragas") and additional gas companies.

As for one claim which relates to an alleged breach of a liability to perform safety checks on the part of Amisragas, the Court has dismissed the financial aspect of the request and has approved to file a class action suit calling for a declaratory judgment concerning the right of customers to reclaim from Amisragas all amounts paid by them in cases where safety checks were not performed. The defendants filed an appeal on this decision with the Supreme Court.

As for the second claim which relates to the plaintiffs argument that the collection of fixed monthly fees from customers with central gas installation constitutes a breach of agreement, the Court has not yet given its decision. In the context of this lawsuit, the amount claimed from Amisragas is approximately NIS 200 million.

2. In December 2003, an additional request to authorize a class action lawsuit was filed with the Tel Aviv District Court against Amisragas and three other gas companies in the aggregate amount of NIS 1 billion. The claim relies on the possibility that the Anti-Trust Authority files a claim against the defendants concerning the existence of a cartel and coordination of prices between them in 1994 to 1999.

3. The Tax Authorities issued to Amisragas orders relating to previous years in which Amisragas' appeal to the District Court was dismissed and, later, Amisragas submitted an appeal to the Supreme Court.

It is the estimate of Amisragas' management that, at this time, the effect, if any, of said proceedings on Amisragas' businesses cannot be predicted.

As for an arbitration procedure relating to a dispute between Amisragas and the distributors of the gas, in March 2005, the parties reached a compromise which was validated by a Court decree. The liability of Amisragas toward the distributors of the gas is not materially different compared to the provision made in its financial statements.

As of June 30, 2005, the Group's investment in Amisragas totals approximately NIS 127 million.

b. Claims filed against Gadot and others addressing the activities of Gadot in the area of the Kishon river total hundreds of millions of NIS (as for details, see Note 23a(4) to the annual reports).

The above proceedings are in preliminary stages. In practice, part of the cases have not yet been heard and part are only in early proceedings.

NOTE 4:- CONTINGENT LIABILITIES (Cont.)

Hearings in the cases have not yet taken place and in most cases not all parties have submitted their opinions and affidavits. Moreover, the above claims contain difficult factual disputes and many of the facts in these cases that have to be decided upon are yet unknown to Gadot. In addition, the complexity and problematic character of the above procedures is extreme and it derives, among other things, from the fact that most of the claims address events which span many years, the number of entities involved is large, including the Government and local authorities, so that the responsibility and share of each party in the claim cannot be assessed and there is a scientific problem to determine the proximate cause between the flow of waste water and the damage claimed by the plaintiffs. Gadot's legal counsel is of the opinion that, at this stage, the risk to Gadot as a result of the above claims and proceedings cannot be assessed. Nonetheless, at this stage in the opinion of legal counsel it seems that in relation to part of said claims and proceedings the likelihood that Gadot will be charged with a substantial amount is not probable. It is the opinion of Gadot's management that in view of all the uncertainty factors that exist in all of said claims and proceedings and due to their complexity and difficulties, at this stage the outcome of these claims and procedures cannot be assessed and, accordingly, no provision has been made in respect thereof in the financial statements.

c. In previous periods, several lawsuits, including requests to authorize part as class action lawsuits were filed against Matav and others which aggregate in significant amounts (hundreds of millions of NIS). Part of the claims address the amount of subscription fees that Matav has charged from its subscribers, not connecting residents of peripheral settlements to the cable networks, non-compliance with the conditions of the Council for Cable and Broadcasting as to broadcasting a certain channel, claims for alleged breach of copyrights of various producers and breach of agreements to purchase various transmission rights, etc.

It is the opinion of Matav's management, based on the opinion of its legal counsel, that, at this stage, the chances of the above claims cannot be assessed and, accordingly, no provision has been made in respect of most of these lawsuits in the financial statements of Matav. As for additional details, see Note 4 to Matav's financial statements which are enclosed to this report.

NOTE 5:- FUEL AND REFINERY ACTIVITIES

a. Acquisition of an activity of a refinery in the U.S.:

In furtherance to what was stated in Note 9j(10) to the annual reports, in April 2005, Delek US closed a transaction for the purchase of a refinery and pipe for the transmission of crude oil in Texas, U.S.A.. The transaction was carried out by a wholly-owned subsidiary, Delek Refining Inc. ("Delek Refining"). The purchase of the refinery and pipe totaled approximately $ 72 million (approximately NIS 316 million).

The purchase price is attributed to the assets and liabilities of the acquired activity as follows:

	Reported NIS in millions
Fixed assets	157
Inventory	262
Prepaid inventory in transit and other assets	115
Accounts payable	(165)
Environmental liabilities	(53)
	316

Delek US estimates that in the coming five years an amount of approximately $ 70 million up to $ 90 million will be required to be invested in order to improve the acquired property.

As for financing raised by Delek US in connection with said acquisition, see Note 8e.

As for the operating results of the refinery, see Note 11, information about business segments.

Inventories:

Inventories of crude oil and fuel products are estimated at the lower of cost or market value. Cost is determined using the "quarter weighted average" method. Cost of fuel products includes manufacturing costs.

Environmental liabilities:

Delek Refining is subject to the provisions of law, acts, regulations, licenses and supervision in the area of the quality of the environment which are promulgated by the authorized authorities in the federal, state and local levels in its business jurisdiction. These provisions address all the activity of Delek Refining both in the field of refining and fuel products which it manufactures and in the field of transmission (fuel pipe). The legislation in the quality of the environment area is complicated and is constantly changing and updating.

NOTE 5:- FUEL AND REFINERY ACTIVITIES (Cont.)

The main legislation in the area of quality of the environment which refers to the activity of Delek Refining addresses issues of quality of the air, quality of waste water, solid/toxic waste and prevention of pollution of soil and ground water.

Delek Refining policy is to accrue environmental and clean-up related costs of a non-capital nature when it is both probable that a liability has been incurred and the amount can be reasonably estimated. Environmental liabilities represent the current estimated costs to investigate and remediate contamination at the Delek Refining's properties. This estimate is based on internal and third-party assessments of the extent of the contaminations, the selected remediation technology and review of applicable environmental regulations. Accruals for estimated costs from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Expenditures for equipment necessary for environmental issued relating to ongoing operations are capitalized.

The environmental authorities conducted two investigations against the former owners of the refinery and the oil pipe in connection with pollution discovered in the soil and in the underground water in the area of the refinery and the oil pipe. At the date of the acquisition of the refinery, the cleanup and purification of the pollution, as stated above, have not been completed.

As part of the acquisition of the refinery and the oil pipe, Delek Refining assumed the liability in connection with the existing pollution, in respect of which the investigation and cleanup and purification processes still continue, as well as, the liabilities that were imposed on the former owners due to said contamination in an amount which is estimated by Delek Refining at approximately $ 12.1 million. Delek Refining is not entitled to be indemnified by the former holders in respect of environmental damages that it was aware of at the date of acquisition, but it is entitled to a limited indemnification (in amount and time) in respect of costs that it may incur in the future as a result of discovering environmental hazards that had been caused before its acquisition of the refinery but then unknown.

In is also indicated that Delek Refining acquired an environmental insurance policy that covers certain environmental damages that may be discovered in the future.

b. During the second quarter of 2005, Delek US sold a gas station in consideration for approximately $ 3 million (approximately NIS 14 million). The gain deriving from this sale totaled approximately $ 2 million (approximately NIS 10 million) and is reported in other income in the statement of income.

NOTE 6:- REAL ESTATE ACTIVITIES

a. On April 12, 2005, subsidiaries of Delek Real Estate ("the sellers") entered into a memorandum of understandings with a third party ("the buyers"), whereby the buyers offer to the sellers to purchase 55% of the sellers' holdings in foreign companies ("the shares") that own all property rights in nine out of eleven investment properties in England ("the properties") owned by Delek Real Estate.

The net payment made to the sellers for the shares, as determined in the memorandum of understandings, will be placed at approximately £ 19.8 million (approximately NIS 162 million). The payment for the shares was determined based on property value of approximately £ 120 million (approximately NIS 984 million), net of liabilities to a financial corporation of approximately £ 84 million (approximately NIS 688 million). It was also agreed that the sellers and the buyers will enter into an agreement on the basis of an authorized business plan formed for the management of the properties.

Based upon the above memorandum of understandings, subsequent to the balance sheet date, on July 15, 2005, the parties carried out and closed the following transactions:

1. Sale of the entire rights to five investment properties in England to third parties.

2. Sale of 55% of the ownership and control of four foreign companies which own investment properties in England to the buyers. Concurrently with effecting the sale, the sellers and the buyers entered into a shareholders' agreement that encompass, among others, protecting the minority shareholders of the selling subsidiaries as well as adoption of a business plan for the management and development of the real estate properties.

3. Effecting a refinancing procedure for four real estate properties that are jointly owned with the buyers close after the sale.

Subsequent to the closing of the transaction for the sale of five real estate properties and sale of 55% of the ownership and control of four companies, as stated above, the Group derived a gain amounting to approximately NIS 62 million (approximately NIS 46 million after tax) which will be included in the statement of income for the third quarter of 2005.

b. On April 1, 2005, a 40% owned affiliate of a subsidiary of Delek Real Estate, completed the acquisition of seven foreign companies that own seven investment properties in Western Germany. In consideration for the acquisition of the companies, the affiliate paid approximately € 282 million. All properties are leased to Deutsche Telecom for periods ending on December 31, 2019.

The annual rent totals approximately € 20 million and the rent is raised by 1.5% annually until 2010 and thereafter by 1.2%. 93% of the affiliate's investment was financed by a loan from a local bank.

The investments of a subsidiary of Delek Real Estate in the affiliate totaled € 10.8 million (approximately NIS 61 million) and they were financed by shareholders' loans.

NOTE 6:- REAL ESTATE ACTIVITIES (Cont.)

c. On March 29, 2005, a subsidiary of Delek Real Estate closed a sale of its rights (75%) to a property in England which serves as a logistic center of Ericsson. The property was sold for the total payment of £ 22 million (approximately NIS 181 million) and the subsidiary of Delek Real Estate derived a pre-tax gain of £ 1.7 million (approximately NIS 15 million) which was included in other income.

NOTE 7:- DIVIDEND

a. On March 8, 2005, the Company declared the distribution of a dividend in the amount of approximately NIS 78 million to its shareholders. The dividend was paid on March 31, 2005.

b. On March 30, 2005, the Company declared the distribution of a dividend in the amount of approximately NIS 26 million to its shareholders. The dividend was paid on May 3, 2005.

c. On May 30, 2005, the Company declared the distribution of a dividend in the amount of approximately NIS 43 million to its shareholders. The dividend was paid on July 4, 2005.

d. Subsequnt to the balance sheet date, on August 29, 2005, the Company declared the distribution of a dividend in the amount of approximately NIS 90 million to its shareholders.

NOTE 8:- LONG-TERM LOANS AND DEBENTURES

a. On March 9, 2005, the financing round for a project was completed and Delek and Avner - Yam Tethys Ltd. ("SPC") issued to institutional investors in the U.S. debentures at a total scope of $ 275 million ("the debentures") in accordance with Rule 144A., of which $ 175 million with fixed interest of 5.326% per annum and $ 100 million with floating interest at the rate of Libor for three months plus a margin of 1.1% per annum.

SPC is a target company which was established for the above financing round by Delek Investments, Delek Drilling - Limited Partnership and Avner Oil Exploration - Limited Partnership (collectively, "the sponsors") based on their pro-rata holdings in the Yam Tethys project.

The debentures were issued on the basis of the sponsors' share in the cash flows generated by sale of natural gas to the Israel Electric Corporation Ltd. ("IEC") according to the contract of June 2002.

SPC provided the amount raised to the sponsors under terms similar to the terms of the debentures. It is emphasized that the sponsors have no mutual guarantees and that each is responsible for the repayment of the loan taken by it individually.

The debentures are redeemable in each quarter until August 1, 2013, in accordance with the pre-determined amortization schedule (according to an estimate of the expected transmission of gas to IEC). Despite the aforementioned, if IEC consumption is more than that expected, the debentures may be repaid earlier with floating interest, without prepayment fee after two years from the date of issuance of the debentures.

NOTE 8:- LONG-TERM LOANS AND DEBENTURES (Cont.)

On the other hand, non-repayment of the debentures on the dates stipulated in the amortization schedule if IEC consumption is less than that expected, subject to complying with certain minimum requirements, will not be considered as violation of the terms of the debentures.

A total of approximately $ 102 million of the issuance proceeds (net of raising expenses of approximately $ 7 million) was used to repay loans of the sponsors from Israeli banks, approximately $ 64 million was used to provide guarantees required under the hedging transactions for the prices of gas and under the contract with the IEC, approximately $ 28 million was used as a "security cushion" required for rating and financing and the balance to finance the expected continued investments in the Yam Tethys project.

The share of Delek Investments and Delek Drilling - Limited Partnership (consolidated partnership) in the above issuance totals an aggregate of (principal) approximately $ 155 million, of which $ 99 million with fixed interest and $ 56 million with floating interest, as elaborated above.

As collateral for the redemption of the debentures, the sponsors and SPC pledged their rights in several properties among which are Ashkelon drilling and the license to operate the facility, the contract with the IEC, insurance policies, shares of Yam Tethys Ltd. (the owner of a license for pipeline), the hedge contract and SPC bank accounts (including, among others, the revenue account in which the revenues from the IEC will be deposited, and reserve accounts in which "security cushions" have been deposited, such as for debt services and for construction of the entering point).

It is emphasized that the debentures are non-recourse for the sponsors, excluding a recourse right for assets out of the assets pledged as above; It is emphasized that agreements for the sale of gas with other customers and Noa drill are not part of the pledged assets.

Subsequnt to the issuance, other companies of Delek Group were released from the collaterals that they provided in favor of Delek Drillings and Avner.

In addition to said collaterals, the sponsors committed to several covenants including, among others, the following:

1. Not to decrease their ownership in the Ashkelon drill.

2. Not to vote in the operating committee in favor of the execution of additional activities not for the purpose of producing gas for its supply to the IEC ("additional activities") unless one of the following takes place:

    a) The sponsors have procured full financing for the additional activities and they have confirmed in writing to the trustee of the debentures that such financing is committed and dedicated for the additional activities until their full completion.

    b) Voting in favor of the additional activities was approved by the majority of the debenture holders.

NOTE 8:- LONG-TERM LOANS AND DEBENTURES (Cont.)

c) The rating agencies have confirmed that no rating downgrade is expected due to the commitment to execute the additional activities.

3. Not to commit or to agree to an extension or change in the production array unless all of the following conditions are met:

a) The trustee of the debentures received an opinion, according to which the extension or change is not expected to have a material adverse effect on the supply to the IEC.

b) The sponsors conducted the necessary changes in insurance as a result of the change or the extension.

b. During the first quarter of 2005, the Company issued debentures (series F) by a private placement to institutional investors at the scope of NIS 300 million par value. The debentures are linked to the Israeli CPI and bear annual interest at the rate of 5.25%, payable twice a year. The principal of the debentures is redeemable in five equal annual payments from 2006 to 2010.

c. In March 2005, the Company issued by a private placement NIS 200 million par value of debentures (series G) redeemable in four equal annual payments in each of the years 2008 to 2011 and bearing annual interest at the rate of 3.95% and 400 thousand stock options each of which is exercisable into one Ordinary share of NIS 1 par value of the Company (under the conditions stipulated below). The debentures were issued for their full price and the stock options were issued without consideration.

The stock options were issued in five series of 80 thousand stock options each which are exercisable into the Company's shares under the following terms and dates:

Stock options	Exercise increment at balance sheet date *) (NIS)	Exercisable up to
Series 1	433	March 2006
Series 2	477	March 2007
Series 3	517	March 2008
Series 4	553	March 2009
Series 5	584	March 2010

*) The exercise increment is linked to the Israeli CPI (subject to adjustments).

During the second quarter of 2005, 49,020 stock options (series 1) were exercised into 49,020 Ordinary shares of NIS 1 par value of the Company for a total consideration of NIS 21 million.

NOTE 8:- LONG-TERM LOANS AND DEBENTURES (Cont.)

d. In March 2005, Delek Petroleum Ltd. ("Delek Petroleum") issued by a private placement additional NIS 202,252,475 par value of debentures (series D) in consideration for approximately NIS 204 million. The debentures are redeemable in one payment on November 15, 2010, while giving the investors an option for early redemption in November 2006 or 2008 (the dates of change of interest).

The debentures are linked to the Israeli CPI and bear annual linked interest at the following rates: in the first and second year - 5.1%; in the third and fourth year - 5.3% and in the fifth and sixth year - 5.5%. The interest is payable annually beginning November 20, 2005.

e. For the purpose of financing the acquisition of the refinery and the oil pipe in the U.S. (as stated in Note 5a above), Delek US raised loans from banks in the U.S. in the total of approximately $ 50 million bearing floating interest at the rate of Libor + 1.375% and repayable in April 2007. Further, for the purpose of financing the working capital and the operation of the refinery, a consortium of banks in the U.S. extended a 4-year credit facility of approximately additional $ 250 million to Delek US bearing floating interest at the average rate of Libor + 2%.

As collateral for the credit that Delek US received from the banks in the U.S., Delek US pledged certain assets and has undertaken to meet certain financial covenants.

f. In April 2005, a subsidiary of Delek US effected a refinancing and raised from banks in the U.S. loans in the total of $ 205 million for the purpose of repayment of loans that were taken from banks in the past. Of the above amount, a loan of $ 165 million bearing floating interest at the rate of Libor + 2.75% and repayable in quarterly payments of around 0.25% over six years; the loan principal (about 94%) is repayable in November 2011. The remaining amount of approximately $ 40 million constitutes current credit facility for five years with floating interest at the rate of Libor + 1.75%.

Costs of approximately $ 14 million (approximately NIS 60 million) associated with the refinancing were deferred, included in other assets and amortized over the term of the loans. Other costs associated with raising loans of approximately $ 3 million (approximately NIS 14 million) were charged to the statement of income and included as financial expenses.

As collateral for loans received, the subsidiary of Delek US pledged all its assets in favor of banks and has undertaken to meet certain financial covenants.

g. As for the public issuance of debentures by Delek Real Estate and Gadot, see Notes 3a and b above.

NOTE 9:- SHAREHOLDERS' EQUITY

a. During the second quarter of 2005, 36,291,076 debentures (series A1) whose carrying amount totaled approximately NIS 37 million, were converted into 100,319 Ordinary shares of NIS 1 par value each of the Company.

8,999,221 debentures (series E) whose carrying amount totaled approximately NIS 10 million, were also converted into 22,634 Ordinary shares of NIS 1 par value each of the Company.

Subsequnt to the above conversions, the Company's issued and outstanding share capital is composed of 9,905,708 Ordinary shares of NIS 1 par value each of the Company.

Subsequent to the balance sheet date, additional 10,469,979 debentures (series A1) whose carrying amount at June 30, 2005 totaled approximately NIS 11 million, were converted into 29,296 Ordinary shares of NIS 1 par value each of the Company. 7,064,271 debentures (series A2) whose carrying amount at June 30, 2005 totaled approximately NIS 7 million, were also converted into 17,341 Ordinary shares of NIS 1 par value each of the Company.

b. As for exercise of stock options into the Company's shares, see Note 8c.

NOTE 10:- TAXES ON INCOME

On July 25, 2005, the Knesset (Israeli Parliament) passed the Law for the Amendment of the Income Tax Ordinance (No. 147), 2005, which prescribes, among others, a gradual decrease in the corporate tax rate in Israel to the following tax rates: in 2006 - 31%, in 2007 - 29%, in 2008 - 27%, in 2009 - 26% and in 2010 and thereafter - 25%.

The Group's management estimates that the effect of the amendment on the balances of deferred taxes as of June 30, 2005 is expected to result in an increase in income tax expense in the amount of approximately NIS 11 million, which expense will be recorded in the financial statements as of September 30, 2005.

NOTE 11:- INFORMATION ABOUT BUSINESS SEGMENTS

The acquisition of the refinery and the pipe for transmission of crude oil, as stated in Note 5a above, constitute a new business segment for the Group and is presented as an independent business segment.

	Fuel products - Israel	Operation of gas stations and convenience stores in the U.S.	Operation of a refinery in the U.S.	Segment of vehicles	Segment of real estate	Segment of bio-chemistry	Segment of oil and gas exploration	Other segments	Adjust-ments (3)	Total
	Reported NIS in millions									
Six months ended June 30, 2005 (unaudited):										
Segment revenues (1)	2,085	2,267	842	1,146	282	186	78	73	1	6,960
Segment results (2)	38	42	42	180	95	34	43	5	(12)	467

	Fuel products - Israel	Operation of gas stations and convenience stores in the U.S.	Operation of a refinery in the U.S.	Segment of vehicles	Segment of real estate	Segment of bio-chemistry	Segment of oil and gas exploration	Other segments	Adjust-ments (3)	Total
	Reported NIS in millions									
Six months ended June 30, 2004 (unaudited):										
Segment revenues (1)	1,687	1,808	-	1,178	193	169	44	82	-	5,161
Segment results (2)	35	32	-	214	105	31	23	-	(9)	431

(1) Segment revenues less excise, customs, purchase taxes and royalties.

(2) Represent segment operating income.

(3) Including expenses not attributed to segments.

NOTE 11:- INFORMATION ABOUT BUSINESS SEGMENTS (Cont.)

	Fuel products - Israel	Operation of gas stations and convenience stores in the U.S.	Operation of a refinery in the U.S.	Segment of vehicles	Segment of real estate	Segment of bio-chemistry	Segment of oil and gas exploration	Other segments	Adjust-ments (3)	Total
	Reported NIS in millions									
Three months ended June 30, 2005 (unaudited):										
Segment revenues (1)	1,102	1,227	842	664	137	94	39	35	1	4,141
Segment results (2)	14	37	42	103	47	18	21	3	(9)	276

	Fuel products - Israel	Operation of gas stations and convenience stores in the U.S.	Operation of a refinery in the U.S.	Segment of vehicles	Segment of real estate	Segment of bio-chemistry	Segment of oil and gas exploration	Other segments	Adjust-ments (3)	Total
	Reported NIS in millions									
Three months ended June 30, 2004 (unaudited):										
Segment revenues (1)	856	1,038	-	637	94	87	37	46	-	2,795
Segment results (2)	16	24	-	109	51	18	22	1	(7)	234

(1) Segment revenues less excise, customs, purchase taxes and royalties.

(2) Represent segment operating income.

(3) Including expenses not attributed to segments.

NOTE 11:- INFORMATION ABOUT BUSINESS SEGMENTS (Cont.)

	Fuel products - Israel	Operation of gas stations and convenience stores in the U.S.	Operation of a refinery in the U.S.	Segment of vehicles	Segment of real estate	Segment of bio-chemistry	Segment of oil and gas exploration	Other segments	Adjust-ments (3)	Total
	Reported NIS in millions									
Year ended December 31, 2004 (audited)										
Segment revenues (1)	3,711	4,025	-	2,421	503	343	141	220	-	11,364
Segment results (2)	56	70	-	405	242	66	79	-	(13)	905

(1) Segment revenues less excise, customs, purchase taxes and royalties.

(2) Represent segment operating income.

(3) Including expenses not attributed to segments.

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