**DELEK GROUP LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF MARCH 31, 2006**

**UNAUDITED**

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The Board of Directors
DELEK GROUP LTD.

Re: Review of unaudited interim consolidated financial statements for the three months ended March 31, 2006

At your request, we have reviewed the interim consolidated balance sheet of Delek Group Ltd. ("the Group") as of March 31, 2006, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the 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 financial statements of certain subsidiaries and partnerships, whose assets constitute approximately 27% of total consolidated assets as of March 31, 2006, and whose revenues constitute approximately 5% of total consolidated revenues for the 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 associated companies and partnerships, the investment in which as of March 31, 2006, amounted to NIS 824 million and the Group's equity in the earnings of these associated companies and partnerships amounted to NIS 56 million for the three months then ended.

A review is substantially less in scope than an audit in accordance with generally accepted auditing standards in Israel, 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 matters described in Note 4 to the financial statements regarding claims filed against investee companies.

Tel-Aviv, Israel
May 30, 2006

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

**CONSOLIDATED BALANCE SHEETS**

| | March 31, 2006 | March 31, 2005 | December 31, 2005 |
|---|---|---|---|
| | Unaudited | | Audited |
| | Reported NIS in millions | | |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | 738 | 601 | 835 |
| Short-term investments | 470 | 555 | 681 |
| Trade receivables | 2,501 | 1,791 | 2,356 |
| Other accounts receivable | 445 | 404 | 539 |
| Inventories | 1,506 | 815 | 1,679 |
| Buildings and land for sale | 65 | 65 | 41 |
| | 5,725 | 4,231 | 6,131 |
| LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES: | | | |
| Investments in investee and other companies | 3,082 | 1,754 | 2,586 |
| Real estate for lease | 2,384 | 2,884 | 2,316 |
| Land for construction | 460 | 402 | 462 |
| Long-term loans, deposits and receivables | 469 | 410 | 429 |
| Investments in oil and gas exploration | 790 | 826 | 794 |
| | 7,185 | 6,276 | 6,587 |
| FIXED ASSETS, NET | 2,573 | 2,031 | 2,518 |
| OTHER ASSETS AND DEFERRED CHARGES, NET | 647 | 750 | 747 |
| | 16,130 | 13,288 | 15,983 |

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

**CONSOLIDATED BALANCE SHEETS**

| | March 31, 2006 | March 31, 2005 | December 31, 2005 |
|---|---|---|---|
| | Unaudited | Unaudited | Audited |
| | Reported NIS in millions | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Short-term credit from banks and others | 3243 | 2,513 | 3,528 |
| Trade payables | 1,366 | 837 | 1,633 |
| Other accounts payable | 713 | 579 | 627 |
| Dividend declared | 61 | 26 | - |
| | 5,383 | 3,955 | 5,788 |
| LONG-TERM LIABILITIES: | | | |
| Long-term loans from banks and others | 4,054 | 4,574 | 4,123 |
| Debentures convertible into Company shares | 195 | 604 | 205 |
| Debentures convertible into shares of subsidiaries | 306 | 44 | 315 |
| Other debentures | 2,410 | 1,920 | 2,487 |
| Accrued severance pay, net | 13 | 13 | 13 |
| Deferred taxes | 253 | 172 | 214 |
| Other liabilities | 231 | 78 | 107 |
| | 7,462 | 7,405 | 7,464 |
| MINORITY INTERESTS | 727 | 407 | 455 |
| SHAREHOLDERS' EQUITY | 2,558 | 1,521 | 2,276 |
| | 16,130 | 13,288 | 15,983 |

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

| May 30, 2006 | | | |
|---|---|---|---|
| Date of approval of the financial statements | G. Last<br>Chairman of the Board of Directors | A. Bartfeld<br>CEO<br>Responsible for Financial Matters | B. Davidai<br>Director |

## CONSOLIDATED STATEMENTS OF INCOME

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 2006 | 2005 | 2005 |
| | Unaudited | | Audited |
| | Reported NIS in millions (except per share data) | | |
| Revenues | 6,004 | *) 3,404 | 20,347 |
| Less – excise and royalties | 536 | *) 487 | 2,014 |
| | 5,468 | 2,917 | 18,333 |
| Cost of revenues | 4,831 | *) 2,465 | 15,802 |
| Gross profit | 637 | 452 | 2,531 |
| Selling, marketing and gas station operating expenses | 224 | 199 | 861 |
| General and administrative expenses | 100 | 62 | 337 |
| Operating income | 313 | 191 | 1,333 |
| Financial expenses, net | 137 | 98 | 594 |
| | 176 | 93 | 739 |
| Gain from realization of investments in investees and other companies, net | 183 | 9 | 139 |
| Other income, net | 4 | 23 | 113 |
| Income before taxes on income | 363 | 125 | 991 |
| Taxes on Income | 71 | 39 | 339 |
| Income after taxes on income | 292 | 86 | 652 |
| Group's share in earnings of affiliated companies and partnerships, net | 78 | 52 | 146 |
| Minority interest in earnings of subsidiary, net | (60) | (52) | (176) |
| Net income | 310 | 86 | 622 |
| Net earnings per share (in reported NIS) **) | | | |
| Basic net earnings per share | 28.32 | 8.79 | 61.84 |
| Diluted net earnings per share | 26.82 | 8.35 | 58.05 |

*) Reclassified.
**) 2005 - Restated, see Note 2b(2).

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital | Additional paid-in capital | Capital reserves | Receipts from conversion option | Retained earnings | Dividend declared subsequent to balance sheet date | Total |
|---|---|---|---|---|---|---|---|
| | Unaudited | | | | | | |
| | Reported NIS in millions | | | | | | |
| Balance as of January 1, 2006 (audited) | 12 | 1,268 | 85 | - | 850 | 61 | 2,276 |
| Splitting of conversion option component of convertible debentures (net of issuance expenses) | - | - | - | 6 | - | - | 6 |
| Foreign currency translation adjustments of investees | - | - | 17 | - | - | - | 17 |
| Dividend | - | - | - | - | - | (61) | (61) |
| Conversion of debentures into Company shares | - | 7 | - | - | - | - | 7 |
| Realization of warrants into Company shares | - | 3 | - | - | - | - | 3 |
| Net income | - | - | - | - | 310 | - | 310 |
| Dividend declared subsequent to balance sheet date | - | - | - | - | (150) | 150 | - |
| Balance as of March 31, 2006 | 12 | 1,278 | 102 | 6 | 1,010 | 150 | 2,558 |

| | Share capital | Additional paid-in capital | Capital reserves | Retained earnings | Dividend declared subsequent to balance sheet date | Total |
|---|---|---|---|---|---|---|
| | Unaudited | | | | | |
| | Reported NIS in millions | | | | | |
| Balance as of January 1, 2005 (audited) | 11 | 771 | 90 | 569 | 104 | 1,545 |
| Decrease in unrealized losses from interest swap transaction in affiliate | - | - | 2 | - | - | 2 |
| Foreign currency translation adjustments of investees | - | - | (8) | - | - | (8) |
| Dividend | - | - | - | - | (104) | (104) |
| Net income | - | - | - | 86 | - | 86 |
| Dividend declared subsequent to balance sheet date | - | - | - | (43) | 43 | - |
| Balance as of March 31, 2005 | 11 | 771 | 84 | 612 | 43 | 1,521 |

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital | Additional paid-in capital | Capital reserves | Retained earnings | Dividend declared subsequent to balance sheet date | Total |
|---|---|---|---|---|---|---|
| | Audited | | | | | |
| | Reported NIS in millions | | | | | |
| Balance as of January 1, 2005 | 11 | 771 | 90 | 569 | 104 | 1,545 |
| Realization of interest swap transaction in foreign affiliate | - | - | 11 | - | - | 11 |
| Foreign currency translation adjustments of investees | - | - | (16) | - | - | (16) |
| Dividend paid | - | - | - | (280) | (104) | (384) |
| Conversion of debentures into Company shares | 1 | 357 | - | - | - | 358 |
| Realization of warrants into Company shares | - | 140 | - | - | - | 140 |
| Net income | - | - | - | 622 | - | 622 |
| Dividend declared subsequent to balance sheet date | - | - | - | (61) | 61 | - |
| Balance as of December 31, 2005 | 12 | 1,268 | 85 | 850 | 61 | 2,276 |

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | **2006** | **2005** | **2005** |
| | **Unaudited** | | **Audited** |
| | **Reported NIS in millions** | | |
| Cash flows from operating activities: | | | |
| Net income | 310 | 86 | 622 |
| Adjustments required to reconcile net income to net cash provided by operating activities (a) | (217) | 42 | (69) |
| Net cash provided by operating activities | 93 | 128 | 553 |
| Cash flows from investing activities: | | | |
| Acquisition of fixed and other assets | (86) | (59) | (322) |
| Investments in real estate for construction and leasing | (71) | (6) | (347) |
| Proceeds from realization of fixed assets and real estate | 3 | 111 | 316 |
| Realization (acquisition) of marketable securities, net | 182 | (11) | (262) |
| Collection of long-term loans granted | 33 | 33 | 56 |
| Withdrawal (deposit) of deposits, net | 30 | (410) | (358) |
| Increase in joint ventures for oil and gas exploration | (8) | - | (6) |
| Proceeds from realization of investments in investees and other companies | - | 30 | 50 |
| Investments in investees and other companies | (393) | (276) | (1,130) |
| Acquisition of newly consolidated subsidiaries and operations (b) | - | - | (487) |
| Proceeds from realization of investments in previously consolidated subsidiaries (c) | 9 | - | 192 |
| Repayment (granting) of loans to others, net | 10 | (6) | (25) |
| Net cash used in investing activities | (291) | (594) | (2,323) |
| Cash flows from financing activities: | | | |
| Short-term credit from banks and others, net | (263) | (767) | (220) |
| Long-term loans received | 423 | 540 | 1,960 |
| Long-term loans repaid | (481) | (544) | (1,978) |
| Issuance of shares to minority interest in subsidiaries, net | 503 | - | 163 |
| Dividend paid | - | (78) | (384) |
| Dividend paid to minority in subsidiaries | (22) | - | (125) |
| Realization of warrants into Company shares | 3 | - | 140 |
| Receipts on account of options exercised into debentures in subsidiary | - | - | 58 |
| Issuance of debentures and debentures convertible into shares, net | - | 1,417 | 2,733 |
| Redemption of debentures and debentures convertible into shares | (69) | (46) | (296) |
| Net cash provided by financing activities | 94 | 522 | 2,051 |
| Translation differences in respect of cash balances held by autonomous investees | 7 | - | 9 |
| Increase (decrease) in cash and cash equivalents | (97) | 56 | 290 |
| Cash and cash equivalents at beginning of period | 835 | 545 | 545 |
| Cash and cash equivalents at end of period | 738 | 601 | 835 |

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 2006 | 2005 | 2005 |
| | Unaudited | | Audited |
| | Reported NIS in millions | | |
| (a) Adjustments required to reconcile net income to net cash provided by operating activities: | | | |
| Income and expenses not involving cash flows: | | | |
| Depreciation, depletion, amortization and impairment of assets | 77 | 69 | 350 |
| Deferred taxes, net | 28 | 2 | 49 |
| Decrease in accrued severance pay, net | - | (3) | (4) |
| Increase in value of loans granted, net | (2) | (6) | (17) |
| Gain from realization of fixed assets, real estate and investments, net | (185) | (26) | (246) |
| Group's equity in undistributed earnings of affiliates and partnerships, net (1) (2) | (93) | (6) | (51) |
| Impairment (increase) in value of securities and deposits, net | (1) | (3) | 1 |
| Increase in value of long-term liabilities, net | 18 | 2 | 160 |
| Minority interest in earnings of subsidiaries, net | 60 | 52 | 176 |
| Changes in asset and liability items: | | | |
| Decrease (increase) in trade receivables | (140) | 40 | (605) |
| Decrease (increase) in other accounts receivable | 22 | (36) | (86) |
| Decrease (increase) in inventories | 183 | 241 | (103) |
| Increase (decrease) in trade payables | (275) | (256) | 363 |
| Increase (decrease) in other accounts payable | 91 | (28) | (56) |
| | (217) | 42 | (69) |
| (1) Net of dividends received | - | 46 | 101 |
| (2) Net of tax effect for the Group's share in earnings of affiliates | 15 | - | 6 |
| (b) Acquisition of newly consolidated subsidiaries and operations: | | | |
| Working capital, net (excluding cash) | - | - | (211) |
| Fixed assets, real estate, investments and other assets | - | - | (339) |
| Long-term liabilities | - | - | 63 |
| | - | - | (487) |

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 2005 | 2005 | 2005 |
| | Unaudited | | Audited |
| | Reported NIS in millions | | |
| (c) Proceeds from realization of investments in previously consolidated subsidiaries: | | | |
| Working capital (excluding cash) | 9 | - | 27 |
| Investments in affiliates | - | - | (75) |
| Real estate for lease and construction, net | - | - | 762 |
| Deferred charges, net | - | - | 33 |
| Loans from banks | - | - | (644) |
| Gain from realization of investments in subsidiaries | - | - | 89 |
| | 9 | - | 192 |
| (d) Significant non-cash operations: | | | |
| Realization of real estate for lease by credit | - | 71 | - |
| Acquisition of fixed assets on credit | 23 | 2 | 22 |
| Dividend declared | 61 | 26 | - |
| Receivables in respect of sale of investments | - | - | 13 |
| Dividend and earnings payable to minority in consolidated corporations | - | - | 72 |
| Dividend and earnings receivable from affiliated corporations | - | - | 70 |
| Conversion of debentures into Company shares | 7 | - | 358 |
| Conversion of debentures into shares of subsidiary | - | - | 40 |

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 March 31, 2006, and for the three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Group's audited annual financial statements and accompanying notes as of December 31, 2005 and for the year then ended ("annual financial statements").

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board and in accordance with Chapter D 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, except as described in b below.

b. Initial adoption of new Accounting Standards:

   1. Initial adoption of Accounting Standard No. 20 (Revised) regarding the accounting for goodwill and intangible assets upon acquisition of investee:

      On January 1, 2006, the Group adopted the provisions of Accounting Standard No. 20 (Revised), "Accounting for Goodwill and Intangible Assets upon Acquisition of Investee" ("the Standard"), of the Israel Accounting Standards Board. The Standard prescribes the accounting treatment of goodwill and intangible assets upon the acquisition of a subsidiary and an investee which is not a subsidiary, including a company under joint control. In accordance with the provisions, the Standard is being applied prospectively and comparative data have not been restated.

      The principal changes promulgated by the Standard in contrast to the principles applied prior to January 1, 2006 are: allocating the excess of cost of an investment in an investee also to the investee's identifiable intangible assets; distinguishing between intangible assets with a finite useful life and intangible assets with an indefinite useful life; immediate recognition as a gain in the statement of income of the balance of negative goodwill arising upon acquisition and remaining after deduction from the cost of the investee's intangible assets and non-monetary assets; the discontinuance of the systematic amortization of goodwill and intangible assets with an indefinite useful life; assessment for impairment of goodwill in respect of a subsidiary or jointly controlled company and of intangible assets with an indefinite useful life on an annual basis, or more frequently, if there are indications of impairment; distinguishing between goodwill relating to the acquisition of a subsidiary and a jointly controlled company as opposed to that of an affiliate in respect of the assessment of impairment, such that impairment of goodwill for an affiliate is evaluated in the context of the assessment of impairment of the investment as a whole. Impairment is accounted for in accordance with Accounting Standard No. 15, "Impairment of Assets".

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

As a result of the initial adoption of the provisions of the Standard, the Group discontinued the systematic amortization of goodwill (including the Group's share in the existing goodwill in the books of affiliates) which amounted to approximately NIS 12 million and NIS 55 million for the three months ended March 31, 2005, and for the year ended December 31, 2005, respectively. The balance of goodwill as of January 1, 2006 is approximately NIS 860 million.

2. Initial adoption of Accounting Standard No. 21 regarding earnings per share:

On January 1, 2006 ("the effective date"), the Group adopted the provisions of Accounting Standard No. 21, "Earnings per Share" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes the principles for the computation and presentation of earnings (loss) per share in the financial statements and supersedes Opinion No. 55 of the Institute of Certified Public Accountants in Israel.

According to the Standard, earnings per share are computed based on the number of Ordinary shares (and not per NIS 1 par value of the shares as computed until the effective date). Basic earnings per share include only shares which are outstanding during the period whereas convertible securities (such as convertible debentures and options) are only included in the computation of diluted earnings per share, in contrast to the principles applied until the effective date according to which in cases where a convertible security is likely to be converted, it is included in the computation of basic earnings per share. In addition, convertible securities which are converted during the period, are included in diluted earnings per share up to the date of conversion and are included in basic earnings per share from that date. Pursuant to the Standard, options are included in diluted earnings when their exercise results in the issuance of shares for a consideration which is less than the market price of the shares. The amount of dilution is the market price of the shares minus the amount that would have been received as a result of the conversion of the options into shares. This is in contrast to the method of computation prescribed by Opinion No. 55, which also included adjustments to earnings.

The Group's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Group.

As a result of the initial adoption of the provisions of the Standard, the comparative data of earnings per share relating to previous periods have been restated. These comparative data, prior to restatement, were NIS 8.79 and NIS 58.0 for basic earnings per share (per NIS 1 par value) for the three months ended March 31, 2005, and for the year ended December 31, 2005, respectively. The comparative data of diluted earnings per share are presented in these financial statements for the first time.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

3. Initial adoption of Accounting Standard No. 22 regarding financial instruments: disclosure and presentation:

   On January 1, 2006 ("the effective date"), the Group adopted the provisions of Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes principles for the presentation and disclosure of financial instruments and supersedes Opinions No. 48 and 53 of the Institute of Certified Public Accountants in Israel. In accordance with the provisions, the Standard is being applied prospectively and comparative data have not been restated or reclassified.

   The principal changes promulgated by the Standard in contrast to the principles applied prior to January 1, 2006 are: transaction costs in respect of a financial liability are deducted from the liability and are taken into account in the computation of the effective interest rate; upon the issuance of several types of financial instruments in a single unit (shares, debentures and warrants), the components of the unit, including related transaction costs, are classified separately upon initial recognition into the various financial instruments based on their fair value; compound financial instruments that include both a liability and an equity component (such as convertible debentures) are bifurcated between the equity component (receipts from conversion option) and the liability component and each component is classified separately (net of transaction costs attributed to the different components).

   The Standard supersedes the provisions of Opinions No. 48 and 53 of the Institute of Certified Public Accountants in Israel, according to which in certain circumstances, an investor was required to record a provision for a loss resulting from a decrease in its holdings in an investee, due to the probable conversion of convertible instruments issued by the investee ("loss provision").

   As a result of the initial adoption of the provisions of the Standard:

   a) On January 1, 2006, the Group recorded the equity component of debentures convertible into shares of the Company and of its subsidiaries in shareholders' equity as "receipts from conversion option" and in minority interests thereby increasing the Group's shareholders' equity by pproximately NIS 6 million and minority interests by approximately NIS 1 million and reducing its liabilities in the amount of approximately NIS 7 million.

   b) Transaction costs in respect of a financial liability are deducted from the liability and taken into account in the computation of the effective interest rate. The balance of issuance expenses and expenses of recruiting debentures and loans, amounting to approximately NIS 106 million as of December 31, 2005, presented in other assets, was offset on January 1, 2006, from the balance of the debentures and loans.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

4. Initial adoption of Accounting Standard No. 24 regarding share-based payment:

   On January 1, 2006, the Group adopted the provisions of Accounting Standard No. 24, "Share-Based Payment" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes rules for measurement and other requirements for three types of share-based transactions:

   a) Equity-settled share-based payment transactions;
   b) Cash-settled share-based payment transactions;
   c) Share-based payment transactions which allow the entity or counterparty to choose the manner of settlement.

   For equity-settled share-based payment transactions, the Standard is applicable to grants made subsequent to March 15, 2005, and which had not yet vested as of January 1, 2006. The Standard is also applicable to modifications that were made to the terms of equity-settled transactions subsequent to March 15, 2005, even if the modifications relate to grants that were made before this date. In the financial statements for 2006, comparative data in the financial statements for 2005 are to be restated in order to reflect the expense relating to the aforementioned grants.

   The Standard applies to all transactions in which a share-based payment is made in respect of purchase of goods or services, including transactions with employees or other parties that must be settled using the Group's equity instruments or in cash. Concurrently with the recording of an expense in the statement of income, shareholders' equity is increased when the share-based payment transaction is settled in equity instruments, or a liability is recorded when the transaction is settled in cash.

   As a result of the initial adoption of the provisions of the Standard, the Group included in the statement of income under general and administrative expenses for the three months ended March 31, 2006 a total of approximately NIS 14 million in respect of share-based transactions in the Group companies and a corresponding increase in liabilities and minority interests, see also Note 3. The effect on the data of 2005 was immaterial.

5. Initial adoption of Accounting Standard No. 25 regarding revenues:

   On January 1, 2006, the Group adopted the provisions of Accounting Standard No. 25, "Revenues" ("the Standard") of the Israel Accounting Standards Board. The Standard deals with the recognition of revenue from three types of transactions: sale of goods, rendering of services and revenue from interest, royalties and dividends and prescribes the required accounting treatment (principles of recognition, measurement, presentation and disclosure) regarding these three types of transactions.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The following are the principal changes promulgated by the Standard in contrast to the principles applied prior to January 1, 2006. Revenues should be measured at the fair value of the consideration received and/or receivable. If the consideration is not received on the date of the transaction, the revenue should be measured by discounting the future consideration using the prevailing market rate of interest. In cases where components of one transaction may be separately identified, revenue should be measured separately for each component if that reflects the substance of the transaction. Revenues recognized in the financial statements should only include the amounts received and/or receivable by the Group on its own account. Accordingly, amounts collected on behalf of a third party are not revenues of the Group.

In order to determine whether the Group is required to report its revenues on a gross basis (since it acts as a principal supplier) or on a net basis (since it performs as an agent), as of January 1, 2006, the Group has adopted the provisions of Interpretation No. 8, "Reporting Revenues on a Gross or Net Basis" ("the Interpretation"). Pursuant to the Interpretation, recognition of revenues on a gross or net basis shall be determined based on the nature of the risks and rewards that the Group has from the transaction. The Interpretation sets forth indicators which should be taken into consideration in determining the basis of reporting (gross or net).

As for amounts reported as revenues but represent amounts collected on behalf of a third party in accordance with the Standard, or for revenues which had not been reported on a gross or net basis, as required by the Interpretation, the relevant provisions of the Standard and Interpretation are to be applied retrospectively, including a restatement of the comparative data for previous periods.

The initial adoption of the provisions of the Standard did not have a material impact on the interim consolidated financial statements, including with respect to sale transactions in credit since the Group's customary credit term for its customers in most areas of activity does not exceed four months and does not deviate from accepted credit terms in other areas of activity.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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

| | | Representative exchange rate of | | | | |
|---|---|---|---|---|---|---|
| | **Israeli CPI** | **GBP** | **Canadian dollar** | **U.S. dollar** | **100 Japanese yen** | **Euro** |
| **As of** | **Points *)** | | | **NIS** | | |
| March 31, 2006 | 110.6 | 8.127 | 4.020 | 4.665 | 3.972 | 5.662 |
| March 31, 2005 | 106.8 | 8.206 | 3.599 | 4.361 | 4.078 | 5.649 |
| December 31, 2005 | 110.0 | 7.941 | 3.956 | 4.603 | 3.961 | 5.446 |
| **Rate of increase (decrease) for the period** | **%** | | | **%** | | |
| March 2006 (3 months) | 0.6 | 2.3 | 1.6 | 1.3 | 0.3 | 3.9 |
| March 2005 (3 months) | (0.6) | (1.2) | 0.5 | 1.2 | (2.9) | 3.9 |
| December 2005 (12 months) | 2.4 | (4.6) | 10.5 | 6.8 | (5.7) | (7.3) |

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

**NOTE 3:- INVESTMENTS IN INVESTES AND OTHER COMPANIES**

a. Real estate operations:

1. On January 26, 2006, Delek Real Estate ("Delek Real Estate") allocated to Tarshish Holdings and Investment Hapoalim Ltd. ("Tarshish") (a company wholly-owned by Bank Hapoalim Ltd.), 12,461,673 Ordinary shares of Delek Real Estate, representing 11% of the share capital of Delek Real Estate, in return for approximately NIS 260 million (approximately NIS 255 million after dividend adjustment and issuance expenses). Tarshish was also granted an option for an additional period of 18 months, to acquire – by private placement and at the same price at which the shares were allocated (linked to the U.S. dollar and with interest equal to Libor + 2%) – a quantity of shares equal to 12.36% of the shares allocated by Delek Real Estate as a result of the exercise of options that shall be allocated to employees of Delek Real Estate or as a result of a conversion into shares of the debentures (Series C) issued by Delek Real Estate.

   At the same date (January 26, 2006), Delek Real Estate acquired all the rights (13.04%) of Diyur BP Ltd. ("Diyur") (a company wholly-owned by Bank Hapoalim Ltd.) in the share capital of Industrial Buildings Ltd. ("Industrial Buildings") in return for approximately NIS 258 million (including expenses related to the acquisition). Together with previous holdings of Delek Real Estate in Industrial Buildings, Delek Real Estate held 13.38% of Industrial Buildings shares at that date. On March 6, 2006, Delek Real Estate acquired 2,000,000 additional shares of Industrial Buildings from third parties in return for NIS 14 million, thereby bringing its total holdings as of March 31, 2006, to 43,388,797 shares, representing 14.02% of Industrial Buildings (12.64% fully diluted). Delek Real Estate possesses an agreement with Jerusalem Economic Corporation Ltd. (controlling shareholder in Industrial Buildings) whereby Delek Real Estate possesses the right to appoint two directors in Industrial Buildings if and when Delek Real Estate shall hold at least 15% of the shares of Industrial Buildings.

   Moreover, Delek Real Estate granted two options (valid until June 15, 2006), whereby Diyur and one of its investee companies (at a rate of 20%) shall be eligible to demand that Delek Real Estate acquire from them their rights to real estate on which the Bavli Project is intended to be developed, in return for a total sum of approximately $ 43 million (approximately NIS 194 million). It should be noted that a wholly-owned subsidiary of Delek Real Estate holds half the rights to the real estate that is the subject of the said combination transaction.

   Subsequent to the issuance of shares, as stated above, the Group's holding rate in Delek Real Estate has decreased to approximately 72%. The earnings generated for the Group as a result of this offering amounted to approximately NIS 124 million and were included in the statement of income as "Gain from realization of investments in investees".

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

2. In January 2006, a plan was approved for the allocation of 7,317,474 warrants to employees and directors of Delek Real Estate. These may be exercised into 7,317,474 Ordinary shares of Delek Real Estate, in accordance with the provisions of Section 102 of the Income Tax Ordinance.

   Of the said sum, 926,262 options were granted to the Group's CEO (currently serving as Chairman of the Board of Delek Real Estate). The eligibility to exercise the options will be formulated over 5 years in accordance with predetermined conditions (approximately 20% every year). The economic value of the options granted totaled NIS 78 million (the share of the Group's CEO is NIS 9.7 million) and will be carried to the statement of income over the period of eligibility.

   A wage expenditure of NIS 11 million was included under general and administrative expenses for the three months ended March 31, 2006, against a corresponding increase in minority interests.

3. On January 25 and on February 16, 2006, the board of directors of Delek Real Estate and the general meeting of shareholders of Delek Real Estate, respectively, approved the engagement of a subsidiry of Delek Real Estate ("the Agreement") with R.G. Naor Management Services Ltd. ("Naor"), a company wholly-owned by the son-in-law of the controlling shareholder in the Group.

   Pursuant to the agreement, Naor shall be eligible to receive a special (phantom) bonus ("the Bonus") once a year starting June 1, 2006, for a period of five years (five tranches), provided that Naor continues to provide the subsidiary with services pursuant to the agreement for provision of consulting services between them, dated June 21, 2004. The level of the bonus for each year will be derived from the difference between the price of the shares of Delek Real Estate on the stock exchange and the exercise price as determined between the parties, subject to adjustments, for each eligibility date multiplied by 416,818 shares.

   The payment of the bonus will be made by written demand that Naor shall submit to the subsidiary and its level will be determined at the date the demand was submitted, provided that the demand letter is submitted subsequent to Naor's eligibility for said bonus, as stated above and no later than December 31, 2010. In the event that Naor does not demand the bonus for a particular year, this eligibility will be preserved and will accrue until the end of said period.

   According to the Black and Scholes calculation formula, the economic value of all the bonus options that were granted to Naor according to said plan, on the date of approval of the general meeting, is NIS 8.79 for each option from the first tranche, NIS 9.20 for each option from the second tranche, NIS 9.58 for each option from the third tranche, NIS 9.91 for each option from the fourth tranche and NIS 10.26 for each option from the fifth tranche – so that the overall economic value of the options granted to Naor (as of the date of approval of the plan) as part of the plan amounts to NIS 19.9 million The market value for the bonus as of March 31, 2006 amounts to approximately NIS 21.5 million.

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

The Group included in the statement of income, in the "general and administrative expenses" item, an expenditure of NIS 2.5 million in respect of said bonus, for the three months ended March 31, 2006.

4. In the event that all the warrants and debentures issued by Delek Real Estate are exercised and converted, as detailed above, the holding percentage of the Group in Delek Real Estate will decrease to 62.5%.

5. Delek Real Estate holds - through a foreign subsidiary ("the subsidiary") 35.46% of the share capital of a foreign affiliate ("the affiliate"), that owns three income-generating properties in the UK.

   Following negotiations conducted between the other shareholders, that hold 64.54% of the shares of the affiliate, for the sale of their shares in the affiliate to a third party. The affiliate, which prepares its financial statements according to international accounting standards, including the implementation of International Standard No. 40, pursuant to which income-generating real estate is presented according to the fair value, has examined the fair value of the real estate it holds. The fair value of the income-generating real estate was determined based on a valuation by external experts.

   As a result of said examination, the affiliate included - in the reported period - earnings from the increased value of the income-generating real estate in the sum of £ 21 million (approximately NIS 171 million). Delek Real Estate's share in the higher value of the assets amounted to £ 7.4 million (NIS 61 million) and was included under the statement of income for the reported period, under Group's share in earnings of affiliates. The influence of the taxes applicable to Delek Real Estate relating to the said increased value, in the sum of NIS 15 million, was included in the said item. The net shareholders' equity of the affiliate, subsequent to the increase in the value of the assets it owns, as described above, amounts to £ 38 million (NIS 309 million). Consequently, the investment of Delek Real Estate in the affiliate as of March 31, 2006, amounts to £ 13.5 million (NIS 110 million).

   In April 2006, the other shareholders ("the Sellers"), which hold 64.54% of the share capital of the affiliate, sold all their holdings to a third party – an Irish investment fund ("the Buyer") in return for £ 16 million that reflected a value of £ 25 million for the affiliate. In parallel, the subsidiary entered into a shareholder agreement ("the Agreement") with the Buyer, pursuant to which the subsidiary was guaranteed protection of the minority interest and in addition, the subsidiary received – as part of the agreement – a PUT option for a period of one year, according to which the subsidiary may force the Buyer to buy its holdings in return for £ 9 million, subject to adjustment as stated in the agreement.

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

The said transaction for the sale of shares reflects an investment value of £ 9 million, which is lower by £ 4.5 million from the total investment recorded in the books. In light of the above, Delek Real Estate has examined the recoverable amount of the investment, based on its part in the present value of the estimated cash flows that the affiliate is expected to generate. The discount rate according to which the present value of the cash flows was calculated is estimated at 5.7% per annum. Based on the said examination, the realization value of the investment is higher than the total investment recorded in the books and consequently, Delek Real Estate does not need to record an impairment of the investment.

Delek Real Estate estimates that the difference between the total investment recorded in the books and the value of the investment that is derived from the transaction for the sale of shares, originates primarily from early repayment of penalties on the loans of the affiliate, that were incurred by the other shareholders (and that were taken into account in the selling price of the shares) and this does not indicate an impairment of the investment in the affiliate, since it intends to hold the investment for the long term and consequently need not take into account the said penalties.

6. In their review of the financial statements as of March 31, 2006 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 March 31, 2006, Hof Hacarmel has a shareholders' deficiency amounting to approximately NIS 161 million and a working capital deficiency amounting to approximately NIS 347 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 365 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 38 million (the share of Delek Real Estate is approximately NIS 10 million).

The ongoing business operation of Hof Hacarmel is dependent upon continued credit provided by external sources, mainly by banks. It is the estimate of the management of Hof Hacarmel which is based, among other things, on the financial support agreements 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.

Delek Real Estate is conducting negotiations with the shareholders of Hof Hacarmel and the bank, pursuant to which Delek Real Estate will acquire the outstanding shares of Hof Hacarmel, while revoking all the guarantees granted to the bank. These negotiations are still ongoing as of the date of approval of the financial statements.

As for guarantees that Delek Real Estate provided to Hof Hacarmel, see Note 25b(3) to the annual financial statements.

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

7. In the course of the first quarter of 2006, a subsidiary of Delek Real Estate acquired, through affiliates (in which the holdings amount to 40%-45%), income-generating assets that are leased for extended periods in Germany and Finland. The volume of asset acquisitions that was performed by the affiliates amounted to NIS 900 million. The acquisition of assets was financed primarily by non-recourse loans from banks and by shareholders loans (Delek Real Estate's share amounts to NIS 60 million).

   Subsequent to the balance sheet date, the subsidiary of Delek Real Estate acquired, through an affiliate, an asset in Germany for NIS 730 million. As part of said acquisition, the subsidiary made available shareholders loans to the affiliate in the amount of NIS 45 million.

b. Fuel and refinery activities in the USA:

Subsequent to the balance sheet date, in May 2006, a subsidiary in the USA, Delek US Holdings Inc. ("Delek US") completed an IPO on the New York Stock Exchange, within whose framework Delek US issued 11,500,000 shares at a price of $ 16 per share (including 1,500,000 shares that were acquired by the underwriters in light of the option they were granted).

Following the offering, the Group's holdings in Delek US have decreased to approximately 77.4%. The gain recorded by the Group as a result of the offering is estimated at $ 102 million and will be allocated to the financial statements in the second quarter of 2006.

c. Operations in the automobile and spare parts sector:

1. Pursuant to that stated in Note 9.j(4)(b) to the annual financial statements, Delek Automotive Systems ("DAS") allocated in January 2006, 9,000,000 Ordinary shares of NIS 1 par value each, to the CEO of DAS, in return for NIS 255 million (after deducting issuance expenses). Approximately half of the said proceeds were allocated to DAS shareholders' equity on the issuance date, while the second half was recorded under liabilities, given the option granted to the parties to acquire (sell) the DAS CEO's shares in the event of termination of employment, as detailed in the said Note, and will be allocated to shareholders' equity in line with the liberation of the blocked shares.
   DAS CEO assumed two bank loans for the purpose of acquiring the shares: The first for financing the unblocked shares and the second for financing the blocked shares (each in the sum of NIS 120 million). The said loans were assumed in Japanese Yen, Euro and U.S. dollars. In order to secure the repayment of half of the loan for the acquisition of the restricted shares, the parent company - Delek Investments and Properties Ltd. ("Delek Investments") – made available a limited guarantee in the sum of NIS 60 million, while the DAS CEO made available NIS 60 million in collateral to the bank.
   A first-degree lien was placed on all the shares in favor of the bank. The blocked shares also have a second-degree lien in favor of Delek Investments.

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

The benefit that is inherent in the guarantee granted by Delek Investments to the DAS CEO, as described above, is estimated at NIS 2 million (approximately NIS 1.5 million, taking into account the blockage component).
The said sum (net of the blockage component) will be recorded as an expenditure in the statement of income over the period of the blockage, while recording a corresponding increase in minority interests.

Subsequent to the issuance of shares, the Group's holding percentage in DAS has decreased to approximately 55%. The overall earnings to the Group as a result of the said issuance total NIS 112 million, of which NIS 59 million are recorded in the statement of income in the first quarter of 2006, under the item "Earnings from realization of investments in investees". The remaining earnings will be recognized and adjusted over the next several years, taking into consideration, inter alia, the current earnings of DAS, the liberation of the restricted shares and the non-exercise of the Delek Investments guarantee by the bank.

2. In April 2006, a sum of 2,720,000 warrants were granted free of charge to the employees of Delek Motors Ltd. (a DAS subsidiary). These may be exercised into 2,720,000 Ordinary shares of DAS, each of NIS 1 par value. The eligibility to exercise the options will be realized in four tranches, starting April 10, 2008.

According to a valuation obtained by DAS, the total economic value of all the options granted pursuant to the plan, as of the date of the DAS board of directors' decision, amounts to NIS 14.6 million. The said economic value of the options will be allocated to the wage expenses item in the statement of income of DAS over the period of eligibility (General and administrative expenses).

In the event that the said options are exercised, the Group's holding rate in DAS will decrease to approximately 54%.

d. Operations in the telecommunications sector:

In May 2006, Matav Cable Systems Media Ltd. ("Matav"), 40% held by the Group, signed an agreement with Golden Channels Group and the banks that hold the Tevel shares, pursuant to which the operations of all the cable companies (Golden Channels, Tevel and Matav) will be merged in the cable television sector and in landline communication services ("the transaction").

As part of the merger, Matav will acquire the entire operations of the other parties in these sectors, by way of acquiring the operations and/or holdings in the corporations held by them.
In return, Matav will assume financial liabilities in the sum of NIS 3 billion, as of December 31, 2005 and will also allocate 45,600,000 of its Ordinary shares to some of the parties to the merger transaction and the holders of rights therein, representing 60% of Matav's issued share capital, subsequent to the completion of the merger. The merger will take place retroactively on January 1, 2006.

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

The closing of the transaction is conditional upon several contingent terms, including the completion of a due diligence examination, the preparation of a detailed agreement for financing the transaction, obtaining regulatory approval and the approval of the shareholders and others. There is no certainty that these terms will be met and/or that the proposed transaction, or a similar transaction, will be finalized under these terms and/or any other terms. As for additional details, see Note 3 to Matav's statements which are attached to this report.

In the event that the merger of the cable companies does go through, the Group is expected to hold 16% of the shares in the merged company. The Group's management estimates, at this stage, that the completion of the transaction will not generate material profits or losses.

e. Operations in the insurance sector:

Subsequent to the balance sheet date, in April 2006, Delek Investments exercised an option it was granted for the acquisition of an additional 5% of the issued and outstanding share capital of Menora Holdings Ltd. ("Menora") in return for $ 23.3 million. Subsequent to the exercise of the said option, Delek Investments holds 15% of the issued and outstanding share capital of Menora.

f. The Group attaches to its financial statements the financial statements of the affiliate, Matav.

## NOTE 4:- CONTINGENT LIABILITIES

a. 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 other 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. A settlement agreement was approved by the District Court in February 2006. Pursuant to the settlement agreement, the parties will publish the bulk of the agreement to the public and in the event that there are no objections on the part of the public, the agreement will be finally approved. True to the date of approval of the financial statements, it is impossible to assess whether there will be objections to the said agreement.

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.

**NOTE 4:- CONTINGENT LIABILITIES (Cont.)**

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. The aggregate amount of the lawsuit is NIS 1 billion. The claim relies on a claim which was filed in April 2004 by the Anti-Trust Authority against the defendants concerning the existence of a cartel and coordination of prices between them in 1994 to 1999.

Furthermore, 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 of March 31, 2006, the Group's investment in Amisragas totals approximately NIS 137 million.

b. Claims filed against Gadot Biochemical Industries, Ltd. ("Gadot") and others addressing the activities of Gadot in the area of the Kishon river, pertaining to bodily damage and damage to property total hundreds of millions of NIS (as for details, see Gadot's financial statements).

Most of 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. Hearings in some of 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 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.

**NOTE 4:- CONTINGENT LIABILITIES (Cont.)**

c. Several lawsuits, including requests to authorize part thereof as class action lawsuits, were filed against Matav and others in past years, which aggregate to significant amounts (hundreds of millions of NIS). Part of the claims address the following issues: A failure to connect residents of peripheral settlements to the cable networks, non-compliance with the conditions of the Council for Cable and Satellite Broadcasting as to broadcasting a certain channel, claims for alleged breach of copyrights of various producers and breach of agreements to purchase various broadcasting rights, etc. Moreover, in May 2006, subsequent to the balance sheet date, two requests to approve class action lawsuits were filed against Matav and HOT Telecom Ltd. (a Matav investee) and others. The lawsuit against Matav concerns the legality of the basic package for cable television subscribers that was offered by Matav to its subscribers, starting in the early 1990s. The amount of the lawsuit is $ 1.07 billion. The claim against HOT Telecom Ltd. and others relates to damages incurred by telephony subscribers, caused as a result of communication problems that took place in May 2006. The amount of the lawsuit is $ 22 million.

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 5 to Matav's statements which are attached to this report.

d. Several lawsuits, including requests to authorize a part thereof as class action lawsuits were filed against Phoenix Holdings Ltd. ("Phoenix"), its investees and others, which aggregate to significant amounts (hundreds of millions of NIS). Part of the claims address the following issues: High insurance fees that were unlawfully collected, compensation in insurance events at lowered sums, etc. For most of these lawsuits, no provisions were made in the financial statements and for some, it is impossible to estimate the chances of the lawsuits at this stage. For additional details, see Note 4 to the financial statements of Phoenix which are publicly published.

e. In March 2006, a request to authorize a class action lawsuit was filed against Delek - The Israel Fuel Corporation Ltd. ("Delek") and other petroleum companies. The petitioner claims that Delek breached the Law for the Supervision of Products and Services, the Equal Rights for People with Disabilities Law and unjust enrichment, by the fact that Delek charged a full service fee from handicapped individuals at stations where there are self-service fuel pumps.

The petitioner is suing the entire group of defendants for NIS 22 million (Delek's share is estimated by the petitioner at 27%) on account of the pecuniary damage and is also suing for non-pecuniary compensatory damages with no proof of damage, according to the Court's discretion.

Delek's management estimates, based on the opinion of its legal counsel, that, at this preliminary stage of the proceedings, the chances of the above request cannot be assessed and, accordingly, no provision has been made in the financial statements.

## NOTE 5:- SHAREHOLDERS' EQUITY

a. During the three-month period ended March 31, 2006, 535,714 debentures (Series A2) whose carrying amount totaled approximately NIS 1 million, were converted into 1,391 Ordinary shares of the Company with a par value of NIS 1 each; 6,344,603 debentures (Series E) whose carrying amount totaled approximately NIS 6 million were converted into 16,802 Ordinary shares of the Company with a par value of NIS 1 each.

b. During the three-month period ended March 31, 2006, 8,000 stock options (Series 1) were exercised into 8,000 Ordinary shares of NIS 1 par value each of the Company for a total consideration of NIS 3 million.

c. Subsequent to the conversions and exercises detailed above, the Company's issued and outstanding share capital is composed of 10,956,497 Ordinary shares of NIS 1 par value each.

d. Subsequent to the balance sheet date, 208,690,193 debentures (Series E) whose carrying amount totaled approximately NIS 208 million, were converted into 558,944 Ordinary shares of NIS 1 par value each of the Company. Subsequent to the conversions detailed above, the Company's issued and outstanding share capital is composed of 11,515,441 Ordinary shares of NIS 1 par value each.

e. On March 29, 2006, the Company declared the distribution of a dividend to its shareholders in the amount of approximately NIS 61 million. The dividend was distributed in May 2006.

f. Subsequent to the balance sheet date, on May 30, 2006, the Company declared the distribution of a dividend in the amount of NIS 150 million to its shareholders.

## NOTE 6:- DATA REGARDING BUSINESS SECTORS

a. Revenues, net of excise and royalties:

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 2006 | 2005 | 2005 |
| | Unaudited | | Audited |
| | Reported NIS in millions | | |
| Israeli fuel sector operations | 1,066 | 834 | 4,050 |
| Gas stations and convenience stores in the U.S. | 1,390 | 998 | 4,951 |
| Refinery operations in the USA | 1,692 | - | 4,239 |
| Automotive sector | 1,009 | 771 | 3,868 |
| Real estate sector | 112 | 145 | 484 |
| Biochemicals sector | 100 | 92 | 375 |
| Oil and gas exploration and production | 58 | 39 | 182 |
| Other sectors | 41 | 38 | 184 |
| Total in statements of income | 5,468 | 2,917 | 18,333 |

**NOTE 6:- DATA REGARDING BUSINESS SECTORS (Cont.)**

b. Segment results (1):

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 2006 | 2005 | 2005 |
| | Unaudited | | Audited |
| | Reported NIS in millions | | |
| Israeli fuel sector operations | 16 | 24 | 46 |
| Gas stations and convenience stores in the U.S. | 21 | 5 | 144 |
| Refinery operations in the USA | 112 | - | 501 |
| Automotive sector | 107 | 77 | 380 |
| Real estate sector | 26 | 48 | 155 |
| Biochemicals sector | 18 | 16 | 68 |
| Oil and gas exploration and production | 34 | 22 | 95 |
| Other sectors | 3 | 2 | 9 |
| Adjustments (2) | (24) | (3) | (65) |
| Total in statements of income | 313 | 191 | 1,333 |

(1) Represent segment operating income.
(2) Including expenses not attributed to sectors.

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