Delek Group

FINANCIAL STATEMENTS

AS OF JUNE 30, 2006





קבוצת דלק

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August 30, 2006

DELEK GROUP LTD.

Board of Directors Report on the State of the Company Affairs
For the first six months of 2006

The board of directors of the Delek Group Ltd. (hereinafter: "The Group" or "The Company") is hereby honored to present the Company's Board of Directors' Report for the six-month period ended June 30, 2006.

1. Description of the Company and its Business Environment

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. These subsidiaries are:

A. Delek Petroleum Ltd. (hereinafter: "Delek Petroleum") – Deals primarily in 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. (hereinafter: "Delek Israel"), while in the USA, the operations are conducted via Delek US Holdings, Inc. (Hereinafter: "Delek USA") that offered 23% of its share capital to the public on the New York Stock Exchange, according to a company value of approximately $800 million.

B. Delek Investments and Properties Ltd. (hereinafter: "Delek Investments") – Responsible for the Group's operations in the automotive sector; in oil and gas exploration and production in Israel; in infrastructure projects; in the biochemical industry; in telecommunications and in insurance.

C. Delek Real Estate Ltd. (hereinafter: "Delek Real Estate") – Most of the Group's operations in the real-estate sector are conducted by the Group's subsidiary, Delek Belron, that holds foreign companies that invest in income-generating real estate overseas (primarily in the UK, Canada, Sweden, Germany, Switzerland and Finland). Operations in the field of real-estate development and the holding of real estate in Israel are performed by Delek Real Estate and theist subsidiary Dankner Investments Ltd. During the reported period, Delek Real Estate conducted a private placement of shares to a wholly-owned subsidiary of Bank Hapoalim.

As at June 30, 2006, the Company holds 100% of Delek Petroleum and Delek Investments and 71.5% of Delek Real Estate.

2. Principal Operations During the Reported Period

The Group's net income for the reported period amounted to approximately NIS 1,020 million, as compared with approximately NIS 266 million in the corresponding period last year, representing an increase of approximately 283%. The net income for all of 2005 amounted to approximately NIS 622 million. The net income in the second quarter of 2006 amounted to NIS 710 million, as compared with NIS 180 million in the corresponding quarter last year, representing an increase of 294%.

The Group's revenues (gross) for the reported period amounted to approximately NIS 12.9 billion, as compared with approximately NIS 8.3 billion in the corresponding period last year, representing an increase of approximately 55%. The Group's revenues (gross) for the second quarter of 2006 amounted to approximately NIS 6.9 billion, as compared with approximately NIS 4.9 billion in the corresponding period last year, representing an increase of approximately 41%. This growth is primarily attributed to the fact that the reported period includes the sales of the oil refinery in the United States that was acquired in late April 2005 and whose revenues were therefore not included during most of the corresponding period last year.

The Group's EBITDA, earnings before interest, taxes, depreciation and amortization amounted to approximately NIS 985 million during the reported period, as compared with approximately NIS 631 million in the corresponding period last year, representing an increase of approximately 56%.

The growth in the net income, in revenues and in the EBITDA in the reported period, as compared with the corresponding period last year, originated primarily from the results of operations of the La Gloria refinery in the USA, that were not included in the entire corresponding period last year, coupled with an improvement in the business results of the operations of gasoline stations in the USA, and allocation of shares in the Group's subsidiaries as detailed below.

The Group's profitability during the reported period was influenced – inter alia – by the operations of the subsidiaries in the Israeli and international capital markets, that created capital gains for the Group, as follows:
During the reported period, Delek USA issued 23% of its share capital to the public on the New York Stock Exchange (NYSE), according to a company value of approximately $800 million. The gains recorded by the Group as a result of the Delek USA offering in the second quarter of 2006, are estimated at NIS 443 million.

During the reported period, Delek Real Estate allocated shares constituting 11% of its share capital (post-allocation) to a wholly owned subsidiary of Bank Hapoalim, in consideration for the sum of approximately NIS 260 million. Furthermore, during the reported period, Delek Automotive allocated approximately 10% of its shares (post-placement) to the CEO of Delek Automotive as part of a private placement, in consideration for approximately NIS 255 million. The earnings recorded by the Group as a result of these placements amounted to NIS 123 million and NIS 59 million, respectively.

An additional operation that contributed to profitability during the reported period and that was not included in the corresponding period last year, was the investment in insurance companies. The contribution made by this segment to the Group in the first half of 2006 amounted to NIS 26 million.

The positive working capital amounted to NIS 534 million as at June 30, 2006, as compared with positive working capital of NIS 343 million as at Dec-31-2005.

During the reported period, Delek Investments exercised the option granted by Menora Holdings Ltd., for the acquisition of an additional 5%, and currently holds some 15% of the issued and outstanding share capital of Menora Insurance Company. Furthermore, Delek Investments has exercised its option to acquire an additional 8% of Phoenix Holdings Ltd. and currently holds approximately 33% of the issued and outstanding share capital of Phoenix.

Moreover, in August 2006, Delek Capital Ltd. (a subsidiary of Delek Investments and Properties Ltd.) entered into a memorandum of understanding for an additional purchase pf Phoenix shares, representing 28.5% of the issued and outstanding share capital of Phoenix for a consideration of $214 million. The acquisition transaction is contingent upon preconditions. Upon completion of this transaction, the Group will hold approximately 61% of the share capital of Phoenix (see additional details in Chapter F1).

Furthermore, in August 2006, a wholly-owned American subsidiary of Delek Capital Ltd., that is a subsidiary (94%) of the Company, entered into a merger agreement whereby it would acquire all the share capital (100%) of Republic Companies Group Inc. for a consideration of $290 million (see additional details in Chapter F3).

Subsequent to the balance sheet date, the Company raised NIS 468 million through a private placement of debentures to the Israeli institutional market. These debentures are unique in being long-term, with the principal scheduled for repayment in 2018 (annual interest of 5.4% will be paid quarterly).

During the reported period, convertible debentures and options were converted into shares of the Delek Group in the total sum of NIS 222 million. These conversions increased the Group's shareholders' equity while lowering the outstanding debt.

The Company's Board of Directors decided August 30th 2006, upon the distribution of additional dividend of NIS 250 million. This sum is in addition to the NIS 150 million that was distributed during the reported period. The total dividend distributed amounts to NIS 400 million and represents 40% of the total net income during the reported period.

It should be noted that at this stage, it was decided to distribute 40% of the net income in light of the fact that the non-recurring capital gains from the offerings and placements of Delek USA, Delek Real Estate an Delek Automotive Systems have yet to be reflected in the cash flows, coupled with the need to prepare for the financing of two new transactions in the insurance sector, as described above.

For further details regarding the operations of the Group companies, see below.

3. Results of Operations

Contribution by Areas of Operation

The following are details of the net income of the Group, by main areas of operation (in NIS millions):

	1-3/06	4-6/06	1-6/06	1-6/05	2005
Delek USA Operations (1)	65	156	221	32	310
Israeli Fuel Sector Operations	4	4	8	11	(15)
Petroleum and Gas Exploration and Production Operations	11	16	27	(6)	(1)
Automotive Operations (2)	30	42	72	112	189
Real Estate Operations (3)	28	101	129	34	100
Biochemical Operations	7	7	14	14	31
Insurance Operations	25	1	26	2	4
Telecommunications Operations	(19)	(10)	(29)	(20)	(57)
Capital Gains and Others (4)	159	393	552	87	61
Total Income	**310**	**710**	**1,020**	**266**	**622**

(1) Following the public offering of Delek USA on the New York Stock Exchange, the Group's holdings in Delek USA decreased from 100% to approximately 77%.

(2) Following the private placement of Delek Automotive Systems to the CEO during the reported period, the Group's holdings in Delek Automotive Systems fell from 61.5% to 55.3%. The corresponding period last year included capital gains of NIS 45 million from the sale of the operations of the Shagrir subsidiary.

(3) Following the private placement of Delek Real Estate to a Bank Hapoalim subsidiary during the reported period, the Group's holdings in Delek Real Estate fell from 80% to 71.5%.

(4) This item includes NIS 443 million in capital gains originating from the public offering of Delek USA, plus a sum of NIS 123 million from the private placement of Delek Real Estate and NIS 59 million from the placement of DAS to the CEO. Also included, were non-ascribed financial expenses and other results of operation on account of infrastructure and investments.

The following are principal data regarding the Company's consolidated statements of income, in NIS millions:

	1-3/06	4-6/06	1-6/06	1-6/05	2005
Revenues	6,004	6,857	12,861	* 8,279	20,347
Less – excise and royalties	536	529	1,065	* 975	2,014
	5,468	6,328	11,796	7,304	**18,333**
Cost of Revenues	4,830	5,448	10,278	* 6,279	15,802
Gross Profit	**638**	**880**	**1,518**	**1,025**	**2,531**
Selling, Marketing and Station Operation Expenses	224	237	461	* 400	861
General & Administrative Expenses	100	118	218	158	337
Operating Income	**314**	**525**	**839**	**467**	**1,333**
Financial Expenses, net	137	177	314	241	594
	177	**348**	**525**	**226**	**739**
Net profit from realization of investments in investee companies	182	443	625	112	139
Other income, net	4	5	9	40	113
Income before taxes on income	**363**	**796**	**1,159**	**378**	**991**
Taxes on income	71	162	233	96	339
Profit after taxes on income	**292**	**634**	**926**	**282**	**652**
Net Share in Profits of Affiliates and Partnerships	78	204	282	73	146
Minority Interest in Subsidiary Earnings, Net	(60)	(128)	(188)	(89)	(176)
Net Income	**310**	**710**	**1,020**	**266**	**622**

* Reclassified

Revenues

The Company's consolidated revenues during the reported period amounted to approximately NIS 12.9 billion, as compared with approximately NIS 8.3 billion during the corresponding period last year. The growth in revenues originated primarily from the refinery operations in the USA, which began in May 2005 and whose revenues were therefore not included in the entire corresponding period last year, from fuel operations in the USA due to the acquisition of rights to operate 25 gasoline stations and convenience stores in December 2005, an increase in the price of fuels in the US and Israel and an increase in the number of vehicles sold by Delek Automotive Systems.

Gross Profit

The gross profit during the reported period amounted to approximately NIS 1,518 million, as compared with approximately NIS 1,025 million during the corresponding period last year. The increase in gross profit originated primarily from the operations of the refinery and fuel sector in the USA, coupled with the growth in the number of cars sold by Delek Automotive Systems, as stated above.

Selling, Marketing and Station Operation Expenses

The increase in selling, marketing and station operation expenses during the reported period as compared with the corresponding period last year, originates primarily from the increase in the cost of operating convenience stores and gas stations, as a result of the acquisition of the operations of 25 gas stations with convenience stores in the USA in December 2005, coupled with the oil refinery operations.

General & Administrative Expenses

The increase in general and administrative expenses during the reported period, as compared with the corresponding period last year, originates primarily from the operations of the refinery in the USA and the recording of expenses on account of employee options during the reported period (primarily at Delek Real Estate – see details in Chapter E, below).

Financing Expenses, Net

The Group's net financial expenses for the reported period amounted to approximately NIS 314 million, as compared with approximately NIS 241 million in the corresponding period last year, representing a net increase of approximately NIS 73 million. The increase in financial expenses originated primarily from the following reasons:

- An increase in the volume of credit at the Group, that originated primarily from the acquisition of companies and operations in 2005.

- The launch of operations that were in preparatory stages in the corresponding period last year and for which the financial expenses were capitalized to the cost of the asset (the electrical generation IPP).

- Financial expenses of approximately NIS 25 million at Delek Automotive during the reported period, as compared with financial revenues of approximately NIS 28 million during the corresponding period last year. The NIS 53 million difference is primarily attributed to the fact that the financial results during the corresponding period last year were affected by financial revenues that originated from the recording of the fair value of transactions in derivative financial instruments, whereas during the reported period, the impact of the transactions was a loss of NIS 4 million.

- A 1.3% increase in the Known Index during the reported period, as compared with an increase of 0.5% during the corresponding period last year – which resulted in higher financial expenses on account of loans and linked debentures.

- A NIS 9 million increase in financial expenses at Delek USA as compared with the corresponding period last year, originating from growth in the volume of loans as a result of the acquisition of 25 convenience and fueling centers in December 2005, the acquisition of a refinery in April 2005 and an increase in the interest rates on the loans in the United States. The increase in financial expenses was partially offset by interest revenues originating from the cash balances of Delek USA, including the proceeds of the IPO.

Gains from Placements and Public Offerings

During the reported period, earnings of NIS 625 million were created for the Company from placements and public offerings at investee companies, originating from earnings of NIS 123 million on the allocation of Delek Real Estate shares to Tarshish Hapoalim Holdings and Investments Ltd. and earnings of NIS 59 million from the allocation of Delek Automotive Systems shares to the CEO, coupled with capital gains of NIS 443 million from the Delek USA IPO on the NYSE.

Net Share in Profits of Affiliates and Partnerships

The Group's share in the profits of affiliates and partnerships during the reported period amounted to the sum of approximately NIS 282 million, as compared with approximately NIS 73 million in the corresponding period last year.

During the reported period, this item included the share in the profits of associated companies held by Delek Real Estate, in the net sum of approximately NIS 266 million (of which NIS 232 million was net, after offsetting the tax impact, for estimated fair value of income-generating real-estate assets of foreign companies that prepare their financial statements in accordance with international accounting principles), share in the earnings of Phoenix – an associated company of Delek Investments. in the amount of NIS 18 million, whose results were included for the first time in the reported period, share in the profits of Avner in the total sum of NIS 16 million, and net of the losses of Matav, in the sum of NIS 29 million.

The increase during the reported period originates primarily from the valuation of income-generating real-estate assets at Delek Real Estate, along with the recording of the Company's share in the Phoenix earnings for the first time during the reported period, whereas during the corresponding period last year, earnings were recorded from the realization of the Shagrir assets.

Minority Interest in Subsidiary Earnings, Net

The minority interest in the earnings of consolidated subsidiaries, net, increased from approximately NIS 89 million in the corresponding period last year, to NIS 188 million in the reported period. This increase stemmed primarily from an increase in the ratio of the minority interest in the earnings of Delek Real Estate, Delek Automotive Systems and Delek USA, as a result of the allocation of shares.

4. Financial Situation, Sources of Finance and Liquidity

Working Capital

The positive working capital amounted to NIS 534 million as at June 30, 2006, as compared with positive working capital of NIS 343 million as at Dec-31-2005.

The main changes during the reported period, as compared with December 31, 2005, are to be found in the following balance sheet items:

Cash and Short-Term Investments

The cash and short-term investment balances increased during the reported period from NIS 1,516 million to NIS 1,801 million, representing an increase of some NIS 285 million.
An increase of NIS 344 million is attributed to the operations of gas stations overseas; an increase of NIS 148 million is attributed to the refinery operations in the USA; an increase of NIS 68 million originates from the purchase of marketable securities in the automotive sector, while a decrease of NIS 286 million originates from the real estate sector.

Trade Receivables

An increase of NIS 366 million originates primarily from; growth of NIS 343 million in accounts receivable in the automotive sector, derived from the growth in sales, a NIS 65 million increase in the accounts receivable of the US refinery and a decrease of NIS 44 million in the accounts receivable of IDE Technologies.

Other Accounts Receivable

A decrease of NIS 133 million, originating primarily from NIS 63 million in dividends received from Phoenix and a decrease of NIS 53 million in the automotive sector, originating primarily from institutional proceeds; a NIS 78 million decrease in the real-estate sector that includes the return of a NIS 32 million deposit on a transaction that did not materialize, while on the other hand – a NIS 54 million increase at Delek USA.

Inventories

A decrease of approximately NIS 52 million, stemming mainly from a decrease of approximately NIS 123 million in automotive inventories, coupled with an increase of approximately NIS 11 million from the operations of the US refinery, an increase of approximately NIS 51 million from fuel sector operations and an increase of NIS 8 million at Gadot.

Investments

Total net investments in investee companies and others amounted to NIS 1,055 million.
This increase stems primarily from the acquisition of 13.68% of the shares of Industrial Buildings Ltd. for the sum of NIS 264 million, coupled with an increase in the investments of associated companies in the real-estate sector possessing income-generating assets, inter alia, in the UK, Germany, Switzerland, Finland and Canada – in the sum of NIS 185 million; the Company's share in the earnings of associated companies in the real-estate sector in the sum of NIS 326 million, net of the repayment of loans from affiliates in the sum of NIS 57 million.

Moreover, Delek Investments realized its option for the acquisition of 8% of the share capital of Phoenix for a consideration of NIS 213 million. Delek Investments also realized its option for the acquisition of an additional 5% of the share capital of Menora for a consideration of NIS 107 million.

The NIS 99 million increase in real estate for leasing originates primarily from investments in income-generating assets in Israel in the sum of NIS 94 million.

Fixed Assets

Fixed assets increased by approximately NIS 111 million, net. Most of this increase – NIS 108 million – originates from Delek USA, primarily due to the investments in the refinery.

Other Assets and Deferred Charges

A net decrease of NIS 92 million was recorded. The decrease originates primarily from the classification of financing costs on account of financial liabilities in the sum of NIS 73 million to the loans item, along with the classification of financial costs of NIS 33 million for the issuing of debentures, to the debenture item, in accordance with Accounting Standard No. 22 that was implemented for the first time on January 1st 2006 (see Note 2b(3) to the financial statements).

Short-Term Credit from Banks and Others

A net decrease of NIS 284 million was recorded. Most of this decrease is attributed to the net decrease in credit from banks and financial institutions of companies in the Group.

Accounts Payable to Suppliers and Service Providers

An increase of NIS 154 million was recorded, originating primarily from a NIS 106 million increase in the accounts payable balance of Delek Automotive and an increase of NIS 52 million in the accounts payable balance of the US fuel and refinery operations.

Accounts Payable

An increase of NIS 280 million was recorded, originating primarily from a NIS 60 million increase at Delek USA, an increase of NIS 104 million at Delek Israel, originating primarily from an increase in the balance of liabilities to institutions and an increase of approximately NIS 80 million at Delek Automotive, originating primarily from an increase in customer advances and institutional liabilities.

Long-Term Loans

A decrease of NIS 177 million was recorded, originating primarily from a NIS 271 million decrease in long-term loans in the fuel sector. A decrease of NIS 20 million in the automotive sector, a decrease of NIS 22 million at Delek Ashkelon, a decrease of NIS 33 million at Delek Investments and a decrease of NIS 12 million at Gadot, as opposed to a NIS 187 million increase in long-term loans at the real-estate sector.

It should be noted that these data are subsequent to the offsetting of deferred financial expenses on account of loans, in accordance with Accounting Standard No. 22, that was implemented for the first time on January 1st 2006.

Debentures Convertible Into Company Shares

A decrease of approximately NIS 167 million was recorded, resulting mainly from the conversion of debentures into shares in the reported period in the sum of approximately NIS 219 million, the splitting of the convertible option component and the amortization of NIS 2 million in deferred expenses (following the implementation for the first time of Accounting Standard No. 22), net of a decrease in current maturities in the sum of approximately NIS 54 million.

Other Debentures

A net decrease of NIS 172 million was recorded, originating primarily from a decrease in debentures issued by Delek Drilling and Delek Investments in the sum of NIS 85 million, of which an amount of NIS 53 million on account of the repayment of debenture principal and a sum of NIS 22 million on account of impairment due to the decrease in the exchange rate of the US dollar. An additional decrease of NIS 53 million was recorded, originating primarily from a decrease in debentures issued by Delek Real Estate. It should be noted that the outstanding debentures appear net of financial costs related to an issue of debentures in accordance with Accounting Standard No. 22, that was implemented for the first time on January 1st 2006.

Other Liabilities

An increase of NIS 112 million was recorded, originating primarily from liabilities of NIS 112 million on account of the issue of blocked shares to the CEO of Delek Automotive (see details in Note 3c to the financial statements).

Shareholders' Equity

As at June 30, 2006, the Company's shareholders' equity totaled NIS 3,303 million, as compared with NIS 2,276 million at December 31, 2005.

The increase in shareholder's equity stems primarily from earnings in the reported period in the sum of approximately NIS 1,020 million, from conversion of debentures into shares of the Company in the sum of approximately NIS 219 million and from the exercise of option warrants into shares of the Company in the sum of approximately NIS 3 million, less dividends paid in the sum of approximately NIS 211 million. Moreover, due to the implementation for the first time of Accounting Standard No. 22, the company allocated the equity component of the convertible debentures to the shareholders' equity, thereby increasing shareholders' equity by NIS 6 million.

Contingent Liabilities

The Company's CPAs draw attention, in their Review, to lawsuits against investee companies. For details see Note 4 to the financial statements.

5. Sources of Finance

A. It should be noted that in 2005, Ma'alot Rating Agency raised the rating of the Group's debentures to AA, and also rated another series of NIS 500 million for the raising of funds via debentures with a rating of AA.
Subsequent to the reported period, the Company effected a private placement of additional debentures (Series K) at a par value of approximately NIS 468 million. The debentures are linked to the Israeli CPI and bear annual interest at a rate of 5.4%, payable quarterly. The principal of the debentures is redeemable in one single payment in July 2018.

B. **Conversion of Debentures and Exercise of Options into Shares of the Company**

During the reported period, convertible debentures and options in the sum of approximately NIS 222 million were converted into shares of the Company. For details, see Notes 7a and b to the financial statements.

Subsequent to the reported period, convertible debentures in the sum of approximately NIS 39 million were converted into shares of the Company. For details, see Note 7d to the financial statements.

C. Surplus financial assets of the Company (in the non-consolidated financial statements) as at June 30, 2006, totaled approximately NIS 202 million (including a total of approximately NIS 1,488 million in net loans to Group companies).

The surplus financial liabilities of Delek Investments (in the non-consolidated financial statements of Delek Investments) as at June 30, 2006, totaled approximately NIS 1,354 million (including a total of approximately NIS 835 million in net loans from Group companies).

The surplus financial liabilities of Delek Hungary (which is the direct parent company of Delek USA), as at June 30, 2006, amounted to NIS 186 million.

The outstanding financial debt of Delek Petroleum and Delek Capital amounts to negligible sums.

Surplus financial liabilities include liabilities to banks and other creditors (including companies in the Group), less cash, cash equivalents, marketable securities and balances at banking institutions.

D. As to the allocation of shares of Delek Real Estate and Delek Automotive Systems, see Chapters 6d and e, below.

E. As to the allocation of Delek USA shares, see Chapter 6a, below.

F. As to the raising of capital by debentures, by Delek Real Estate, see Chapter 6e, below.

6. Analysis by Sectors of Operation

A. Delek USA

The following are the results for Delek USA, as included in the Group's financial statements:

	1-3/06			4-6/06		
	Refinery Operations	**Convenience Stores and Gasoline Stations**	**Total**	**Refinery Operations**	**Convenience Stores and Gasoline Stations**	**Total**
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	1,691	1,390	3,081	2,047	1,647	3,694
Gross Profit	123	156	279	314	187	501
Selling and Station Operation Expenses	-	124	124	-	134	134
Profit before mutual expenses	123	32	155	314	53	367
General & Administrative Expenses			33			44
Operating Income			122			323
Other Income			-			-
Financial Expenses			23			18
Income Before Taxes			99			305
Net Income			65			201

	1-6/06			Delek USA	
	Refinery Operations	**Convenience Stores and Gasoline Stations**	**Total**	**1-6/05**	**2005**
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	3,738	3,037	6,775	3,029	9,190
Gross Profit	437	343	780	346	1,174
Selling and Station Operation Expenses	-	258	258	212	449
Profit before mutual expenses	437	85	522	134	725
General & Administrative Expenses			77	50	127
Operating Income			445	84	598
Other Income			-	10	10
Financing Expenses (1)			41	46	130
Income Before Taxes			404	48	478
Net Income			266	32	310

(1) Losses from future transactions in 2005 for the setting of refinery margins, which do not constitute accounting hedging in the sum of approximately NIS 42 million, were allocated to the Israeli financial statements as financing expenses.

Delek USA operates a refinery with a maximum output capacity of 60,000 barrels, and a pipeline for the transportation of crude oil, which are located in the State of Texas, USA, as well as gasoline stations and convenience centers in eight neighboring states in the southeastern USA. Delek USA markets its products to 349 gasoline stations and its operations are especially concentrated in the States of Tennessee (198 stations), Alabama (92 stations) and Virginia (36 stations), under the brand name MAPCO Express. Furthermore, Delek USA markets fuel products as an exclusive supplier to 61 stations operated by third parties, and to other stations, without a supply contract.

Delek USA operates in markets where the large oil companies and the large department store chains – which also compete in the sale of fuel and lubricant products – are active and therefore, Delek's share of the total American market is negligible. However, in Nashville and Memphis (in the State of Tennessee), and in Northern Alabama, Delek USA enjoys one of the largest market shares in its area of operations.

On April 29, 2005, Delek USA closed a deal for the purchase of the La Gloria refinery, with a maximum output capacity of 60,000 barrels, along with a pipeline for the transportation of crude oil, located in the State of Texas, USA.

On December 15, 2005, Delek USA purchased the rights to operate 25 gasoline stations with convenience stores (ownership rights in 20 stations and leasehold rights in the remaining 5 stations), as well as to four real estate properties zoned for service stations and convenience stores (ownership rights to three of the properties and leasehold rights to the fourth property) in Nashville, Tennessee, USA, from BP Products North America Inc. (hereinafter: "BP"). The gasoline stations currently operate, and will continue to operate under the BP brand name.

On May 9, 2006, Delek USA completed a public offering and registration for trade of its shares on the New York Stock Exchange. 11,500,000 shares were sold in the offering at a price of $16 per share. The net proceeds amounted to $172 million (net of underwriting fees and before offering expenses). Following the offering, the Group's holdings in Delek USA have decreased to approximately 77.4%. The profits to the Group as a result of the offering total NIS 443 million and are accredited to the financial statements of the second quarter in 2006.

On July 13 and August 15, 2006, subsequent to the balance sheet date, Delek USA acquired rights to the operation of 43 gas stations and convenience stores (ownership rights to 30 stations and leasehold rights to 13 stations) in Southeastern Tennessee and Northern Georgia in the USA, from Fast Petroleum (hereinafter: "Fast"). The Company intends to convert the convenience stores to the Mapco Mart brand in the next several months.

On July 31, 2006, subsequent to the balance sheet date, Delek USA acquired various refinery and fuel marketing assets from companies in the Pride-LP Group and related companies, based in Abilene, Texas. The acquired assets include two fuel marketing terminals based in Abilene and San Angelo, Texas, seven pipelines totaling 114 miles for the transportation of fuel products – linking the Company's terminals and US Air Force base Dyess, as well as storage tanks with total storage capacity in excess of one million barrels.

The following are the results of operations of Delek USA:

Sales

The sales of Delek USA amounted to NIS 6,775 million during the reported period , as compared with NIS 3,029 million during the corresponding period last year. The increase is primarily attributed to the following factors:

- Sales of refined fuel in the sum of NIS 3,738 million, as compared with NIS 842 million in the corresponding period last year – an operation that started April 29, 2005.
- Acquisition of 25 gasoline stations and convenience stores in December last year.
- A sharp rise in fuel prices (26.5% rise in the price per gallon as compared with the corresponding period last year).
- An increase in the same-store volume of sales of convenience stores and gas stations.

The sales of Delek Refining in the reported period amounted, as stated above, to approximately NIS 3,738 million. During the reported period, Delek Refining sold a total of approximately 10 million barrels of refined products, representing an average of approximately 56 thousand barrels per day. During the corresponding period last year, Delek Refining sold approximately 3.1 million barrels of refined products, representing an average of 48 thousand barrels per day.

Gross Profit

The gross profit in the reported period amounted to NIS 780 million, as compared with NIS 346 million in the corresponding period last year. This increase is primarily attributed to the refinery operations that generated gross profit of NIS 437 million (after depreciation and manufacturing expenses), as compared with approximately NIS 51 million in the corresponding period last year, the rise in the volume of operations of convenience stores and gas stations and the acquisition of the operations of 25 convenience and fueling centers in December last year.

Selling and Station Operation Expenses

Operating expenses amounted to NIS 258 million during the reported period, as compared with NIS 212 million in the corresponding period last year. The increase stems primarily from an increase in the cost of operating convenience stores and gasoline stations, as a result of the purchase of the operations of 25 convenience and gasoline centers in December last year, coupled with an increase in credit card commissions and an increase in fuel prices.

General & Administrative Expenses

General and administrative expenses amounted to NIS 77 million during the reported period , as compared with NIS 50 million during the corresponding period last year. This increase is primarily attributed to General & Administrative Expenses associated with the acquisition of the oil refinery on April 29, 2005, coupled with additional expenses that were incurred by the Company in parallel to its IPO in May 2006.

Operating Income

The operating income in the reported period amounted to NIS 445 million, as compared with NIS 84 million in the corresponding period last year. This increase is primarily attributed to the profitability of the refining segment, that originates from an increase in the volume of operations of the refinery, coupled with growth in the refining margins.

Financial Expenses

The financial expenses amounted to NIS 41 million during the reported period , as compared with NIS 46 million during the corresponding period last year. The corresponding period last year included a non-recurring, non-cash expenditure of approximately NIS 14 million related to the refinancing of the Company. Other than this expenditure, the financial expenses rose by approximately NIS 9 million for the period. The increase in financial expenses stems from an increase in the volume of loans of Delek USA (particularly due to the purchase of 25 convenience stores in December last year, coupled with the purchase of the refinery), along with an increase in the interest rates on the loans. The increase in financial expenses was partially offset by interest revenues originating from the Company's cash balances, including the proceeds of the IPO.

Net Income

The net income in the reported period amounted to NIS 266 million, as compared with NIS 32 million in the corresponding period last year. The increase is attributed to the rise in sales, coupled with the operating margins of Delek USA.

It should be noted that there are a number of differences between the financial results of Delek USA under generally-accepted accounting principles in the USA and the inclusion thereof in financial statements under generally-accepted accounting principles in Israel. The main differences stem from a different accounting policy (the method of determining inventory costs based on LIFO in US financial statements, as compared with the averaging method used in Israel, the amortization of goodwill in Israel up to December 31st 2005, as compared with its not being amortized in the financial statements of Delek USA), along with various classifications (results of future transactions for determining refinery margins which do not constitute hedging are included under operating income in the US reports, as opposed to being included under financial expenses in the Group's financial statements).

B. Israeli Fuel Sector Operations

The following are the results of Delek the Israel Fuel Company:

	1-3/06	4-6/06	1-6/06	1-6/05	2005
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	1,595	1,719	3,314	2,776	6,043
Gross Profit	113	142	255	235	469
Operating Income	16	36	52	40	45
EBITDA	32	50	82	72	112
Financial Expenses	14	23	37	33	74
Net Income (loss) not including Delek US results	4	4	8	11	(15)
Net of Delek Israel's share in the results of Delek USA (1)	-	21	21	-	-
Net Income (loss)	4	25	29	11	(15)

(1) For the first time Delek Israel included its share of Delek US results (approximately ~3%).

The Group's operations in the Israeli fuel sector are performed by Delek the Israel Fuel Company Ltd. (herein: "Delek Israel"), which is a privately-held company.
Delek Israel operates in the Israeli fuel market and deals in the marketing and distribution of fuel, gasoline and oil products, 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.

Results of Operations

Sales

The sales of fuel (including excise taxes) amounted to approximately NIS 3,314 million during the reported period, as compared with NIS 2,776 million during the corresponding period last year (an increase of 19%).

The growth in revenues is attributed to a quantitative decrease of some 0.3% coupled with an increase in excise taxes on diesel and an 18% rise in fuel prices.

Gross Profit

Gross profit for the reported period amounted to NIS 255 million, as compared with NIS 235 million for the corresponding period last year.
The rise in gross profit is primarily attributed to inventory profits in the reported period.

Selling, Marketing, General and Administrative Expenses

These expenses amounted to NIS 203 million for the reported period, as compared with NIS 196 million for the corresponding period last year. The increase is attributed to the growth in provisions for doubtful debts, labor wages and environmental expenditures.

Operating Income

The operating income for the reported period amounted to NIS 52 million, as compared with NIS 40 million. This increase is mostly attributed to inventory profits during the reported period.

Financial Expenses

Financing expenses for the reported period amounted to NIS 37 million, as compared with NIS 33 million in the corresponding period last year. The increase in financial expenses originates primarily from the greater rise in the Known CPI during the reported period (1.3% as compared with 0.5%), coupled with the rise in the interest rates on the loans.

Net Income

The Company's net income from operations in Israel during the reported period amounted to NIS 8 million, as compared with income of NIS 11 million in the corresponding period last year.

Net Financial Credit

The Company's total financial credit, net (total financial liabilities net of cash, emergency inventories and loans to related parties and customers) as at the date of the report amounted to NIS 1,168 million, as compared with NIS 1,212 million at the end of the preceding year.

C. Oil and Gas Exploration and Gas Production

The following are the results of oil and gas exploration and gas production operations, as included in the Group's results:

	1-3/06	4-6/06	1-6/06	1-6/05	2005
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Income less royalties	58	51	109	78	184
Operating Income	34	29	63	43	95
EBITDA	49	41	90	64	142
Financial Expenses	21	11	32	48	90
The Group's share in results of Avner	7	9	16	4	15
Net Income (loss)	11	16	27	(5)	(1)
Gas sales in BCM (*)	0.5	0.4	0.9	0.8	1.7

(*) The data refer to gas sales by the entire Yam Tethys group, rounded off to the nearest tenth of one BCM.

1) **Results of Operations**

(a) Most of the oil and gas operations are related to direct and indirect holdings in the Yam Tethys project.
The results of the operations of the Yam Tethys joint venture, as expressed in the consolidated financial statements of the Group, are considerably affected by the legal structure in which the joint venture is held:

- All of the results of Delek Drilling, which holds 25.5% of the Yam Tethys venture, are consolidated in the Group's financial statements, with the minority interest being included in the item "minority interest in earnings of consolidated subsidiaries and partnerships, net".
- The results of the 4.4% of the Yam Tethys venture that are held directly by Delek Investments are fully consolidated in the Group's financial statements.
- All of the results of Avner, which holds -23% of the Yam Tethys venture, are set out in one line – "Group's share in earnings of associated partnerships and companies, net".

(b) The Group, (through its holdings in the Delek Drilling and Avner partnerships and in Delek Investments, as aforesaid) sells natural gas to Israel Electric Company (IEC) from the Mari gas field that is connected to the Eshkol power station. Likewise, as of November 2005, the Company (via the partnerships and Delek Investments) has been selling gas to the oil refineries at Ashdod. Consequently, during the reported period, the Group continued to record operating income before financial expenses, as well as positive cash flows, from the gas selling operations.

The principal results are as follows:

- In the reported period, the Group earned revenues from the sale of gas, less royalties and less sums paid for the transaction to peg the price of gas as a fixed dollar value in accordance with a hedging transaction, in the sum of approximately NIS 109 million, as compared with revenues from the sale of gas less royalties and less sums paid for the transaction to peg the price of gas, of approximately NIS 81 million in the corresponding period last year.

  The 35% increase in revenues between the reported period and the corresponding period last year, originates primarily from growth in the sale of natural gas to IEC. It should be noted that during the reported period, the sale of gas to Oil Refineries – which began in November 2005 – was also included. Revenues decreased by approximately 11% in the second quarter of 2006, as compared with the first quarter of the year, due to a seasonal decrease in demand for electricity, coupled with a decrease in the exchange rate of the US dollar, according to which the revenues are recorded.

  In respect of the reported period, sums of approximately NIS 8 million were paid for the hedging transaction to peg the price of gas in an agreement with the IEC at Delek Drilling and Delek Investments. Of this sum, approximately NIS 6 million were allocated to reducing the revenues from the sale of gas, while approximately NIS 2 million for financial expenses, in accordance with the ratio between the foreseen amount of gas in respect of which the hedging transaction was effected, and the amount of gas actually sold during the reported period.

- The operating income and the EBITDA in 2005 are net of the amortization of the costs of the Gad 1 drilling, in the sum of NIS 7 million, which were borne by Delek Drilling and which was abandoned.

- The financial expenses amounted to NIS 32 million during the reported period , as compared with NIS 48 million during the corresponding period last year.
  The decrease in financial expenses originates primarily from the decrease in the financial expenses of Delek Drilling, that amounted to NIS 5 million in the reported period, as compared with NIS 27 million in the corresponding period last year. The significant discrepancy between the two periods is attributed to the fact that the NIS was revaluated by 3.54% during the reported period, as compared with a devaluation of 6.17% in the corresponding period last year. As a result of the surplus liabilities over deposits and cash denominated in dollars at Delek Drilling, this revaluation led to revenues from exchange rate differentials of NIS 7 million, as compared with expenses of NIS 16 million in the corresponding period last year. On the other hand, an increase was recorded in financial expenses during the reported period, originating primarily from the 1.55% rise in the CPI during the reported period, as compared with a CPI increase of 0.5% in the corresponding period last year, that led Delek Energy Systems to incur expenses in the reported period on account of exchange rate differentials on loans in the sum of NIS 7.5 million, as compared with NIS 2.1 million in expenses in the corresponding period last year.

- The average daily consumption of natural gas by Israel Electricity Company ("IEC") varies, among other things, in accordance with seasonal changes in demand for electricity and according to maintenance work performed by the IEC. The said gas consumption by the IEC in the first half of the year was higher than it was in the corresponding quarter last year, *inter alia* because of maintenance work performed in the corresponding period last year at the Eshkol Power Station in Ashdod. We note that in early July, Reading power station in Tel Aviv began consuming natural gas, thereby increasing gas sales by the partnerships starting with the fourth quarter of the year. We nevertheless note that there are still significant delays in the schedule to connect additional IEC power stations to the national natural gas transportation network.

Additional Information

On August 15, 2006, the partners in the Yam Tethys Group and the IEC signed a supplementary agreement for the delivery of natural gas, pursuant to which IEC would be granted an option for the purchase of additional quantities of natural gas, primarily for the purpose of providing a solution to the need to supply natural gas during peak consumption hours at IEC, through to the end of 2007. The option relates to additional quantities of gas acquired starting July 2006. The purchasing price of natural gas according to the terms of the supplementary agreement is higher than the price in the existing agreement for the supply of gas.

2) Analysis of Assessment of Business Expenses when the Partnerships' Results are Denominated in US$ Translated Into NIS

Generally accepted accounting principles require that the consolidated financial statements be presented in NIS, while including the business results of the limited partnerships (Delek Drilling and Avner Oil Exploration) based on the data in their financial statements, which are formulated in NIS. Nevertheless, since all of the operations of the partnerships are effected in US$ – all the sales are in US$, the great majority of fixed assets are purchased in US$ and the financing is in US$ – the Company's management believes that it is appropriate to analyze the consolidated business results of the Company when they include the business results of the partnerships, formulated in US$ and translated into NIS, using the Autonomous Units technique.

The following are data concerning the Company's share in the earnings (losses) of the oil and gas sector, with the results of the limited partnerships being in US$ translated into NIS, as stated above.

	1-3/06	**4-6/06**	**1-6/06**	**1-6/05**	**2005**
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Income less royalties	58	51	109	78	182
Operating Income	35	29	64	44	99
The Company's share in results of Avner	8	6	14	9	21
Net income for the period	16	7	23	12	32

In accordance with the above, the revenues from the sale of gas, net of royalties to the State and to related parties (based on the partnerships' translated dollar-denominated financial statements) amounted to NIS 109 million in the reported period, as compared with revenues of NIS 78 million in the corresponding period last year.

The bulk of the increase originates from growth in the sale of natural gas to the IEC due to maintenance work that took place in the corresponding period last year at the Eshkol power station in Ashdod and partially from sales to ORL that were included in the reported period and that did not yet begin in the corresponding period last year.
The decrease in sales in the second quarter, as compared with the first quarter of 2006, is primarily attributed to the lower seasonal demand for electricity, that led to a decrease in the sale of natural gas to IEC in the second quarter of the year.

The net income in the reported period amounted to NIS 23 million, as compared with income of NIS 12 million in the corresponding period last year.

The main difference between the results of the partnerships in NIS and the results in US$ stems from exchange rate differentials (NIS/US$) on account of the partnerships' loans and deposits, whose impact on the business results was significant.

The difference in financial expenses between the reported period and the corresponding period last year is primarily attributed to the growth in the Company's financial expenses on CPI-linked loans, due to the 1.55% rise in the CPI during the reported period, as compared with a 0.5% rise in the CPI in the corresponding period last year.

3) **Global Oil and Gas Exploration**

a) Delek Vietnam, a wholly-owned subsidiary of Delek Energy Systems, is a partner in 25% in a project in Vietnam that includes the petroleum assets in blocks 12W and 12E, located at sea, some 400 km southeast of the Vietnam shore, at a sea depth of approximately 100 meters. Premier Oil Vietnam Offshore B.V. (Hereinafter: "Premier"), held the remaining 75% of the project and serves as the project operator.

   In late April 2006, Australian company Santos acquired 37.5% of the rights of Premier.

   The rights of the partners in the project are contingent upon an option held by a company controlled by the Vietnamese Government, to acquire 15% of the rights to the project and to supreme royalties, in favor of Opeco of Texas, at a rate of 3.8%.

The vertical verification drilling Dua-4X began on May 1st 2006 in the Dua oil field area in Block 12E. The drilling is located at a water depth of 108 meters and ended at Myocene-age layers at a depth of 3,670 meters, with the discovery of oil and gas. We note that Premier has covered the entire share of the subsidiary (Delek Vietnam) in the Dua-4X drilling and that upon the completion of the said drilling, Delek Vietnam has now started paying its share (25%) in the project's expenses. Pursuant to the discovery of hydrocarbons in the vertical drilling, a diagonal drilling was conducted (Dua-4X ST1) with the intention of obtaining additional geological information. In tests conducted in the vertical drilling and in the diagonal drilling, oil and core samples were removed and the pressure was measured, in order to assist in defining the quantity and quality of the hydrocarbons in the part of the Dua formation that lies North of the fault. Pursuant to completing the Dua-4X ST1 drilling, an additional diagonal drilling was started (Dua-4X ST2), in order to further evaluate the potential of the oil and gas reserves in the part of the Dua formation that lies South of the fault. Due to technical difficulties during the drilling, involving the crossing of a gas cross section within limestone over the main target layer, the drilling was sealed and was consequently restarted as a vertical drilling (Dua 5X) in the southern part of the Dua formation.

Upon completion of the Dua-5X drilling, Premier will initiate drill 12E-CS-1X in the Blackbird prospect, in order to examine the higher part of the great slanted block, where the 12E-LK-1X drill was previously performed.

The second stage of the work plan in block 12W, which consists of a seismic survey as part of the supplemental seismic coverage of blocks 12E and 12W, has begun in the second half of August 2006. The overall estimated budget for the seismic operations (100%) and the data processing totals approximately $2.4 million.

The updated budget for 2006 amounts to $56 million. Delek Vietnam's share in the said budget could amount to $9.5 million.

b) Delek Energy Systems has formed a wholly-owned subsidiary, Delek International Energy Ltd., that holds all the ownership in Delek Energy Systems US Inc. – that was recently incorporated in the USA (hereinafter: "DES USA").

An agreement was signed on August 16th 2006 in Houston, Texas, between DES USA and an American financial institution, pursuant to which DES USA would acquire the financial institution's share in the Aries One Limited Partnership, that deals in oil and gas exploration and production and is registered in the United States (hereinafter: "AriesOne").

The rights that will be acquired by DES USA are the rights of the limited partner and represent 83.49% of the rights in AriesOne. The remaining rights in AriesOne (16.51% of the rights) are held by the general partner Aries Resources LLC (hereinafter: "The General Partner"), a Houston-based American company that deals in the management and development of petroleum assets.

AriesOne owns petroleum assets located in the Southern USA (Texas, Louisiana, Colorado, Kansas, Oklahoma and New Mexico), including exploration and production areas containing 240 oil and natural gas wells.

For consideration of these rights as detailed above, DES USA will pay the seller a total sum of $7.3 million and will also assume the AriesOne liabilities, amounting to $0.3 million. DES USA also committed to invest a sum of $2 million in performing three development drillings in the proven reserves of AriesOne.
In addition to the above, principles were agreed upon for the limited partnership agreement and the management agreement pursuant to which the General Partner will manage the AriesOne operations during the period set forth in the agreement.

The closing of the deal and the full payment of the proceeds are dependent upon several contingent conditions.

c) In addition, DES is also working to locate and investigate additional investment opportunities in oil and gas exploration worldwide.

D. Automotive Operations

The following are the results of the operations of Delek Automotive:

	1-3/06	4-6/06	1-6/06	1-6/05	2005
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	1,009	1,134	2,143	1,848	3,868
Gross Profit	122	126	248	212	441
Operating Income	107	113	220	179	378
EBITDA	109	115	224	183	387
Financial Revenues (Expenses)	(10)	(15)	(25)	28	14
Profit after taxes	66	70	136	138	264
Company's share in the earnings of associated companies and partnerships	0.2	-	0.2	44	44
Net Income	67	70	137	182	309

The contribution of the automotive sector to the Group's net income in the reported period amounted to approximately NIS 72 million, as compared with approximately NIS 112 million in the corresponding period last year.

Delek Automotive Systems Ltd. (hereinafter: "Delek Automotive") is, as of the balance sheet date, held by the Group at a rate of approximately 55.4% and is a company whose shares are publicly traded, with published financial statements. Regarding the allocation of shares to the CEO of Delek Automotive, which resulted in a reduction in the Group's holding rate in Delek Automotive, see additional information below.

The gains as a result of the said allocation to the CEO, that were recorded during the reported period, total NIS 59 million (out of total earnings of NIS 112 million) and are included in the statements of income under the item "Earnings from realization of investments in investee companies". The remaining earnings will be recognized and adjusted over the next several years, in consideration, inter alia, of the current earnings of DAS, the liberation of the blocked shares and the non-exercise of the Delek Investments guarantee by the bank.

The following is the analysis of the results of operations of Delek Automotive:

Following are the Company's sales split by manufacturer:

	1-6/06	4-6/06	1-6/05	4-6/05	2005
MAZDA	12,441	6,530	10,733	6,064	21,875
FORD	6,873	3,749	5,465	3,553	12,197
Total Sales Delek Automotive	**19,314**	**10,279**	**16,198**	**9,617**	**34,072**
Market Share in Isreal(*)	25%	29%	23%	26%	23.5%

(*) Source: The Israeli Office of Registration

During the first Quarter Delek Automotive lunched a new off-road (Jeep) vehicle "Ford Explorer" that enters Delek Automotive into a new market segment. In the coming year Delek Automotive expects to lunch parallel to a world wide lunch of the new BT-50 MAZDA truck also in the Automatic model. In the year 2007 Delek Automotive expects to lunch a substantial number of new models, some will be in new segments for Delek Automotive in the Israeil market(for example MAZDA 2 that is in segment B, the Super Mini segment) that will expand and strengthen the Company operations in the automotive market.

במהלך הרבעון הראשון, השיקה דלק רכב, רכב שטח מסוג פורד אקספלורר שמהווה חדירה לפלח שוק חדש עבור החברה.

במחצית השנה הקרובה, מתעתדת דלק רכב להשיק במקביל להשקה עולמית את דגם ה-BT-50 הטנדר החדש של MAZDA גם בגרסה אוטומטית.

בשנת 2007 צפויה דלק רכב להשיק מספר רב של דגמים משמעותיים, חלקם בסגמנטים חדשים עבורה (כדוגמת מאזדה 2 בסגמנט B – סופר מיני) אשר יעמיקו ויחזקו את פעילותה בשוק הרכב.

Revenues

The sales turnover during the reported period amounted to NIS 2,143 million, as compared with approximately NIS 1,848 million in the corresponding period last year (approximately NIS 3,868 million for all of 2005). The sales turnover in the second quarter amounted to approximately NIS 1,134 million, as compared with approximately NIS 1,079 million during the corresponding quarter last year. The increase in turnover originates primarily from the rise in the number of vehicles sold.

Selling, Marketing, General and Administrative Expenses

The selling and marketing expenses decreased during the reported period as a result of the decrease in advertising expenses and the volume in relation to the corresponding period last year. General and administrative expenses for the reported period amounted to NIS 14 million, as compared with NIS 13 million in the corresponding period last year. An increase of NIS 1 million, originating from recording the economic benefit inherent in the options granted to the employees and the shares to the CEO of Delek Automotive. For more details, see below.

Financial Expenses, net

Financial expenses of approximately NIS 25 million were recorded by Delek Automotive during the reported period, primarily attributed to the payment of approximately NIS 21 million in interest on the debt to the banks, coupled with the registration of fair value on hedging transactions in the sum of approximately NIS 4 million. By comparison with these expenses, during the corresponding period last year, Delek Automotive recorded net financial revenues of approximately NIS 28 million, primarily as a result of the registration of the fair value of hedging transactions. The financial expenses possessed an adverse effect on the results of Delek Automotive, by quarterly comparison as well. In the current quarter, Delek Automotive incurred expenses of approximately NIS 15 million, as compared with revenues of approximately NIS 12 million in the corresponding quarter last year.

Net Income

The net income of Delek Automotive amounted to NIS 137 million in the reported period. The profit after taxes of Delek Automotive amounted to approximately NIS 136 million, as compared with approximately NIS 138 million in the corresponding period last year. The corresponding period last year included earnings of NIS 45 million, in the item "share in the profits of associated companies", as a result of the sale of the operations of the Shagrir subsidiary. The net income in the corresponding period last year therefore amounted to NIS 182 million.

Additional Information

1) In January 2006, the Company allocated 9,000,000 ordinary shares, each of NIS 1 par value, to the CEO, for a consideration of NIS 255 million (after deducting the placement expenses). Approximately half of the said proceeds were allocated to Delek Automotive's shareholders' equity on the issue date, while the second half was recorded under liabilities, given the option granted to the parties to acquire (sell) the CEO's shares in the event of termination of employment and will be allocated to shareholders' equity in line with the liberation of the blocked shares. The Delek Automotive CEO assumed two bank loans for the purpose of financing the acquisition of the shares: The first for financing the unrestricted shares and the second for financing the restricted shares (each in the sum of NIS 120 million). The said loans were assumed in Japanese yen, euro and US dollars.

   In order to secure the repayment of half of the loan for the acquisition of the blocked shares, Delek Investments made available a limited guarantee in the sum of NIS 60 million, while the DAS CEO made available approximately NIS 60 million in collateral to the bank.

   The benefit that is inherent in the guarantee granted by Delek Investments to the CEO, as described above, is estimated at NIS 2 million (approximately NIS 1.5 million, taking into account the blockage component).

The said benefit (net of the blockage component) will be recorded as an expenditure in the statements of income over the period of the blockage, while recording a parallel increase in shareholders' equity. A sum of NIS 0.3 million was accredited during the reported period.

2) In April 2006, a sum of 2,720,000 option warrants were granted free of charge to the employees of Delek Motors Ltd. (a subsidiary). These may be exercised into 2,720,000 ordinary shares of Delek Motors, 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 Delek Automotive, the total economic value of all the options granted pursuant to the plan, as at the date of the Board of Directors' decision, amounts to approximately NIS 17 million. The said economic value of the options was allocated to the wage expenses item in the statements of income of the company over the period of eligibility (General & Administrative expenses). Accordingly, a sum of NIS 0.7 million was allocated to the wage expenses in the second quarter.

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

E. Real Estate Operations

The following are the results of the operations of Delek Real Estate:

	1-3/06	4-6/06	1-6/06	1-6/05	2005
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	112	93	205	282	484
Gross Profit	47	37	84	116	198
Operating Income	25	11	36	94	154
Financial Expenses	47	77	124	113	242
Other Income (Expenses), Net	(1)	4	3	24	99
Share of profits of affiliates	79	246	325	37	130
Net Income	40	141	181	38	121
Total Assets	4,992	5,259	5,259	5,021	4,708

On January 26, 2006, Delek Real Estate allocated 11% of the share capital of the Company to Tarshish Hapoalim Holdings and Investments (hereinafter: "Tarshish") (a wholly owned subsidiary of Bank Hapoalim Ltd.) in consideration for the sum of NIS 260 million (approximately NIS 252 million after allocation expenses). Subsequent to the issuance of shares, as stated above, the Group's holding rate in Delek Real Estate has decreased to approximately 71.5%. On the same date, Delek Real Estate purchased all of the rights (13%) of B.P. Diur Ltd. (hereinafter – "Diur") (a wholly owned subsidiary of Bank Hapoalim Ltd.) in the share capital of Industrial Buildings Ltd. (hereinafter: "Industrial Buildings") for a consideration of NIS 254 million (including ancillary acquisition costs). Together with previous holdings of Delek Real Estate in Industrial Buildings, Delek Real Estate holds 13.38% of the Industrial Buildings shares subsequent to the acquisition. On March 6, 2006, Delek Real Estate acquired 2,000,000 additional shares of Industrial Buildings from third parties for a consideration of NIS 14 million, thereby bringing its total holdings to 14.02% of Industrial Buildings (12.85% fully diluted). The profit that was generated for the Group as a result of the issue amounts to approximately NIS 123 million, and is to be accredited to the statement of income in the reported period. For additional details see Note 3a(1) to the financial statements.

In 2006, Delek Real Estate continued the expansion of its international operations. If, at the start of 2005, Delek Real Estate was focused on the UK and Canada, it now owns assets in six different countries. Significant assets were purchased in Germany, Switzerland, Sweden and Finland, and it is Delek Real Estate's intention to expand investments in these countries, the emphasis being on economically stable countries.

The assets acquired during the reported period include: A building complex leased to Adidas in Germany; a building leased to Metro – a large retailing chain in Germany; a building leased to Deutsche Telekom; acquisition of an additional 3% of Linchfield, which currently owns 131 parking lots in the UK; two buildings in Finland that are leased to telco giant Telia-Sonora and the acquisition of land and a project for the construction of a commercial center in Switzerland and two adjacent shopping centers in Canada. For details, see "Investments in associated companies".

Furthermore, in line with the Delek Real estate strategy to occasionally realize assets, consolidated subsidiaries and an associated company of Delek Real Estate entered into agreements for the sale of its holdings in two projects – one in Sweden and one in Germany. (See "Investments in Associated Companies", below).

Parallel to international operations, during the past two years, Delek Real Estate has also significantly expanded its operations in the local real estate market. In May 2004, it purchased control of Dankner Investments, which became the Group's residential building branch in areas of demand, and through this company, Delek Real Estate currently controls thousands of residential units in various real estate projects and land reserves. A number of other income-generating assets in Israel should also be added to that.

A consolidated subsidiary of Delek Real Estate has started preparing a foreign subsidiary for an IPO on the London Stock Exchange. The estimated target date for the completion of the IPO is late 2006.

Asset Valuation:

Some of the associated companies of a consolidated subsidiary of Delek Real Estate formulate their financial statements according to international GAAP, including the implementation of International Standard 40, stipulating that income-generating real estate be presented according to fair value. A consolidated subsidiary of Delek Real Estate regularly appraises its assets using real-estate assessors from reputable firms.

In the course of June 2006, following indications of a substantial price increase in Germany, Switzerland, UK and Scandinavia that originated inter alia from transactions for the sale of assets initiated by a consolidated subsidiary of Delek Real Estate and/or its partners, and following preparations by a consolidated subsidiary of Delek Real Estate for an IPO on the London Stock Exchange, the management of a consolidated subsidiary of Delek Real Estate conducted appraisals of all its assets. As a result of the said appraisal, the said consolidated subsidiary of Delek Real Estate included its share in the increased value of income-generating real estate for the periods of six and three months ended June 30, 2006, in the sum of NIS 291 million and NIS 231 million respectively (out of an increased value of NIS 291 million, NIS 49 million are on account of assets sold subsequent to the balance sheet date, NIS 92 million are on account of assets acquired in 2006 and during the fourth quarter of 2005 and NIS 89 million are on account of assets in which the partners of a consolidated subsidiary have realized their share). The significant price hikes in these countries were caused primarily as a result of elevated demand for high-quality real-estate assets, as held by a consolidated subsidiary of Delek Real Estate, i.e.- assets located in prime locations, with tenants who are financially sound and who are under long-term leases. The said demand is generated primarily by funds, institutional players and large real-estate companies.

Results of Operations

The contribution of the real estate sector to the Group's net income in the reported period amounts to approximately NIS 129 million, as compared with approximately NIS 34 million in the corresponding period last year, in addition to NIS 123 million in capital gains created for the Group as a result of the private placement to Bank Hapoalim.

The following is an analysis of the results of operations of Delek Real Estate:

Revenues

1) Revenues from leasing fees during the reported period amounted to NIS 152 million, as compared with approximately NIS 169 million in the corresponding period last year.
The reduction in revenues in the sum of approximately NIS 17 million stems primarily from a reduction in leasing revenues in the UK in the sum of approximately NIS 46 million, due to termination of consolidation of the financial statements of companies and assets sold during the third quarter of 2005, net of the 13.5% increase in the exchange rate of the Canadian dollar, in relation to the corresponding period last year and net of revenues from new income-generating assets in Israel in the sum of NIS 16 million.

   The following are the details of leasing revenues in the reported period (not including revenues from associated companies) in NIS millions:

	1-6/06	**%**	**1-6/05**	**%**
UK	22	14.5	68	40.2
Canada	107	70.4	94	55.6
Israel	23	15.1	7	4.2
Total	**152**	**100.0%**	**169**	**100.0**

2) Revenues from the sale of apartments during the reported period amounted to NIS 53 million, as compared with NIS 108 million in the corresponding period last year, a decrease of NIS 55 million, originating primarily from the completion of projects and the fact that new projects have yet to reach the stage of revenue recognition. The outstanding revenues not yet allocated to the statement of income total NIS 97 million.

3) During the reported period, Delek Real Estate had no revenues from the sale of commercial space, offices and land, as compared with the corresponding period last year, when these revenues amounted to NIS 5 million.

Gross Profit

1) The gross profit from rentals in the reported period amounted to a sum of NIS 79 million, as compared with NIS 106 million in the corresponding period last year, a decrease of approximately NIS 27 million in gross profit.

   The decrease in the gross profit originates primarily from the NIS 31 million decrease in gross profit in the UK due to the discontinuation of the consolidation of the financial statements of companies and assets sold during the third quarter of 2005, coupled with a NIS 7 million decrease in the gross profit in Canada and by contrast, a NIS 11 million increase in the gross profit from new income-generating assets in Israel.

2) The gross profit from the sale of apartment inventories during the reported period amounted to NIS 5 million, as compared with NIS 10 million in the corresponding period last year.

General and Administrative Expenses

General and administrative expenses for the reported period amounted to NIS 48 million, as compared with NIS 22 million in the corresponding period last year.

The NIS 26 million increase in these expenses originates primarily from options granted to senior employees and a special grant (phantom) offered by Delek Real Estate and a consolidated subsidiary amounting to NIS 30 million, coupled with a NIS 6 million decrease due to the discontinuation of amortization of goodwill, starting January 1st 2006, pursuant to Accounting Standard No. 20.

Financial Expenses

Financial expenses for the reported amounted to NIS 124 million, as compared with approximately NIS 113 million in the corresponding period last year.

The NIS 11 million increase in financial expenses during the reported period originates primarily from the 1.25% increase in the Israeli CPI during the reported period, as compared with a CPI increase of 0.5% in the corresponding period last year, in terms of Known Indexes.

Tax Expenses

The tax expenses in the first half of 2006 amounted to approximately NIS 60 million, as compared with an expense of approximately NIS 1 million for the corresponding period last year. The NIS 59 million increase in tax expenses during the reported period originates primarily from a provision for taxes on account of the valuation of assets at associated companies.

Other Income

Other income, net, in the reported period, amounted to NIS 3 million, consisting mostly of dividends from the Delek Real Estate investment in the Hilton Hotel portfolio. In the corresponding period last year, other income amounted to NIS 24 million, originating mostly from the sale of assets in the UK.

Delek Real Estate's Share in the Earnings of Associated Companies

Delek Real Estate's share in the profits of associated companies (gross – excluding taxation influence) during the reported period amounted to NIS 325 million, as compared with NIS 37 million in the corresponding period last year.

An increase of NIS 288 million in relation to the corresponding period last year, originating primarily from the increased value of assets, that contributed NIS 291 million to the earnings, coupled with capital gains of NIS 5 million from the sale of a parking lot at Linchfield, net of NIS 9 million in the losses of other associated companies.

Investments in Associated Companies

1) In January 2006, 45% of the share capital of a foreign associated company owning two income-generating properties in the region of Vallila in Helsinki, Finland (hereinafter: "The Assets").

   The assets were acquired for 44 million euro (approx. NIS 246 million) and are leased in their entirety to Telia Sonera, the largest telco in Finland, for a leasing period terminating in February 2012 for one asset and in December 2010 for the second asset.

2) In two separate transactions in January 2006, 40% of the share capital of foreign companies owning two real-estate assets in Germany were acquired.

   The first transaction consisted of the purchase of an office building covering 12,800 m^2 that is leased until June 2015 to German telco Deutsche Telekom.

   The second transaction involved the acquisition of an asset consisting of a commercial center and office building covering 41,000 m^2 that is leased to 19 different tenants. The principal tenant (70% of the leasing fees) is METRO, a leading European retailer that is leasing the asset until the end of 2019.

3) An additional 3% of Linchfield shares were acquired in January 2006 for GBP 3 million (approx. NIS 24 million). The company owns 132 parking lots as at December 31, 2005. Subsequent to the acquisition, Delek Real Estate holds approximately 43% of Linchfield, through consolidated subsidiaries.

4) 40% of the share capital of a foreign company holding a real estate asset in Germany were acquired in February 2006 (hereinafter: "The Asset"). The asset is a complex consisting of five office buildings covering 22.5 thousand m^2 in central Germany. The asset is leased in its entirety to Adidas for a period terminating in February 2017.

5) In June 2006, the company completed the acquisition of 40% of the land and a project for the construction of a modern shopping center in Matran, in Western Switzerland. The construction of the commercial center began a few months ago, and its planned completion date is the end of 2006. The commercial center covers 16.7 thousand square meters, and will be leased to several tenants, with 85% of the rental income deriving from the main Lessee, Coop, one of the two largest retailers in Switzerland.

6) 40% of the share capital of a foreign company holding a real estate asset in Germany were acquired in May 2006 (hereinafter: "The Asset"). The asset is a modern office building in Frankfurt, with a central constructed area of 17 thousand m^2 (total constructed area of 23.9 m^2),in addition to 200 parking spots. The asset is leased in its entirety to subsidiaries of Alliance Insurance Company, until mid-2013.

7) In June 2006, a foreign subsidiary acquired 45% of the share capital of a foreign company owning two adjacent shopping centers in Canada (hereinafter: "The Assets"), covering an area of 43 thousand m^2 in the province of Quebec (the foreign subsidiary was granted an option to increase its holdings in the assets to 51%. The assets are leased primarily to Wal-Mart (accounting for 29% of the total leasing fees generated by the asset) as well as to fashion, office supplies, house ware and fast food chains. The leasing agreement with Wal-Mart is effective through 2023, with an extension option, while the other leasing agreements are also for the long term.

8) A foreign subsidiary of an associated company entered into an agreement in June 2006 for the sale of all its holdings (40%) in a foreign company holding an asset in Sweden that contains a shopping center and residential apartments, known as "Jacobsberg" (hereinafter: "The Asset"). The rights to the asset (100%) were acquired in 2004 according to an asset value of SEK 825 million (Swedish kronor – approx. NIS 504 million). The proceeds in the sale agreement are on the basis of an asset value of SEK 980 million (approx. NIS 598 million, reflecting an approximate value of the asset according to the assessment conducted as part of the financial statements as at June 30, 2006.

   The closing of the sale transaction is contingent upon a precondition regarding the waiver of rights by the local municipality and its approval of the sale.

9) In July 2006, a foreign subsidiary of a consolidated subsidiary finalized a transaction for the sale of all its rights (40% in final concatenation) in foreign companies that hold seven income-generating assets in Western Germany (hereinafter: "The Assets") that are leased to a Deutsche Telekom subsidiary, for a consideration of proceeds that reflect an asset value of 334 million euro (approx. NIS 1,870 million).

   During the reported period, the subsidiary of the consolidated subsidiary recorded gains from an increase in the value of assets, based on the value of real estate as stated above, in the sum of 29 million euro (approx. NIS 162 million). Delek Real Estate's share in the increased value of the assets is equal to NIS 65 million and was included in the statement of income under the Group's share in earnings of associated companies.

Additional Information

1) In January 2006, a stock option plan for Delek Real Estate employees and directors was approved, in accordance with the directives of Section 102 of the Income Tax Ordinance. For details, see Note 3a2 to the financial statements.

2) During the reported period, the Board of Directors of Delek Real Estate and the General Meeting of the Delek Real Estate shareholders approved an engagement of a Delek Real Estate consolidated subsidiary with a company wholly-owned by the son-in-law of the Group's controlling shareholder, for the granting of a special (phantom) bonus. For additional details, see Note 3a3 to the financial statements.

3) During the reported period, the management of Delek Real Estate approved the grant of a special (phantom) bonus to two of its employees (who are not interested parties). For further details see Note 3.a.3 to the financial statements.

4) Subsequent to the balance sheet date, in August 2006, Delek Real Estate conducted a private placement of additional non-convertible debentures (Series D) with a par value of NIS 371,057,014.

   Debentures were issued at a price of NIS 1.078 per NIS 1 par value. The total proceeds obtained from this placement amounted to NIS 400 million.

   The price of the debenture on the stock market the day prior to the allocation was NIS 1.085, representing 99.35% of the price at which the debentures were issued as part of the private placement. The terms of the issued debentures are identical to those of the existing debentures and they were registered for trade on the Tel Aviv Stock Exchange.

Within the framework of the private placement, the debentures received an A+ rating from Maalot - the Israel Securities Rating Company. The said rating is contingent upon the ability to maintain financial covenants (as stipulated when receiving the rating for the said series of debentures at the issuing date).

F. Gadot Biochemical Industries

The following are the results of Gadot Biochemical Industries:

	1-3/06	4-6/06	1-6/06	1-6/05	2005
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	100	99	199	186	375
Gross Profit	32	34	66	58	117
Operating Income	18	19	37	34	69
EBITDA	22	22	44	41	83
Financial Expenses	2	3	5	3	7
Net Income	11	12	23	21	47
Total Assets	454	460	460	473	451

The contribution of the biochemical sector to the Group's net income in the reported period amounted to approximately NIS 14 million and is identical to the contribution of the sector in the corresponding period last year. Gadot is a company whose shares are publicly traded and in which the Group holds 64.11% as at the balance sheet date.

Description of the Company and its Business Environment

Gadot Biochemical Industries, Ltd. (hereinafter: "Gadot") is a manufacturer of food supplements and chemicals for the food industry, health supplements, detergents and toiletries.

Gadot manufactures crystalline fructose, citric acid, citric acid salts, phosphate acid salts, and special citric acid-based salts. Most of the Gadot sales are made in European and North American markets, and its customers include the world's leading international companies in the food and detergent industries. The improvement in the Gadot business results during the reported period in relation to the corresponding period last year originated from growth in sales – primarily of high added value products, coupled with improved manufacturing efficiency. Gadot is acting to realize a business strategy intended to maintain a high rate of growth by way of strategic acquisitions outside of Israel, and to this end, it has contracted with investment banks which assist it in locating appropriate investment targets.

Results of Operations

Revenues

Gadot's revenues in the reported period grew by 7% to reach NIS 199 million (of which NIS 185 million from exports), as compared with NIS 186 million (of which NIS 171 million from exports) in the corresponding period last year. The growth in revenues is attributed primarily to the sale of fructose and special minerals. Gadot's NIS-denominated revenues also grew as a result of the growth in average dollar exchange rates during the reported period, as compared with the corresponding period last year.

Gross Profit

The gross profit during the reported period grew by 15% to reach NIS 66 million, as compared with NIS 58 million during the corresponding period last year. The gross profit in the second quarter of 2006 amounted to NIS 34 million, as compared with NIS 29 million in the corresponding quarter last year, representing an increase of 19%. The growth in gross profit is primarily attributed to growth in the sales of high added value products. On the other hand, higher energy prices in relation to the corresponding period last year were partially offset by improved manufacturing efficiency.

Selling and Marketing Expenses

The increased sales volume and the higher prices of maritime and ground shipping led to an increase in selling and marketing expenses in the reported period by approximately NIS 5 million, reaching a sum of NIS 23 million.

General & Administrative Expenses

General and administrative expenses grew by approximately NIS 1 million during the reported period in relation to the corresponding period last year and amounted to NIS 6 million. This growth is primarily attributed to the implementation for the first time of Accounting Standard No. 24 on account of options granted to company employees as part of the public offering.

Operating Income

The operating income during the reported period grew by 8% to reach NIS 37 million, as compared with NIS 34 million during the corresponding period last year. The operating income in the second quarter amounted to NIS 19 million, as compared with NIS 18 million in the corresponding quarter last year. The operating margin as a percentage of revenues – for both the reported period and the second quarter – remained unchanged at 18% and 19%, respectively.

Financial Expenses

The financial expenses amounted to NIS 5 million during the reported period, as compared with NIS 3 million during the corresponding period last year. Financial expenses for second quarter amounted to NIS 3 million, as compared with NIS 0.2 million in the corresponding quarter last year.

Income Before Taxes

The income before taxes on income grew during the reported period to reach NIS 32 million, as compared with NIS 31 million in the corresponding period last year. The income before taxes on income in the second quarter amounted to NIS 16 million, as compared with NIS 17 million in the corresponding quarter last year. The decrease in income before taxes on income in the second quarter is attributed to higher financial expenses.

Net Income

The net income during the reported period grew by 7% to reach NIS 23 million, as compared with NIS 21 million during the corresponding period last year. The growth in net income is attributed to the improved operating margin and the decrease in the tax rate for the reported period. The net income in the second quarter amounted to NIS 11 million, as compared with NIS 12 million in the corresponding quarter last year. The decrease in this result originated primarily from the higher financial expenses this quarter, as compared with the corresponding quarter last year.

G. Insurance and Financial Services

1) **Phoenix Holdings Ltd. (hereinafter: "The Phoenix")**

The following are principal data from the consolidated Phoenix financial statements:

	1-3/2006	4-6/2006	1-6/2006
	NIS millions	NIS millions	NIS millions
Profit - life insurance	104	21	125
Profit - general insurance	52	8	60
Revenues from investments and other income, net	21	33	54
Interest expenses on long-term liabilities	(11)	(20)	(31)
Income (Expenses), net, from other companies and insurance agencies	3	12	15
General & administrative expenses not allocated to the insurance business statements	(5)	(17)	(22)
Expenses related to reduction of original difference	(2)	(1)	(3)
Income Before Taxes on Income	**162**	**36**	**198**
Taxes on income	66	5	71
Company's share in net results of investee companies and minority interest in net results of consolidated subsidiaries	12	2	14
Net Income	**108**	**33**	**141**

In December 2005, Delek Investments acquired approximately 25% of the issued and outstanding share capital of The Phoenix for a consideration of NIS 720 million.

In June 2006, Delek Investments exercised its option to acquire an additional 8% of the issued and outstanding share capital of Phoenix for a consideration of NIS 213 million.

Delek Investments holds 33% of the issued and outstanding share capital of Phoenix as at the balance sheet date.

The company began recording earnings from the Phoenix operations during the reported period, at a rate of 25%.

Phoenix's contribution to the Group's net income during the reported period amounted to NIS 18 million.

On the basis of publications by the Association of Israeli Insurance Companies – based on the March 2006 data – Phoenix Insurance commands a 12.2% share of the general insurance market in Israel and 16.1% of the life insurance market.

Results of Operations

The profit from life insurance during the reported period amounted to NIS 125 million, of which NIS 21 million in the second quarter of the reported period. The decrease in earnings in the second quarter originates primarily from lower profit on investments in the capital market during the second quarter of 2006.

The lower earnings were also affected by the implementation for the first time of the directives of the Insurance Supervisor regarding the necessary mortality rate for determining pension coefficients for the purpose of estimating the reserves on account of pension-type life insurance policies. Pursuant to the directives of the position paper, the provision for pension was increased by NIS 7.8 million, of which NIS 1.7 million as a non-recurring increase of the provision for pension in the payment.

Revenues from investments in the life insurance sector during the reported period include gross profit of approximately NIS 35.5 million from the sale of Phoenix's full rights to the real estate known as the Givatayim Mall, as detailed below.

The profit from general insurance during the reported period amounted to NIS 60 million, of which NIS 8 million in the second quarter of the reported period. The decrease in earnings in the second quarter originates primarily from lower profit on investments in the capital market during the second quarter of 2006.

Changes in Investments During the Reported Period

(a) On April 9th 2006 and in accordance with the agreements reached between Phoenix Investments and the Excellence controlling shareholders and with Mizrahi Bank, the contingent terms have been met and the necessary authorizations obtained as required by law, for duly signing the agreements for the overall acquisition of 41% of the Excellence shares for a consideration of NIS 322.5 million.

(b) On May 17, 2006, Phoenix Insurance Properties and Construction (Commercial Centers) Ltd. entered into an agreement for the sale of the Company's full rights in the real estate known as the *Givatayim Mall*.

The proceeds of the sale amounted to NIS 147 million. As a result of the sale, Phoenix recorded capital gains (gross) of some NIS 35.5 million (NIS 26 million, net) in the second quarter.

(c) On June 4, 2006, Phoenix Insurance and Phoenix Investments and Finance Ltd. entered into an agreement with Habbas HZ Credit (1994) Ltd., for the sale of their entire holdings in the land and project known as the "Rothschild 1 Project". The proceeds of the sale amounted to NIS 92.7 million.

Phoenix Investments recorded earnings (gross and net) of NIS 6.8 million as a result of the sale. Phoenix Insurance recorded earnings of NIS 20.5 million (gross) and NIS 17.4 million (net). The Phoenix Group as a whole recorded quarterly earnings of NIS 27.3 million (gross) and NIS 24.2 million (net).

The Group's share in the profits derived from selling of "Givatayim Mall" and "Rothschild 1 Project" was not included within the reports due to the allocation of access of cost.

Memorandum of Understanding Regarding an Additional Investment in Phoenix

The Group announced on August 27, 2006 that the Delek Capital subsidiary (hereinafter: "Delek Capital"), entered into a Memorandum of Understanding on August 25, 2006, with Meir Automobile and Truck Company Ltd. and Meir Holdings (Phoenix) Ltd. (hereinafter: "The Sellers") for the purchase of shares of Phoenix Holdings Ltd. (hereinafter: "The Phoenix", representing 28.5% of the Phoenix share capital and voting rights (hereinafter: "The Sold Shares"), for a consideration of $213,750 thousand.

The validity of the share purchase transaction is contingent upon several preconditions (within 120 days), including obtaining all the necessary regulatory approvals according to law, and the approval of the certified organs of each party.

The closing date of the transaction shall take place ten (10) days subsequent to meeting the contingent preconditions.

As long as the Sellers shall hold Phoenix shares offering 20% or more of the capital rights and voting rights in Phoenix (hereinafter: "Holding A"), or less than 20% but no less than 10% (hereinafter: "Holding B"), Delek Capital and Delek Investments shall make use of their means of control over Phoenix to bring about the state whereby two directors in the case of Holding A, or one director in the case of Holding B, shall serve on the Phoenix Board of Directors, and shall be recommended by the Sellers and approved by Delek Capital.

In the event that the transaction is finalized, the Group will hold – indirectly – some 61.5% of the Phoenix share capital, thereby becoming the controlling shareholder in Phoenix, subject to obtaining the necessary authorizations.

2) **Menora Holdings Ltd.**

On March 13, 2005, a transaction was completed in which Delek Investments purchased 9.99% of the issued share capital of Menora Holdings Ltd. (hereinafter: "Menora") by way of a private placement of Menora in consideration for NIS 191 million. Furthermore, Delek Investments received an option (that may be exercised over a period of 18 months) to purchase from Menora an additional 5% of the issued and outstanding shares of Menora. On April 9th 2006, Delek Investments exercised the option for a consideration of NIS 107.4 million (approx. $23.3 million). The investment is presented in the books of Delek Investments as a permanent investment, according to the cost method.

During the reported period, dividend from Menora in the sum of approximately NIS 7.4 million was recorded to the statement of income. In 2005, dividend from Menora in the sum of approximately NIS 4 million was recorded to the statement of income.

3) **Delek Capital**

On August 4th 2006, a wholly-owned American subsidiary of Delek Capital Ltd., that is a subsidiary (94%) of Delek Investments, entered into a merger agreement whereby it would acquire all the share capital (100%) of Republic Companies Group Inc. (Hereinafter: "Republic").

The proceeds for each republic share is equal to $20.40 and the total proceeds amount to $290 million (NIS 1,275 million). The closing of the transaction is contingent upon – inter alia – obtaining the regulatory approvals necessary in the United States for such transactions, as well as upon the approval of the general meeting of Republic shareholders. The Company estimates that the completion of the transaction – including the payment of the proceeds subject to the preconditions – is expected to take place only toward the end of 2006, at a yet undetermined date. The manner of financing has not yet been finally determined and is contingent upon the structure of the taxation of the transaction, that has also to be determined. Republic is an insurance holding company whose shares are traded on NASDAQ. The Company will be delisted subsequent to its acquisition by the Company. Republic deals primarily in individual and commercial property insurance, as well as casualty insurance products for individuals and SMEs, primarily in Texas, Louisiana, Oklahoma and New Mexico.

The Republic financial statements are published in the United States. The following are principal financial data from the Republic financial statements over the past two complete fiscal years, as well as for the interim period up to the date of this report (in US$ millions):

True to June 30, 2006, the Republic assets total $817.5 million, while its shareholders' equity amounts to $164.3 million. True to December 31, 2005, the Company's total assets amounted to $851.7 million, while its shareholders' equity totaled $164.4 million. True to December 31, 2004, the Company's total assets amounted to $731.6 million, while its shareholders' equity totaled $169.4 million.

Republic's financial statements are formulated according to US GAAP.

H. Matav

The following are data from the Matav financial statements:

	4-6/06	4-6/05	1-6/06	1-6/05	2005
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	150	136	289	273	543
Gross Profit	17	18	30	37	61
Operating (loss)	(4)	(6)	(13)	(11)	(34)
Financial Expenses	13	15	25	27	51
Other Income	2	163	2	164	154
Net Income (loss)	(18)	145	(42)	132	69

During the course of 2004 the Group purchased 40% of the holdings of Matav – Cable Communications Systems Ltd. (hereinafter: "Matav"), by purchasing 20% of Matav shares from Dankner Investments and then by purchasing Dankner Investments which held an additional 20% of the Matav shares at the time.

Matav is one of three cable television companies in Israel that operate jointly under the "Hot" brand name and supply cable television services to approximately 931,000 households in Israel, as well as broadband Internet services to approximately 465,000 households. The three cable companies hold Hot Telecom as a partnership (Matav's share is approx. 26.6%), which commenced supply of telephony services to the general public in 2005. Matav's share of the multi-channel television market is approximately 26%.

On May 8th 2006, the three cable television ("CATV") companies announced the signing of an agreement, pursuant to which the operations of these three companies (Golden Channels, Tevel and Matav; hereinafter jointly: "The CATV Companies") will be merged in the CATV sector (hereinafter: "The Broadcasting Sector") and in landline communication services (hereinafter: "The CLEC Sector") (hereinafter: "The Transaction" or "Merger Transaction" or "Merger").

As part of the Merger, Matav will acquire the entire operations of the other parties in the Broadcasting Sector and in the CLEC Sector, by way of acquiring the operations and/or holdings in the corporations held by the CATV Companies (hereinafter: "The Merged Assets" and "The Merger", respectively). In return for the acquisition of the Merged Assets, Matav shall:

(a) Assume the financial liabilities of the Merged Assets in the sum of NIS 3 billion, as at Dec-31-2005.
(b) 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 its issued share capital, subsequent to the completion of the merger. The merger will take place retroactively as at January 1st 2006, with the operational significance being that the business results (assets and liabilities) of all parties to the Merger Transaction as of that date being considered Matav's business results, as a merged company since that date.

The closing of the transaction is contingent 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. Until the date of approval of the financial statements, the general meeting of shareholders of Matav and the meeting of unsecured creditors of the Tevel Group have approved the transaction, while court approval has also been received for the sale of the operations of the Tevel Group to Matav. There is no certainty that the remaining contingent 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. For additional details, see Note 3 to Matav's statements which are publicly available.

In the event that the merger of the CATV 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.

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 of its holdings in Matav during the reported period amounted to NIS 29 million, as compared with a loss of NIS 20 million in the corresponding period last year. The balance of the investment in Matav, as at June 30, 2006, amounted to NIS 320 million.

Revenues

Matav's revenues in the second quarter of 2006 amounted to NIS 150 million, as compared with NIS 136 million in the corresponding quarter last year.
Matav's revenues in the first six months of 2006 amounted to NIS 288.7 million, as compared with NIS 273.3 million in the corresponding period last year. The growth in revenues in relation to the corresponding quarter last year is primarily attributed to the following factors:

1) The revenues of the multi-channel TV broadcasting sector in the second quarter of 2006 amounted to NIS 136.2 million, as compared with revenues of NIS 120.4 million in the corresponding quarter last year. The growth in revenues is attributed to the grossing up of the full impact of the price raising process that was implemented in the middle of the first quarter, during an entire quarter, coupled with growth in revenues from premium content, namely revenues from the World Cup and Video On Demand (VOD) services.
   The number of CATV subscribers as at the end of the first quarter of 2006 amounted to 249.6 thousand, as compared with 252.2 thousand at the end of the corresponding quarter last year.

2) The revenues from the provision of broadband Internet services to the household sector fell from NIS 15.4 million in the corresponding quarter last year to NIS 13.4 million in the second quarter of 2006. The decrease in the revenues of the segment is attributed to the lower ARPU, as a result of the fierce competition in the market, despite the growth in the number of subscribers.

   The number of broadband Internet subscribers in the private sector as at the end of the second quarter of 2006, amounted to 121.8 thousand, as compared with 97.4 thousand at the end of the corresponding quarter last year.

Matav's ARPU amounted to NIS 191.4 at the end of the second quarter of 2006 (or NIS 181.5 net of the World Cup), as compared with NIS 172.6 in the corresponding quarter last year.

The revenues of the associated company HOT Telecom amounted to NIS 39.5 million in the second quarter of 2006, as compared with revenues of NIS 11.3 million in the corresponding quarter last year. HOT Telecom's revenues in the first six months of 2006 amounted to NIS 72.6 million, as compared with NIS 17.7 million in the corresponding period last year.

The number of telephony customers as at June 30, 2006 is 113 thousand, in addition to approximately 15 thousand customers with broadband Internet access for the business sector.

Operating Expenses

Matav's operating expenses in the second quarter of 2006 amounted to NIS 132.2 million, as compared with NIS 118.1 million in the corresponding quarter last year. The growth is primarily attributed to higher content expenses as a result of the broadcasting of the World Cup and the expansion of the Company's servicing network. Matav's operating expenses in the first six months of 2006 amounted to NIS 258.5 million, as compared with NIS 236.2 million in the corresponding period last year.

Gross Profit

Matav's gross profit amounted to NIS 17.4 million in the second quarter of 2006 (11.6% of revenues), as compared with NIS 17.7 million in the corresponding quarter last year (13% of revenues), representing a decrease of 1.7%. Matav's gross profit amounted to NIS 30.2 million in the first six months of 2006 (10.5% of revenues), as compared with NIS 37.1 million in the corresponding period last year (13.6% of revenues), representing a decrease of 18.6%.

Selling and Marketing Expenses

Matav's selling and marketing expenses in the second quarter of 2006 amounted to NIS 8.5 million, as compared with NIS 13.3 million in the corresponding quarter last year. The decrease in selling and marketing expenses is primarily attributed to the reduced advertising expenses, coupled with the lower wage expenses due to reduced personnel. Matav's selling and marketing expenses in the first six months of 2006 amounted to NIS 20.2 million, as compared with NIS 27.9 million in the corresponding period last year.

General & Administrative Expenses

Matav's General and Administrative expenses in the second quarter of 2006 amounted to NIS 13.2 million, as compared with NIS 10.5 million in the corresponding quarter last year. The G&A expenses in the current quarter include a non-recurring provision of NIS 1.5 million on account of the terminated employment of several senior employees at the Company following the merger process. Matav's G&A expenses in the first six months of 2006 amounted to NIS 23.4 million, as compared with NIS 20.1 million in the corresponding period last year.

Net Loss

Matav's net loss in the second quarter of 2006 amounted to NIS 17.5 million, as compared with earnings of NIS 145.4 million in the corresponding period last year, which included capital gains of NIS 170 million from the sale of Partner shares. Matav's net loss in the first six months of 2006 amounted to NIS 41.9 million, as compared with earnings of NIS 132.2 million in the corresponding period last year.

EBITDA

Matav's EBITDA (earnings before interest, taxes, depreciation and amortization) amounted to NIS 28.5 million in the second quarter of 2006 (19.2% of revenues), as compared with NIS 25.8 million (19.1% of revenues) in the corresponding period last year. Matav's EBITDA in the first six months of 2006 amounted to NIS 52.2 million (18.3% of revenues), as compared with NIS 53.7 million (19.8% of revenues) in the corresponding period last year.

Additional Information

On July 30, 2006, Matav completed its delisting process from NASDAQ and the removal of its registration from the SEC. The Company is now submitting its reports pursuant to Israeli securities regulations and its shares are registered for trade only on the Tel Aviv Stock Exchange.

An agreement was signed between Matav and Clal on July 25, 2006 for the sale of all the holdings of Matav Holdings in Barak, for a consideration of a total of NIS 29.8 million.

Matav holds 1.2% of the share capital of Partner.

Class Action Lawsuits and Requests for Approval of Class Action Lawsuits

For details regarding lawsuits against Matav (including petitions for some of these to be recognized as class action lawsuits) – see Note 4c to the financial statements.

I. Additional Operations

Infrastructures

1) **Seawater Desalination**

The Group's operations in the field of desalination are conducted via IDE Technologies Ltd. (Desalination Engineering), in which Delek Infrastructure holds 50%. (Delek Infrastructure is 100% owned by Delek Investments).

- In 2005, a seawater desalination plant, operating using the BOT method with the Government, began operating in Ashkelon. 50% of the plant are held by Desalination Engineering, via VID. The desalination plant supplies 100 million cubic meters of water a year at full capacity, following receipt of approvals from the Ministry of Health, the Desalination Authority and the Ministry of the Environment.

- In the reported period, Desalination Engineering began supplying an order received in 2005 for the supply of four desalination facilities, each designed to supply 24,000 cubic meters per day of feed water and process water to a refinery in India which is one of the largest refineries in the world. The sum of the transaction is approximately US$ 90 million. The facilities will be supplied within 15 to 24 months of the order date.

- On July 6th 2006, a subsidiary of Desalination Engineering submitted a bid for an Israeli Government tender regarding the planning, construction and operation ("BOT") of a seawater desalination plant in the Hadera region, with an output capacity of 100 million m^3 per annum. The shareholders in the said company include IDE and a company from the Shikun & Binui Holdings Ltd. Group – in equal parts.

2) **Electricity Generation Facility:**

On August 5, 2002, The Group established a wholly owned subsidiary (indirectly) under the name of IPP Delek Ashkelon Ltd. (hereinafter: "Delek Ashkelon"). Delek Ashkelon is engaged in building a facility for the generation of electricity that shall deliver electricity to the desalination plant in Ashkelon (in the context of the BOT agreements of VID and the State) and to others. At the end of the contractual period, the electricity facility will be transferred to the State.

The operation of the power station will be possible only once an inland pipeline for the delivery of natural gas to Ashkelon is built by Israel Natural Gas Routes Ltd. (hereinafter: "Gas Routes"), that is expected to be formed and operated. Gas Routes estimates that the pipeline will be completed by the end of November 2006, provided that certain conditions are met. At this stage, it cannot be determined with certainty that Gas Routes will achieve its targets.

Delek Ashkelon has reached an arrangement with IEC pursuant to which IEC has paid a sum of $8 million in compensation for the failure to deliver natural gas to Ashkelon under the conditions prescribed. The arrangement was concluded at the beginning of 2006.

Following the aforesaid, Delek Ashkelon recorded a sum of NIS 15 million in the first half of 2006 as revenues in the statement of income, equal to the level of operating loss accumulated by Delek Ashkelon since the date of the undertaking to supply electricity to VID (Sept-16-2005). The remaining compensation, in the sum of NIS 23 million, has been postponed and is presented under "deferred income". This balance will be recorded as revenues in the statement of income, in line with the operating loss that shall be incurred by the company in the future as a result of the delay in the supply of gas.

Notwithstanding the fact of receipt of the entire aforesaid sum of compensation, at this stage, it is not possible to determine the amount of the additional cost that Delek Ashkelon shall be required to pay on account of the delayed arrival of the natural gas, since it is not yet possible to determine with any certainty the date on which the supply of natural gas to the power station via the national transportation system will be made possible.

7. Details Concerning Exposure to and Management of Market Risks

No material changes occurred during the reported period, as compared with the 2005 report.

8. Directors Who Possess Accounting and Financial Qualifications and Skills

The Company has prescribed that there shall be a minimum of two directors who possess accounting and financial expertise.

The Company is of the opinion that given the fact that the board of directors of the holding company is small (seven directors) and the fact that the directors have rich commercial experience (even those who do not meet the definition of "accounting and financial experts") the above minimum number enables the board of directors to meet the duties imposed upon it under the law and the Company's documents of incorporation with respect to review of the Company's financial situation and the drafting and approval of its financial statements. This is in addition to the other grounds set out below.

In addition to the above, it should be further added that under the Company's procedures, the auditor of the Company is invited to every meeting of the board of directors at which the financial statements are discussed, and is available to the directors for providing any explanation that may be required in relation to the financial statements, either at the meetings in which he participates, or externally to such meetings.

It should also be noted that, under the law, every director who so desires is entitled, under circumstances justifying such and on such conditions as are set out in the law, to receive professional advice at the Company's expenses, for the purposes of performing his functions, including accounting and financial advice.

The directors with accounting and financial expertise are:

A. **Mr. Moshe Amit** – B.A. (Soc. Sci.). Has worked for over 40 years in various senior positions at Bank Hapoalim. Served as EVP and member of the board of management at the bank for ten years (since 1980) and then as joint CEO (1990), followed by acting CEO (2000-2003). He also acts as a director of Bank Hapoalim (Switzerland) and other companies.

B. **Prof. Ben-Tzion Zilberfarb (external director)** – Holds a PhD (Econ) from Pennsylvania University, Philadelphia, USA and an MA (Econ) from Bar-Ilan University. BA, Economics and Business Administration– Bar-Ilan University.
Previously served (1998-1999) as Director General of the Ministry of Finance.
Currently serves as Head of the Banking and Capital Market Program and Head of the Global Fund Management Department at Netanya College. Also serves as the Head of the A. Mayer Banking Center at Bar-Ilan University.
In the past, served as Dean of the Social Sciences Faculty at Bar-Ilan University (1993-1997) and as Head of the Economics Department at Bar-Ilan University (1992-1993), Director of the Azrieli Research Center for Israeli Economics (1991-1996) and Head of the Economic Research Institute (1987-1988) at Bar-Ilan University.
Also served – and currently serving – on the boards of directors of various large economic entities, including: Israel Discount Bank, Brimag Digital Age, Fundtech, Clal Provident and Continuing Education Funds, Partner, EuroTrade Bank, Karnit Insurance Company and more.

C. **Mr. Avraham Harel** – Holds an MA (Econ) from Tel Aviv University (1977) and a BA (Econ & Statistics) from Tel Aviv University (1973). Previously served as a lecturer at the Tel Aviv University Economics Department (1973-1984).
Recently served as VP, executive member and Director of the Financial Division and Information Division at Bank Hapoalim. Also served (and continues to serve) as a board member of various businesses, including: Poalim Capital Markets (Chairman), Bank Otsar Hachayal (Chairman), The Tel Aviv Stock Exchange, Maalot Israeli Rating Company Ltd., Continental Mutual Funds Ltd., Hapoalim International (Chairman), Bank Hapoalim (Switzerland), Bank Hapoalim (Luxembourg), Koor, Granite Hacarmel.

D. **Mr. Binyamin Davidai** – M.B.A. (Tel Aviv University). Served for approximately 18 years as CEO of a public company (Kaniel Ltd.). Since retiring as CEO of the above company some ten years ago, has served on the board of directors of a number of companies, including public companies. On August 30th 2006, Mr. Davidai announced his resignation from the board of directors.

9. Dividend

a. On March 29th 2005 the board of directors of the Company resolved to distribute a dividend out of the 2005 profits, at a rate of 557% of the paid-up share capital. The dividend amounted to approximately NIS 61.2 million and was paid on May 1, 2006.

b. The board of directors of the Company resolved, on May 30th 2006, to distribute a dividend out of the 2006 profits at a rate of 1,300% of the paid-up share capital. The dividend amounted to approximately NIS 149.7 million, and was paid on July 10, 2006.

c. On August 30, 2006, the board of directors resolved to pay a dividend out of the 2006 profits, at a rate of 2,150% of the paid up share capital. The dividend amounts to NIS 250 million, and will be paid on October 4th 2006.

10. Critical Accounting Estimates

No material changes occurred during the reported period, as compared with the 2005 report.

11. Changes in the Company's Board of Directors

The following changes were made to the Board of Directors subsequent to the balance sheet date.

A. Mr. Elad Sharon (Teshuva) was added to the Board of Directors on August 13, 2006 and was appointed Deputy Chairman of the Board of Directors.

B. On August 30, 2006, Mr. Binyamin Davidai announced his resignation from the Board of Directors.

The Board would like to thank Mr. Binyamin Davidai for his significant contribution to promoting the Company's endeavors and its success and wishes Mr. Elad Sharon (Teshuva) great success in his position.

12. Company Employees

The Board of Directors expresses its respect and appreciation to the management of the Company, to the management of its subsidiaries and to all of the employees for their dedicated work and for their contribution to promoting the Company.

Sincerely,

Gabriel Last	**Asi Bartfeld**
Chairman of the Board of Directors	CEO

Update to Chapter 1 (Corporate Description)
of the Periodic Report of the Delek Group Ltd. (hereinafter: "The Company")
for the Year 2005[1]

1. The Company's Activities and the Development of its Business

To Section 1.4:

On July 17th 2006, the Company raised NIS 300 million by way of a private placement of debentures (Series K) to institutional investors. The debentures will be repaid in a single payment within 12 years. The debentures are not convertible. The principal and interest thereupon are linked to the Consumer Price Index (CPI) and carry an annual interest rate of 5.4%, to be paid quarterly. Maalot - The Israel Securities Rating Company – has granted the debentures an AA rating. On August 22nd 2006, the Company raised an additional sum of NIS 100 million by way of a private placement to institutional investors of the same type of debentures, at identical terms. On August 29th 2006, the Company raised an additional sum of NIS 67.6 million by way of a private placement to institutional investors of the same type of debentures, at identical terms.

2. Equity Investments in the Company and Transactions in its Shares

To Section 3:

In the course of the months April-May 2006, debentures (Series E) with a carrying amount of NIS 212 million were converted. Subsequent to the balance sheet date, debentures (Series A2), debentures (Series B2) and debentures (Series E) were converted, with a carrying value of NIS 39 million. For additional details, see Note 7 to the financial statements dated June 30, 2006.

3. Dividend Distribution

To Section 4:

On May 30, 2006, the Company declared the distribution of dividend to its shareholders in the sum of approximately NIS 150 million. This dividend was paid in July 2006.

On August 30, 2006, the Company declared the distribution of dividend to its shareholders in the sum of approximately NIS 250 million. This dividend will be paid on October 4th 2006.

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[1] The update includes material changes or new events that have occurred in the Company's business in the course of the second quarter, in relation to any matter that needs to be described in the periodic report. The update refers to the section numbers appearing in Chapter A (Corporate Description) in the Periodic Report for 2005.

4. The Oil Refinery Segment

To Section 7:

On August 31st 2006, Delek US Holdings acquired several assets for its marketing network and oil refinery in return for $54.4 million, excluding inventories. These acquisitions were made from the Pride-LP Group and related companies, based in Abilene, Texas. The acquisition was financed by combining the proceeds of the offering that was conducted in May this year, along with two new credit facilities.

The acquired assets include two terminals for the marketing of fuel products located in Abilene and in San-Angelo, Texas; 114 miles of pipelines for the transportation of petroleum products and tanks for the storage of fuel products, with a total storage capacity of approximately one million barrels.

Delek US also acquired the fuel marketing operations of the Pride Group, that consist of the marketing of approximately 21,000 barrels a day through the two terminals owned by Delek US, an additional terminal located in Aledo, Texas and additional terminals throughout Texas. Delek US is also acquiring the Pride Group's rights to purchase up to 27,350 barrels of fuel products a day, subject to Pride's existing supply contracts.

The acquired assets include – in addition to the above – various refinery facilities located in proximity to the Abilene terminal, including an atmospheric facility and a vacuum facility for the refinery of crude oil, plus additional equipment. Delek US intends to use part of this equipment in order to improve the performance of the refinery owned by Delek US in Tyler, Texas. Moreover, Delek US will retain a ten-year option to acquire the land on which the Abilene refinery facilities are located.

5. The Fuel Products and Convenience Store Segment in the USA

To Section 8.17:

On July 13th 2006 and August 15th 2006, MAPCO Express, the Delek USA subsidiary, finalized a transaction for the acquisition of 43 gas stations with convenience stores, from Fast Petroleum in Dalton, Georgia. As part of this transaction, ownership rights were acquired in 30 stations and leasing rights in 13 stations, in return for a total sum of $46 million, excluding inventories. At this stage, the acquisition was financed by the proceeds of the offering that was conducted in May this year, coupled with the Delek US cash balance. The gas stations and convenience stores are located in North-Western Georgia and South-Eastern Tennessee – markets that lie in proximity to the regions where MAPCO currently operates.

6. The Fuel Products Segment in Israel

To Section 9.1.1(i):

Delek Petroleum has participated in the tender held by the Government Companies Authority for the sale of the State holdings and the holdings of Oil Refineries Ltd. ("ORL") in Ashdod Oil Refinery Ltd. ("AOR"). In the bidding process that was held July 31st 2006, the Company was selected as "Bidder No. 2", according to the bid of NIS 3,426 million submitted by Delek Petroleum in the bidding process, whereas Paz was selected as the "Preferred Bidder".

To Section 9.1.2(b):

On June 15th 2006, the Supreme Court upheld the appeal of the Anti-Trust Commissioner regarding the merger between Dor Alon and Sonol and ruled that the said merger should not be approved.

7. The Energy Segment

To Section 10.2.2:

a. Starting in early July 2006, the Reading Power Station in Tel Aviv is operating using natural gas that is supplied by the partners in the Yam Tethys project.

b. The partners in the Yam Tethys project have decided to approve the Operator's recommendation to conduct an additional development drilling (Mary 7B), at a cost of approximately $15 million, that is intended to increase the gas output capacity at the Mary gas field. The Operator of the Yam Tethys project estimates that the said development drilling may also render it possible to delay the performance of Stage B of the project development program, including the development of the Noa Reserve and its linkage to the existing treatment and transportation facilities.

To Section 10.3:

a. Regarding the /325 Rishon West oil license (Section 10.3.4) – the partners have decided to return the license.

b. The General Partner – along with Avner Petroleum and Gas Ltd. and Isramco Inc. – obtained two new offshore oil licenses Ohad/331 and Shimshon/332, in areas located 125 km and 100 km from the Tel-Aviv shore (respectively). The General Partner holds 25% of the rights to these licenses, whereas the Avner and Isramco holdings are equal to 25% and 50%, respectively. The licenses were granted for a period of three years and each cover an area of 400 square kilometers. The General Partner intends to transfer its rights to the said licenses to the Limited Partnership, subject to the approval of the General Meeting of the unit holders.

c. Regarding licenses Michal/308 and Matan/309 (Section 10.3.3) – An agreement was signed with Nobel Energy Mediterranean Ltd. ("Nobel") on July 24th 2006, stipulating – inter alia – that Nobel would be transferred 33% of the participation rights in the licenses. Nobel was also appointed operator of the licenses. Authorizations were received on Aug-21-2006 and Aug-28-2006 from the Petroleum Commissioner and from the Anti-Trust Commissioner and the agreement was finalized. The decision of the Anti-Trust Commissioner includes several limitations, as detailed in the immediate report filed by Delek Energy on Aug-28-2006.

d. An agreement was signed on August 16th 2006 between a wholly-owned sub-subsidiary company of Delek Energy (hereinafter: "DES USA") and an American financial institution, pursuant to which DES USA would acquire the financial institution's share in the AriesOne Limited Partnership, that deals in oil and gas exploration and production and is registered in the United States. The rights that will be acquired by DES USA are the rights of the limited partner and represent 83.49% of the rights in AriesOne. AriesOne owns petroleum assets located in the Southern USA, including exploration and production areas containing 240 oil and natural gas wells. In return for these rights, DES USA will pay a total sum of $7.3 million and will also assume the AriesOne liabilities, amounting to $0.3 million. DES USA also committed to invest a sum of $2 million in performing three development drillings in the proven reserves of AriesOne. The closing of the deal and the full payment of the proceeds are dependent upon several contingent conditions.

To Section 10.4:

The vertical verification drilling Dua-4X began on May 1st 2006 in the Dua oil field area in Block 12E. The drilling is located offshore, at a water depth of 108 meters and ended at Myocene-age layers at a depth of 3,760 meters, with the discovery of oil and gas. We note that Premier has covered the entire share of the subsidiary (Delek Vietnam) in the Dua-4X drilling and that upon the completion of the said drilling, Delek Vietnam has now started paying its share (25%) in the project's expenses. Pursuant to the discovery of hydrocarbons in the vertical drilling, a diagonal drilling was conducted (Dua-4X ST1) with the intention of obtaining additional geological information. In tests conducted in the vertical drilling and in the diagonal drilling, oil and core samples were removed and the pressure was measured, in order to assist in defining the quantity and quality of the hydrocarbons in the part of the Dua formation that lies North of the fault.
Pursuant to completing the Dua-4X ST1 drilling, an additional diagonal drilling was started (Dua-4X ST2), in order to further evaluate the potential of the oil and gas reserves in the part of the Dua formation that lies South of the fault.

The operations in the second diagonal drilling (Dua-4X ST2) have been completed. Due to technical difficulties during the drilling, involving the crossing of a gas cross section within limestone over the main target layer, the drilling was sealed and was consequently restarted as a vertical drilling (Dua 5X) in the southern part of the Dua formation. Upon completion of the Dua-5X drilling, Premier will initiate drill 12E-CS-1X in the Blackbird prospect, in order to examine the higher part of the great slanted block, where the 12E-LK-1X drill was previously performed.

The updated budget for 2006 amounts to $56 million. Delek Vietnam's share in the said budget could amount to $9.5 million.

To Section 10.19.3:

On August 15th 2006 the partners in the Yam Tethys project entered into a supplementary agreement for the sale of natural gas – with Israel Electric Company ("IEC") – for the supply of additional quantities of natural gas. Pursuant to the supplementary agreement, the partners in the Yam Tethys project granted IEC an option for the purchase of additional quantities of natural gas, primarily for the purpose of providing a solution to the need to supply natural gas during peak consumption hours at IEC. The said option will remain valid until the end of 2007 and relates to additional quantities of gas that were acquired starting July 2006. The purchase price of the gas, according to the terms of the supplementary agreement, is higher than the price at which the IEC buys natural gas, according to the existing gas supply agreement.

8. The Real Estate Segment

To Section 12.1:

On August 6th 2006, Delek Real Estate issued approximately NIS 400 million in debentures, by private placement. The allocation was performed by expanding the existing Series D of debentures. The debentures were registered for trade on the Tel Aviv Stock Exchange. Within the framework of the private placement, the debentures received an A+ rating from Maalot - the Israel Securities Rating Company. The rating is contingent upon the ability to maintain financial covenants (as stipulated when receiving the rating for the said series of debentures at the issuing date).

To Section 12.3.6.a:

a. In June 2006, Delek Real estate sold all its rights (40%) in a foreign company that holds the Jakosberg Center in Sweden, according to an asset value of 825 million Swedish kronor (approx. NIS 504 million). The closing of the sale transaction is contingent upon a precondition regarding the waiver of rights by the local municipality and its approval of the sale.

b. In July 2006, Sandstone (a foreign subsidiary of a consolidated subsidiary) finalized a transaction for the sale of all its rights (40% in final concatenation) in foreign companies that hold seven income-generating assets in Western Germany for proceeds that reflect an asset value (100%) of 334 million euro (approx. NIS 1,870 million).

To Section 12.3.6.b:

The transaction for the sale of the asset in the city of Matran in Western Switzerland – as detailed in the periodic report – was completed.

To Section 12.4.3:

In June 2006, a foreign subsidiary completed the acquisition of 45% of the rights (with an option to extend this to 51%) to a shopping center in Canada with floor space covering an area of 40,000 m^2. The asset is leased to Wal-Mart (accounting for 29% of the total leasing fees generated by the asset) as well as to fashion, office supplies, house ware and fast food chains. The leasing agreement with Wal-Mart is effective through 2023, while the other leasing agreements are also for the long term. The full leasing fees obtained on account of the asset total CAD 4,171 million. The asset was acquired in return for CAD 46,050 million.

9. The Biochemical Segment

To Sections 13.3, 13.8:

Notice was received from Roquette on April 14th 2006, regarding the termination of the agreement on October 31st 2006. Gadot estimates that the quantity of 3,000 tons – that will be liberated upon the termination of the agreement – will be able to be sold to other customers.

To Section 13.16:

A letter from the Haifa District of the Ministry of the Environment was received by Gadot on March 27th 2006, demanding that the Company select one of two alternatives regarding the discharge of purified waste water (effluent) into the Kishon River:

Alternative 1: Continued discharge of the effluent into the Kishon River on the basis of the standards of the Inbar Committee.

Alternative 2: Discharge of the effluent according to existing standards directly into the sea, via a marine discharge pipe that will be built for this purpose by the industry that will select this alternative.

Gadot is examining the various alternatives using experts, with the assistance of the Chemical Division at the Manufacturers' Association. Each one of the alternatives will require investments, either in the upgrading of the Company's effluent facilities or through participation in the construction of the marine discharge pipe. Gadot is currently unable to estimate the volume of necessary investments.

10. The Telecommunications Segment

To Section 14.11.2:

On July 25th 2006, a transaction was completed for the sale of the holdings of a wholly-owned subsidiary of Matav Cable Communications Systems Ltd. in Barak I.T.C. (1995) – International Telecommunications Services Corp. Ltd. ("Barak"). Accordingly, all the holdings in Barak – totaling 18.5% of the issued share capital of Barak – were transferred to Clal Industries and Investments Ltd. (also a Barak shareholder) in return for the total sum of NIS 29.8 million.

To Section 14.15.1:

On May 8th 2006, Matav and the other Cable Television ("CATV") companies in Israel signed an acquisition agreement pursuant to which the operations of all the CATV companies will be merged, in the areas of CATV transmission and fixed-line telephony services. 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 acquiring the holdings in the corporations they hold.

The closing of the deal is contingent upon several preconditions, including the completion of a due diligence examination, the signing of a final agreement relating to the credit facility and obtaining certain approvals from a third party and from regulatory entities.

For additional details regarding the acquisition and the financing thereof, see Note 3d to the Company's financial statements and Note 3 to the financial statements of Matav, published on August 22nd 2006.

To Section 14:

Matav's ADR certificates were delisted from trade on June 30th 2006, at which point the Company ceased reporting to the American SEC. Matav remains a company whose securities are publicly traded on the Tel Aviv Stock Exchange.

11. The Insurance Segment

To Section 15:

On June 18th 2006, Delek Investments completed the acquisition of the shares of Phoenix Israel Insurance Company Ltd. ("Phoenix") from Eliyahu Insurance Company Ltd. and Eliyahu Properties Ltd. ("Eliyahu Group"), in accordance with the directives of the Phoenix shares sales agreement dated October 12th 2005. Delek Investments acquired 9,119,991.44 shares of Phoenix at a price of NIS 14.6199 per share and 1,213,345.20 shares of Phoenix 5 at a price of NIS 66.0395 per share, amounting to a total of NIS 213,462,073 in off-market transactions.

Subsequent to the completion of the acquisition of the shares, as described above, Delek Investments holds approximately 33% of the Phoenix share capital and approximately 31% of the voting rights therein. On August 26th 2006, a subsidiary, Delek Capital Ltd., entered into a Memorandum of Understanding with Meir Automobile and Truck Company Ltd. and Meir Holdings (Phoenix) Ltd. (hereinafter: "The Sellers") for the acquisition of 28.5% of the issued and outstanding share capital and voting rights of Phoenix, in return for $213,750 thousand.

The validity of the share purchase transaction is contingent (within 120 days) upon several preconditions, including obtaining all the necessary regulatory approvals according to law, and the approval of the certified organs of each party. The closing date of the transaction shall take place ten (10) days subsequent to meeting the contingent preconditions.

As long as the Sellers shall hold Phoenix shares offering 20% or more of the capital rights and voting rights in Phoenix (hereinafter: "Holding A"), or less than 20% but no less than 10% (hereinafter: "Holding B"), Delek Capital and Delek Investments shall make use of their means of control over Phoenix to bring about the state whereby two directors in the case of Holding A, or one director in the case of Holding B, shall serve on the Phoenix Board of Directors, and shall be recommended by the Sellers and approved by Delek Capital.

In the event that the transaction is finalized, the Company will hold – indirectly – approximately 61.5% of the Phoenix share capital and approximately 60% of the voting rights therein, thereby becoming the controlling shareholder in Phoenix, subject to obtaining the necessary authorizations.

To Section 15:

On August 4th 2006, a wholly-owned American subsidiary of Delek Capital Ltd., that is a subsidiary (94%) of the Company, entered into a merger agreement whereby it would acquire all the share capital (100%) of Republic Companies Group Inc. (Hereinafter: "Republic").

The proceeds for each republic share are equal to $20.40 and the total proceeds amount to $290 million (NIS 1,275 million). The closing of the transaction is contingent upon – inter alia – obtaining the regulatory approvals necessary in the United States for such transactions, as well as upon the approval of the general meeting of Republic shareholders. The Company estimates that the completion of the transaction – including the payment of the proceeds subject to the preconditions – is expected to take place toward the end of 2006, at a yet undetermined date. The manner of financing has not yet been finally determined and is contingent upon the structure of the taxation of the transaction, that has also to be determined.

Republic is an insurance holding company whose shares are traded on NASDAQ. The Company will be delisted subsequent to its acquisition by the Company. Republic deals primarily in individual and commercial property insurance (for SMEs), primarily in Texas, Louisiana, Oklahoma and New Mexico.

Republic's financial statements are published in the United States and are formulated according to US GAAP. The following are principal financial data from the Republic financial statements over the past two complete fiscal years, as well as for the interim period up to the date of this report (in US$ millions):

True to June 30, 2006, the Republic assets total $817.5 million, while its shareholders' equity amounts to $164.3 million. True to December 31, 2005, the Company's total assets amounted to $851.7 million, while its shareholders' equity totaled $164.4 million. True to December 31, 2004, the Company's total assets amounted to $731.6 million, while its shareholders' equity totaled $169.4 million.

To Section 15.1.1:

Phoenix reported in July that the Company's net income in the second quarter of 2006 would decrease. For details regarding the Phoenix results of operations in the second quarter, see the Phoenix financial statements dated June 30, 2006 that were published August 28, 2006.

To Section 15.1.1.b:

The agreement that was signed between a Phoenix subsidiary (hereinafter: "The Subsidiary") and the controlling shareholders of Excellence Investments Ltd., pursuant to which the latter sold part of their holdings in Excellence to the subsidiary, was amended on June 20th 2006. The agreement also cancelled the initial Put option that was held by the controlling shareholders, for the sale of their remaining holdings in Excellence for a period of one year from the closing of the agreement. In parallel, the price formulas were corrected (derived from the future performance of Excellence) for the subsidiary's Call options and for the second Put option to the controlling shareholders for the sale of their remaining holdings in Excellence.

To Section 15.10.4:

On June 4, 2006, Phoenix subsidiaries entered into an agreement with Habbas HZ Investments (1960) Ltd., for the sale of their entire holdings in the Rothschild 1 Project for consideration of NIS 92.7 million.

12. Additional Operations

To Section 16.1 of the Report:

On July 6th 2006, a subsidiary of IDE Technologies Ltd. ("Desalination Engineering") submitted a bid for an Israeli Government tender regarding the planning, construction and operation ("BOT") of a seawater desalination plant in the Hadera region, with an output capacity of 100 million m^3 per annum. The shareholders in the said company include IDE and a company from the Shikun & Binui Holdings Ltd. Group – in equal parts. The Company indirectly holds 50% of IDE.

To Section 16 of the Report:

Participation in a Gas Station Tender in Europe

In response to media publications, the Company confirmed on August 3rd 2006 that its subsidiary, Delek Petroleum Ltd. (100%), was participating in a tender for the acquisition of 700 gas stations in Europe.

Delek Capital Ltd.

a. On May 30th 2006, Delek Capital Ltd. signed a memorandum of understanding with Messrs. Eyal Bakshi and Aharon Cohen regarding the intention of the parties to launch a joint venture that will deal in financial activity in Israel and overseas.

b. For details regarding the acquisition of Republic and the acquisition of holdings in Phoenix by Delek Capital, see the update regarding the insurance sector, above.

Aug-30-06

DELEK GROUP LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2006

UNAUDITED

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ERNST & YOUNG

■ **Kost Forer Gabbay & Kasierer**
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Tel-Aviv 67067, Israel

■ ***Phone: 972-3-6232525***
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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, 2006

At your request, we have reviewed the accompanying interim consolidated balance sheet of Delek Group Ltd. as of June 30, 2006, 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 25% of total consolidated assets as of June 30, 2006, and whose revenues constitute approximately 4% 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 843 million as of June 30, 2006, and the Company's equity in their earnings for the six and three months then ended totaled NIS 202 million and NIS 65 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 30, 2006

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

Consolidated Balance Sheets

	As at June 30		As at December 31
	2006	2005	2005
	Unaudited		Audited
	NIS Millions, Reported		
Current Assets			
Cash and cash equivalents	792	1,170	835
Short-Term Investments	1,009	418	681
Trade Receivables	2,722	2,356	2,356
Other Accounts Receivable	406	462	539
Inventories	1,627	1,383	1,679
Buildings and Land for Sale	66	52	41
	6,622	5,841	6,131
Long-Term Investments, Loans and Receivables			
Investments in investee and other companies	3,641	1,760	2,586
Real Estate for Lease	2,415	2,914	2,316
Real Estate under Construction	474	427	462
Long-Term Loans, Deposits and Receivables	454	441	429
Investments in Oil and Gas Exploration	794	817	794
	7,778	6,359	6,587
Fixed assets, net	2,629	2,238	2,518
Other Assets and Deferred Charges, Net	655	797	747
	17,684	15,235	15,983

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

Consolidated Balance Sheets

	As at June 30		As at December 31
	2006	2005	2005
	Unaudited		Audited
	NIS Millions, Reported		
Current Liabilities			
Short-Term Credit from Banks and Others	3,244	2,592	3,528
Trade Payables	1,787	1,530	1,633
Accounts Payable	907	720	627
Dividend Declared	150	43	-
	6,088	4,885	5,788
Long-Term Liabilities			
Long-term loans from banks and others	3,946	4,944	4,123
Debentures Convertible Into Company Shares	38	567	205
Debentures Convertible into Shares of Subsidiaries	313	47	315
Other Debentures	2,360	2,293	2,487
Accrued severance pay, net	13	13	13
Deferred Taxes	301	198	214
Other Liabilities	219	113	107
	7,190	8,175	7,464
Minority Interests	1,103	441	455
Shareholders' Equity	3,303	1,734	2,276
	17,684	15,235	15,983

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

August 30, 2006			
Date of approval of the financial statements	G. Last Chairman of the Board of Directors	A. Bartfeld CEO Responsible for Financial Matters	M. Amit Director

Consolidated Statements of Income

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2006	2005	2006	2005	2005
	Unaudited				Audited
	NIS Millions, Reported (Except profit per share data)				
Revenues	12,861	(* 8,279	6,857	(* 4,875	20,347
Less – excise and royalties	1,065	(* 975	529	(* 488	2,014
	11,796	7,304	6,328	4,387	18,333
Cost of Revenues	10,278	(* 6,279	5,448	(* 3,814	15,802
Gross Profit	1,518	1,025	880	573	2,531
Selling, Marketing and Gas Station Operating Expenses	461	(* 400	237	(* 204	861
General & Administrative Expenses	218	158	118	93	337
Operating Income	839	467	525	276	1,333
Financial Expenses, net	314	241	177	143	594
	525	226	348	133	739
Gains from realization of investments in investee and other companies, net	625	112	443	103	139
Other income, net	9	40	5	17	113
Income before taxes on income	1,159	378	796	253	991
Taxes on Income	233	96	162	57	339
Income after taxes on income	926	282	634	196	652
Group's share in earnings of affiliated companies and partnerships, net	282	73	204	21	146
Minority Interest in Earnings of Subsidiary, Net	(188)	(89)	(128)	(37)	(176)
Net Income	1,020	266	710	180	622
Net Earnings per share (in reported NIS) (**					
Basic net earnings per share	92.05	27.17	63.30	18.34	61.84
Diluted net earnings per share	87.70	24.76	60.67	16.48	58.05

(* Reclassified
(** 2005 – Reclassified, 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	Premium on shares	Capital Reserves	Proceeds from conversion option	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Unaudited						
	NIS Millions, Reported						
Balance as at January 1, 2006 (audited)	12	1,268	85	-	850	61	2,276
Splitting of conversion option component of convertible debentures (net of issuing expenses)	-	-	-	6	-	-	6
Differences arising from financial statements of investee companies adjusted to foreign currency	-	-	(10)	-	-	-	(10)
Dividend	-	-	-	-	(150)	(61)	(211)
Conversion of debentures into Company shares	1	222	-	(4)	-	-	219
Realization of option warrants into company shares	-	3	-	-	-	-	3
Net Income	-	-	-	-	1,020	-	1,020
Dividend declared subsequent to balance sheet date	-	-	-	-	(250)	250	-
Balance as at June 30, 2006	13	1,493	75	2	1,470	250	3,303

	Share Capital	Premium on shares	Capital Reserves	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Unaudited					
	NIS Millions, Reported					
Balance as at January 1, 2005 (audited)	11	771	90	569	104	1,545
Decrease in non-realized losses in an interest-swap transaction at an associated company	-	-	10	-	-	10
Differences arising from financial statements of investee companies adjusted to foreign currency	-	-	(8)	-	-	(8)
Dividend	-	-	-	(43)	(104)	(147)
Conversion of debentures into Company shares	-	47	-	-	-	47
Realization of option warrants into company shares	-	21	-	-	-	21
Net Income	-	-	-	266	-	266
Dividend declared subsequent to balance sheet date	-	-	-	(90)	90	-
Balance as at June 30, 2005	11	839	92	702	90	1,734

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

Statements of Changes in Shareholders' Equity

	Share Capital	Premium on shares	Capital Reserves	Proceeds from conversion option	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Unaudited						
	NIS Millions, Reported						
Balance as at April 1, 2006	12	1,278	102	6	1,010	150	2,558
Differences arising from financial statements of investee companies adjusted to foreign currency	-	-	(27)	-	-	-	(27)
Dividend	-	-	-	-	-	(150)	(150)
Conversion of debentures into Company shares	1	215	-	(4)	-	-	212
Net Income	-	-	-	-	710	-	710
Dividend declared subsequent to balance sheet date	-	-	-	-	(250)	250	-
Balance as at June 30, 2006	13	1,493	75	2	1,470	250	3,303

	Share Capital	Premium on shares	Capital Reserves	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Unaudited					
	NIS Millions, Reported					
Balance as at April 1, 2005	11	771	84	612	43	1,521
Decrease in non-realized losses in an interest-swap transaction at an associated company	-	-	8	-	-	8
Conversion of debentures into Company shares	-	47	-	-	-	47
Realization of option warrants into company shares	-	21	-	-	-	21
Dividend	-	-	-	-	(43)	(43)
Net Income	-	-	-	180	-	180
Dividend declared subsequent to balance sheet date	-	-	-	(90)	90	-
Balance as at June 30, 2005	11	839	92	702	90	1,734

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

Statements of Changes in Shareholders' Equity

	Share Capital	Premium on shares	Capital Reserves	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Audited					
	NIS Millions, Reported					
Balance as at January 1, 2005	11	771	90	569	104	1,545
Realization of interest-swap transaction at foreign associated company	-	-	11	-	-	11
Differences arising from financial statements of investee companies adjusted to foreign currency	-	-	(16)	-	-	(16)
Dividend distributed	-	-	-	(280)	(104)	(384)
Conversion of debentures into Company shares	1	357	-	-	-	358
Realization of option warrants into company shares	-	140	-	-	-	140
Net Income	-	-	-	622	-	622
Dividend declared subsequent to balance sheet date	-	-	-	(61)	61	-
Balance as at 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

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2006	2005	2006	2005	2005
	Unaudited				Audited
	NIS Millions, Reported				
Cash Flows from Operating Activities					
Net Income	1,020	266	710	180	622
Adjustments required to reflect cash flows from operating activities (a)	(400)	(129)	(183)	(171)	(69)
Net cash provided by operating activities	620	137	527	9	553
Cash Flows from Investing Activities					
Acquisition of fixed and other assets	(267)	(99)	(181)	(40)	(322)
Investments in real estate for construction and leasing	(136)	(19)	(65)	(13)	(347)
Proceeds from realization of fixed assets and real estate	3	186	-	75	316
Realization (acquisition) of marketable securities, net	(383)	4	(565)	15	(262)
Collection of long-term loans granted	114	43	81	10	56
Withdrawal (deposit) of deposits, net	70	(347)	40	63	(358)
Increase in joint ventures for oil and gas exploration	(18)	(1)	(10)	(1)	(6)
Gains from realization of investments in investee and other companies	-	30	-	-	50
Investments in Investees and Other Companies	(781)	(283)	(388)	(7)	(1,130)
Acquisition of newly-consolidated subsidiaries and operations (b)	-	(297)	-	(297)	(487)
Proceeds from realization of investments in previously-consolidated subsidiaries (c)	9	-	-	-	192
Granting of loans to others, net	(3)	(22)	(13)	(16)	(25)
Net cash used in investing activities	(1,392)	(805)	(1,101)	(211)	(2,323)
Cash Flows from Financing Activities					
Short-term credit from banks and others, net	(118)	(626)	145	141	(220)
Long-Term Loans received	644	1,677	221	1,137	1,960
Long-Term Loans repaid	(843)	(1,526)	(362)	(982)	(1,978)
Issue of shares to minority interest in consolidated subsidiaries, net	1,254	162	751	162	163
Dividend distributed	(61)	(104)	(61)	(26)	(384)
Dividend distributed to minority interest in subsidiaries	(28)	(14)	(6)	(14)	(125)
Realization of option warrants into company shares	3	21	-	21	140
Proceeds on account of options exercised into debentures of consolidated subsidiary	-	58	-	58	58
Issue of debentures and debentures convertible into shares, net	-	1,709	-	292	2,733
Redemption of debentures and debentures convertible into shares	(114)	(71)	(45)	(25)	(296)
Net cash provided by financing activities	737	1,286	643	764	2,051
Translation Differences in Respect of Cash Balances in Autonomous Investee Companies	(8)	7	(15)	7	9
Increase (Decrease) in Cash and Cash Equivalents	(43)	625	54	569	290
Cash and Cash Equivalents at Beginning of Period	835	545	738	601	545
Cash and Cash Equivalents at End of Period	792	1,170	792	1,170	835

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

Consolidated Statements of Cash Flows

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2006	2005	2006	2005	2005
	Unaudited				Audited
	NIS Millions, Reported				
(a) Adjustments required to reflect cash flows from operating activities					
Income and expenses not involving cash flows:					
Depreciation, depletion, amortization and impairment of assets	151	166	74	97	350
Deferred taxes, net	88	16	60	14	49
Increase (decrease) in accrued severance pay	3	(3)	3	-	(4)
Decrease (increase) in value of loans granted, net	(8)	-	(6)	6	(17)
Gain from realization of fixed assets, real estate and investments, net	(629)	(139)	(444)	(113)	(246)
Group's share in non-distributed earnings of affiliates and partnerships, net (1) (2)	(340)	(27)	(247)	(21)	(51)
Decrease (increase) in value of securities and deposits, net	10	(4)	11	(1)	1
Increase in value of long-term liabilities, net	55	69	37	67	160
Minority Interest in Subsidiary Earnings, net	188	89	128	37	176
Changes in asset and liability items:					
Increase in Trade Receivables	(363)	(569)	(223)	(609)	(605)
Decrease (increase) in other accounts receivable	9	(64)	(13)	(28)	(86)
Decrease (increase) in inventories	40	81	(143)	(160)	(103)
Increase in Trade Payables	187	240	462	496	363
Increase (decrease) in other accounts payable	209	16	118	44	(56)
	(400)	(129)	(183)	(171)	(69)
(1) Net of dividends received	2	46	2	-	101
(2) Prior to tax impact on account of Group's share in associated company earnings	60	-	45	-	6
(b) Acquisition of newly-consolidated subsidiaries and operations					
Working capital, net (excluding cash)	-	(196)	-	(196)	(211)
Fixed assets, real estate, investments and other property	-	(154)	-	(154)	(339)
Long-Term Liabilities	-	53	-	53	63
	-	(297)	-	(297)	(487)

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

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2006	2005	2006	2005	2005
	Unaudited				Audited
	NIS Millions, Reported				
(c) Proceeds from realization of investments in previously-consolidated subsidiaries					
Working capital (excluding cash)	9	-	-	-	27
Investments in Associated Companies	-	-	-	-	(75)
Real estate for lease and construction, net	-	-	-	-	762
Deferred expenses, net	-	-	-	-	33
Loans from banks	-	-	-	-	(644)
Gains from realization of investments in consolidated subsidiaries	-	-	-	-	89
	9	-	-	-	192
(d) Significant Non-Cash Operations					
Increase in "Investments in gas and oil exploration" against liabilities	14	-	14	-	-
Acquisition of fixed assets on credit	20	16	1	16	22
Declared dividend	150	43	150	43	-
Receivables on account of divestiture of investments	-	10	-	10	13
Dividend and earnings to pay to minority interest at consolidated companies	71	85	71	85	72
Dividend and earnings to receive from associated companies	19	-	19	-	70
Conversion of debentures into Company shares	219	47	212	47	358
Conversion of debentures into shares of consolidated 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 at June 30, 2006, 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 at December 31, 2005 and for the year then ended (hereinafter: "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 annual financial statements, except as described in Section 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".

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 24 million, NIS 12 million and NIS 55 million for the six and three months ended June 30, 2005, and for the year ended December 31, 2005, respectively. The balance of goodwill as at 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 all 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 27.03, NIS 18.29 and NIS 58.0 for basic earnings per share (per NIS 1 par value) for the six and three months ended June 30, 2005, and for the year ended December 31, 2005, respectively and for the diluted earnings per share (per NIS 1 par value): NIS 24.89 and NIS 16.34 for the six and three months ended June 30, 2005. The comparative data of diluted earnings per share for the year ended December 31, 2005, are presented in these financial statements for the first time.

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.

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 approximately NIS 6 million and minority interests by approximately NIS 1 million, while reducing the Group’s 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 at December 31, 2005, presented in other assets, was offset on January 1, 2006, from the balance of the debentures and loans.

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 June 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 June 15, 2005, even if the modifications relate to grants that were made before this date. In the financial statements for 2006, the financial statements for 2005 shall be restated in order to reflect the expense relating to the aforementioned grants.

For liabilities arising from share-based payment transactions existing as of the effective date, it will be necessary to apply the provisions of the Standard retrospectively. The Company should restate the comparison data, including adjusting the opening balance of retained earnings for the earliest period in which comparison data are presented.

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 six and three months ended June 30, 2006, a total of approximately NIS 34 million and NIS 20 million, respectively, 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 2005 data 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.

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. Parameters have been set as part of the Clarification that must be taken into consideration in determining the manner 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.

C. Disclosure of the effect of new Accounting Standards in the period prior to their adoption:

1. Accounting Standard No. 29 - Adoption of International Financial Reporting Standards (IFRS)

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" ("the Standard").

International Financial Reporting Standards comprise standards and interpretations adopted by the International Accounting Standards Board, and include:

(a) International Financial Reporting Standards (IFRS)
(b) International Accounting Standards (IAS)
(c) Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by its predecessor, the Standing Interpretations Committee (SIC).

Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 1968, and that are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. These companies, as well as other companies, may adopt IFRS early and prepare their financial statements in accordance with IFRS starting with financial statements that are issued subsequent to July 31, 2006.

For transition purposes, companies that prepare their financial statements in accordance with IFRS will be required to adopt the provisions of IFRS 1, "First-time Adoption of IFRS".

A company that adopts IFRS commencing from January 1, 2008, and that has elected to include comparative data for only one year (2007) will be required to prepare an opening balance sheet as of January 1, 2007 ("Opening IFRS Balance Sheet"). The Opening IFRS Balance Sheet will require the following:

- Recognition of all assets and liabilities whose recognition is required by IFRS.
- De-recognition of assets and liabilities if IFRS do not permit such recognition.
- Classification of assets, liabilities and components of equity according to IFRS.
- Application of IFRS in the measurement of all recognized assets and liabilities.

In order to ease first-time adoption, a number of exemptions from IFRS have been granted in respect of the Opening IFRS Balance Sheet, which exemptions may be elected, in whole or in part. Exceptions have also been established which prohibit retrospective application of certain aspects of IFRS.

According to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, a balance sheet as of December 31, 2007, and a statement of income for the year then ended, that have been prepared based on the recognition, measurement and presentation criteria of IFRS.

There are differences between IFRS and generally accepted accounting principles in Israel in the recognition and measurement of assets and liabilities and in reporting and disclosure requirements. These differences could have a material impact on the Company's financial position and results of operations. The first-time adoption of IFRS will require the Company to identify such differences, a process that will entail a significant amount of time and resources.

The Company is evaluating the implications of the transition to IFRS but is presently unable to estimate the effect of the adoption of IFRS on its financial statements.

2. Accounting Standard No. 26 - Inventories:

In August 2006, the Israel Accounting Standards Board published Accounting Standard No. 26, "Inventories" ("the Standard").

The Standard applies to all types of inventories, excluding inventory of work in progress, which is subject to the provisions of Accounting Standard No. 4, "Construction Contracts", inventory of buildings for sale, which is subject to the provisions of Accounting Standard No. 2, "Construction of Buildings for Sale" and financial instruments.

The Standard determines that inventories will be measured at the lower of cost or net realizable value. Net realizable value represents the estimated selling price during the ordinary course of business with the deduction of the estimated completion costs and costs required for the execution of the sale. The cost of inventory will be determined based on the "first in - first out" method (FIFO) or using weighted average cost, provided that the application in respect of each inventory with a similar nature and use is performed on a consistent basis. The evaluation of inventory based on the "last in - first out" method (LIFO) is no longer permissible.

In accordance with the Standard, in cases where inventories are purchased under credit terms whereby the arrangement involves a financing component, inventories will be presented at the cost adjusted to the cash purchase cost and the financing component will be recognized as a financial expense over the credit period.

As for burdening costs of conversion to inventories, it was established that if, in a particular period, manufacture is not carried out according to standard production outputs, then cost of inventories will not include additional fixed overhead costs in excess of those required during standard production. Such unburdened costs will be carried as an expense in the statement of income in the period in which they were incurred. Furthermore, cost of inventories is not to include irregular amounts of cost of materials, labor and other costs resulting from inefficiency.

When an impairment of inventories has been recognized and is followed by an increase in value, the impairment recognized in the past is to be canceled. The amount of the impairment or its cancellation will be carried to cost of sales in the statement of income.

The Standard will be applicable to financial statements for periods beginning January 1, 2007 and thereafter. The provisions of the Standard are to be applied retroactively by the restatement of comparative figures relating to previous periods.

The Company believes that the effect of the new Standard on its financial position, results of operations and cash flows is not expected to be material.

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

	Consumer Price Index	Representative exchange rate of				
		GBP	CAD	US dollar	100 Japanese yen	Euro
	In Israel (*					
As at	Points			NIS		
June 30, 2006	111.7	8.138	4.000	4.440	3.869	5.643
June 30, 2005	108.0	8.197	3.711	4.574	4.131	5.527
December 31, 2005	110.0	7.941	3.956	4.603	3.961	5.446
Rate of increase (decrease) for the period	%			%		
June 2006 (6 months)	1.5	2.5	1.1	(3.5)	(1.3)	3.6
June 2006 (3 months)	1.0	0.1	(0.5)	(4.8)	(2.6)	(0.3)
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)
December 2005 (12 months)	2.4	(4.6)	10.5	6.8	(5.7)	(7.3)

(* CPI according to average base, 2000 = 100.

Note 3:- Investment in investee and other companies

A. REAL ESTATE OPERATIONS

1. On January 26, 2006, Delek Real Estate (hereinafter: "Delek Real Estate") allocated to Tarshish Holdings and Investment Hapoalim Ltd. (hereinafter: "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 NIS 260 million (approx. NIS 252 million after dividend adjustment and issuing 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 US$ 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. (hereinafter: "Diyur") (a company wholly-owned by Bank Hapoalim Ltd.) in the share capital of Industrial Buildings Ltd. (hereinafter: "Industrial Buildings") in return for 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 the 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 at June 30, 2006, to 43,388,797 shares, representing 14.02% of Industrial Buildings (12.85% 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, 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. The said options expired on June 15, 2006.

   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 NIS 123 million and were included in the statement of income as "Gains from realization of investments in investee companies".

2. In January 2006, a plan was approved for the allocation of 7,317,474 option 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 directives 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 (approx. 20% every year). The fair value of the options granted totaled NIS 78 million (the share of the Group's CEO is NIS 9.7 million) and was allocated to the statement of income over the period of eligibility.

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 an associated company of Delek Real Estate (hereinafter: "The Agreement") with R.G. Naor Management Services Ltd. (hereinafter: "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 (hereinafter: "The Bonus") once a year starting June 1st 2006, for a period of five years (five batches), provided that Naor continues to provide the Company 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 the parent company 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 Delek-Belron 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 the said bonus, as stated above and no later than December 31, 2010. In the event that Naor does not demand the bonus on account of a particular year, this eligibility will be preserved and will accrue until the end of the said period.

   According to the Black and Scholes calculation formula, the fair value of all the bonus options that were granted to Naor according to the said plan, on the date of approval of the general meeting, is NIS 19.9 million. The fair value of the options as at June 30, 2006 amounted to NIS 20.5 million.

   Furthermore, the management of Delek Real Estate decided, on May 31, 2006, to grant two of its employees a special (phantom) grant (hereinafter: "The Grant") that will enter into effect once every year starting June 1, 2006, for a period of five years (five tranches), provided they continue to be employed by the Company at the date of eligibility. The level of the bonus for each year will be derived from the difference between the price of the Delek Real Estate shares on the stock exchange and the exercise price as determined between the parties, subject to adjustments, for each eligibility date, multiplied by 83,365 shares (the said total for both employees together).

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

According to the Black and Scholes calculation formula, the total fair value of the bonus options that were granted to the employees pursuant to the said plan, as at May 31, 2006, is NIS 4.5 million. The fair value of the options as at June 30, 2006 amounted to NIS 4.1 million.

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

5. Some of the associated companies of Delek Real Estate prepare their financial statements according to International GAAP, including the implementation of International Accounting Standard 40, stipulating that income-generating real estate be presented according to fair value. As part of the preparations of a foreign subsidiary of Delek Real Estate for a stock offering on the London Stock Exchange and in light of the estimates of the Delek Real Estate management regarding a significant rise in real estate prices in Europe (based inter alia on transactions conducted during the reported period and thereafter by the company and/or its partners), during the reported period the associated companies reexamined the value of the real estate they own, with the purpose of determining its fair value.

   As a result of the said appraisal, Delek Real Estate included its share in gains from the increase in value of income-generating real estate at associated companies for the periods of six and three months ended June 30, 2006, in the amount of NIS 232 million and NIS 187 million respectively (after influence of taxes). The fair value of the income-generating real estate was determined according to the appraisal of external experts that determined the value on the basis of the value between a willing buyer and a willing seller.

6. In their review of the financial statements as at June 30, 2006 of the affiliate Hof Hacarmel Recreation and Tourism 89 Ltd. (hereinafter: "Hof Hacarmel"), the CPAs draw attention to the financial condition of Hof Hacarmel and to its dependency upon continued financing of its activity, primarily by banks.

As at June 30, 2006, Hof Hacarmel has an equity deficit amounting to approximately NIS 166 million and a working capital deficiency amounting to approximately NIS 389 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 37 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 at 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.

7. In the course of the six months ended June 30, 2006, a Delek Real Estate consolidated subsidiary acquired – through associated companies (in which the holdings amount to 40%-45%) – income-generating assets that are leased for extended periods, in Germany, Finland, Switzerland and Canada. The volume of asset acquisitions that was performed by the associated companies amounted to NIS 2 billion. The acquisition of assets was financed primarily by non-recourse loans from banks and by shareholder loans (the share of Delek Real Estate amounts to NIS 135 million).

8. In the six-months ended June 30, 2006, a foreign subsidiary of Delek Real Estate entered into agreements for the sale of two associated companies that hold income-generating assets in Sweden and in Germany, in return for a total of NIS 990 million. The proceeds of the sale reflect the value of assets as they are included in the financial statements of the associated companies as at June 30, 2006 (subsequent to valuation).
One transaction was finalized subsequent to the balance sheet date, while the closing of the second transaction is subject to preconditions.

B. FUEL AND REFINERY ACTIVITIES IN THE USA

1. In May 2006, a consolidated subsidiary in the USA, Delek US Holdings Inc. (hereinafter: "Delek US") conducted 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 Group recorded capital gains of NIS 443 million, that were included under the item "Gains from realization of investments in investee and other companies".

   Pursuant to the Note 9j(2)(d) to the annual financial statements, following the Delek US offering, option warrants that were previously granted to the Delek US CEO are now valid and may be exercised into 3.9% of the issued and outstanding share capital of Delek US (post-IPO).

   Furthermore, within the framework of the IPO, employees and managers at Delek US were granted 1,648,490 option warrants that may be exercised into 1,648,490 ordinary shares of the company (representing 3.2% of its issued and outstanding share capital), in return for the total sum of $28 million. The options will vest over periods of three to five years. The directors of Delek US were also allocated 71,500 blocked shares. The shares will be unblocked over a period of four years from the IPO date. The fair value of the options and shares granted to the employees and directors, as detailed above, totaled $8.3 million (approx. NIS 37 million) and will be allocated to the statement of income over the period of eligibility.
   In the event that all the options issued by Delek US are exercised, the Group's holdings in Delek US are expected to decrease to 72.2%.

2. Subsequent to the balance sheet date, in July 2006, Delek US acquired – through a wholly-owned subsidiary – ownership and leasehold rights to 43 gas stations with convenience stores in Georgia and Tennessee, in the USA, in return for $46 million (approx. NIS 200 million), excluding inventories.

3. Subsequent to the balance sheet date, in August 2006, Delek US acquired various oil refinery and fuel marketing assets from a third party, in return for $54.4 million (approx. NIS 240 million), excluding inventories.

   The acquired assets include terminals for the marketing of fuel products, transport pipelines, tanks for the storage of fuel products and various refinery facilities. Moreover, as part of the transaction, the third party's fuel marketing, delivery and distribution operations were acquired.

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 (hereinafter: "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 issuing expenses). Approximately half of the said proceeds were allocated to the DAS shareholders' equity on the issue 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. The 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 US 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. – 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 the benefit of the bank. The blocked shares also have a second-degree lien in favor of Delek Investments.

   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 parallel increase in shareholders' equity.

   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 will be recorded to the statement of income in the first quarter of 2006, under the item "Earnings from realization of investments in investee companies". The remaining earnings will be recognized and adjusted over the next several years, in consideration, inter alia, of 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 option 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 fair value of all the options granted pursuant to the plan, as at the date of the grant, amounts to NIS 17 million and was allocated to the wage expenses item in the statement of income of DAS over the period of eligibility (General & 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 Communications Systems (hereinafter: "Matav"), 40% of which are 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 CATV companies (Golden Channels, Tevel and Matav) will be merged in the CATV sector and in landline communication services (hereinafter: "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 at Dec-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.

The closing of the transaction is contingent 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. Until the date of approval of the financial statements, the general meeting of shareholders of Matav and the meeting of unsecured creditors of the Tevel Group have approved the transaction, while court approval has also been received for the sale of the operations of the Tevel Group to Matav. There is no certainty that the remaining contingent 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. For additional details, see Note 3 to Matav's statements which are publicly available.

In the event that the merger of the CATV 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

1. 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 Insurance Company Ltd. (hereinafter: "Menora") in return for $23.3 million (approx. NIS 107 million). Subsequent to the exercise of the said option, Delek Investments holds 15% of the issued and outstanding share capital of Menora.

2. As described in note 9j(7)(b) to the annual financial statements, in December 2005, Delek Investments acquired approximately 25% of the issued and outstanding share capital of Phoenix Israel Insurance Company Ltd. ("Phoenix") in return for NIS 720 million. Moreover, in June 2006, Delek Investments exercised its option to acquire an additional 8% of the issued and outstanding share capital of Phoenix in return for NIS 213 million.

Excess of cost of investment over the book value created in the two said acquisitions amounted to NIS 446 million.

In accordance with Accounting Standard No. 20 (Revised) and on the basis of an external appraiser's report, this excess of cost was attributed to the Phoenix assets as follows (net of tax influence):

	NIS Millions	Amortization Period
Reserve for extraordinary risks in life insurance	55	In parallel to utilizing the reserve for extraordinary risks
Outstanding value of the existing life insurance portfolio	218	15 years
Existing general insurance portfolio	28	8 years
Investments in associated company and real estate assets	15	In parallel to realization of investments (approx. NIS 10 million were amortized in the second quarter of 2006 following the realization of real estate investments)
Goodwill	130	
	446	

Furthermore, subsequent to the balance sheet date, in August 2006, a Delek Investments subsidiary, Delek Capital Ltd. (hereinafter: "Delek Capital" - see also Section 3 below), entered into a Memorandum of Understanding with companies controlled by a third party (hereinafter: "The Sellers") for the acquisition of an additional 28.5% of the issued and outstanding share capital of Phoenix (hereinafter: "The Sold Shares") in return for $214 million (approx. NIS 950 million). The validity of the purchase transaction of the Sold Shares is contingent (within 120 days) upon several preconditions, including obtaining all the necessary regulatory approvals according to law, and the approval of the certified organs of each party. The closing date of the transaction shall take place ten (10) days subsequent to meeting the contingent preconditions. In the event that the transaction is finalized, the Group will hold approximately 61.5% of the issued and outstanding Phoenix share capital.

3. Delek Capital was incorporated in the second quarter of 2006. 94% of Delek Capital are held by Delek Investments, 5% by the CEO of Delek Capital and 1% by the Group's CEO. Delek capital was formed in order to deal in finance, insurance and banking – in Israel and internationally.

   Subsequent to the balance sheet date, in August 2006, an American subsidiary of Delek Capital entered into a merger agreement whereby it would acquire all the share capital (100%) of Republic Companies Group Inc. (hereinafter: "Republic"), in return for a total of $290 million (approx. NIS 1,275 million). Republic is a company dealing in general insurance, whose shares (prior to the merger) are publicly traded in the United States. The closing of the transaction is contingent upon – inter alia – obtaining the regulatory approvals necessary in the United States for such transactions, as well as upon the approval of the general meeting of Republic shareholders.
   The Group's management estimates that the closing of the transaction, pursuant to meeting the preconditions, is expected to take place toward the end of 2006.

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. (hereinafter: "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.

   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.

   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 at June 30, 2006, the Group's investment in Amisragas totals approximately NIS 140 million.

B. Claims filed against Gadot Biochemical Industries, Ltd. (hereinafter: "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.

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 transmission rights, etc. Moreover, in May and June 2006, three petitions for class action lawsuits were filed against Matav and HOT Telecom Ltd. (a Matav investee company) and others. One lawsuit against Matav concerns the legality of the basic package for CATV subscribers that was offered by Matav to its subscribers, starting in the early 1990s. The amount of the lawsuit is NIS 4.9 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 NIS 100 million. The additional lawsuit against Matav and others relates to the broadcasting of ads, in conflict with the directives of the Ministry of Communications and the CATV and DBS Broadcasting Council. The amount of the claim is approximately NIS 106 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. For additional details, see Note 5 to Matav's statements which are publicly available.

D. Several lawsuits, including requests to authorize a part thereof as class action lawsuits were filed against Phoenix Holdings Ltd. (hereinafter: “Phoenix”), its investee companies and others, which aggregate to significant amounts (hundreds of millions of NIS). Part of the claims address the following issues: High insurance fees that 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 5 to the Phoenix financial statements 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. (hereinafter: "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 exist 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:- Investments in Oil and Gas Exploration

A. Pursuant to the description in Note 13d(1) to the annual financial statements, subsequent to the balance sheet date, the partners in the Yam Tethys project entered into a supplementary agreement for the sale of natural gas – with Israel Electric Company (hereinafter: "IEC") – pursuant to which IEC was granted an option to acquire additional quantities of natural gas during the period until the end of 2007, at a price that was set in the supplementary agreement.

B. Subsequent to the balance sheet date, Delek Energy Systems Ltd., operating through a wholly-owned subsidiary that was incorporated in the United States (hereinafter: "DES USA") entered into an agreement for the acquisition of 83.49% of the rights to a limited registered partnership in the USA named AriesOne Limited Partnership (hereinafter: "AriesOne"), that deals in oil and gas exploration and production.

In return for the acquisition of the said rights, DES USA will pay a total sum of $7.3 million (approx. NIS 32 million) and will also assume the AriesOne liabilities, amounting to $0.3 million (approx. NIS 1.3 million). DES USA also committed to invest a sum of $2 million in performing drillings by AriesOne.

The closing of the transaction is subject to several contingent terms.

Note 6:- Debentures

Subsequent to the balance sheet date, the Company effected a private placement of debentures (Series K) at a par value of NIS 468 million. The debentures are linked to the Israeli CPI and bear annual interest at a rate of 5.4%, payable quarterly. The principal of the debentures is redeemable in one single payment in July 2018.

Pursuant to Note 9j(a)(1)(c) to the annual financial statements, subsequent to the balance sheet date, Delek Real Estate effected a private placement of debentures (Series D) to institutional investors at a par value of NIS 371 million, in return for approximately NIS 400 million.

Note 7:- Shareholders' Equity

A. During the six months ended June 30, 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. 215,034,796 debentures (series E) whose carrying amount totaled approximately NIS 218 million were converted into 575,746 ordinary shares of the Company with a par value of NIS 1 each.

B. During the six months ended June 30, 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 11,515,441 ordinary shares of NIS 1 par value each.

D. Subsequent to the balance sheet date, 33,171,576 debentures (series A2) whose carrying amount totaled approximately NIS 35 million, were converted into 90,506 Ordinary shares of NIS 1 par value each of the Company; 714,286 debentures (series B2) whose carrying amount totaled approximately NIS 1 million, were converted into 1,949 Ordinary shares of NIS 1 par value each of the Company and 2,915,091 debentures (series E) whose carrying amount totaled approximately NIS 3 million, were converted into 8,036 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 11,615,932 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. On May 30, 2006, the Company declared the distribution of dividend to its shareholders in the sum of approximately NIS 150 million. The dividend was distributed in July 2006.

G. On August 30, 2005, the Company declared the distribution of dividend to its shareholders in the sum of approximately NIS 250 million.

Note 8:- Information Regarding Business Sectors

A. Revenues, net of excise and royalties:

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2006	2005	2006	2005	2005
	Unaudited				Audited
	NIS Millions, Reported				
Israeli Fuel Sector Operations	2,262	1,807	1,196	824	4,050
Gas stations and convenience stores in the USA	3,038	2,187	1,648	1,338	4,951
Refinery operations in the USA	3,737	842	2,045	842	4,239
Automotive sector	2,143	1,848	1,134	1,077	3,868
Real Estate Sector	205	282	93	137	484
Biochemicals sector	199	186	99	94	375
Oil and gas exploration and production	109	78	51	39	182
Other sectors	103	74	62	36	184
Total in statements of income	11,796	7,304	6,328	4,387	18,333

B. Segment results (1):

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2006	2005	2006	2005	2005
	Unaudited				Audited
	NIS Millions, Reported				
Israeli Fuel Sector Operations	54	38	38	14	46
Gas stations and convenience stores in the USA	62	42	41	37	144
Refinery operations in the USA	411	42	299	42	501
Automotive sector	221	180	114	103	380
Real Estate Sector	36	95	10	47	155
Biochemicals sector	37	34	19	18	68
Oil and gas exploration and production	63	43	29	21	95
Other sectors	5	5	2	3	9
Adjustments (2)	(50)	(12)	(27)	(9)	(65)
Total in statements of income	839	467	525	276	1,333

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

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