Delek Group

FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2006





Delek Group

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November 29, 2006

DELEK GROUP LTD.

Board of Directors Report on the State of the Company Affairs
For the period ended September 30th 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 period ended September 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 gas and oil exploration and production; 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 international real-estate sector are conducted by the Group's subsidiary, Delek Belron International, 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 holding of real estate in Israel are performed by Delek Real Estate and by the Dankner Investments Ltd subsidiary. During the reported period, Delek Real Estate conducted a private placement of shares to a wholly-owned subsidiary of Bank Hapoalim.

As at September 30, 2006, the Company holds 100% of Delek Petroleum and Delek Investments and 71.4% of Delek Real Estate.

2. Principal Operations During the Reported Period

The Group's net income for the reported period amounted to approximately NIS 1,230 million, as compared with approximately NIS 500 million in the corresponding period last year, representing an increase of approximately 146%. The net profit for all of 2005 totaled approximately NIS 622 million. The net income in the third quarter of 2006 amounted to NIS 210 million, as compared with NIS 234 million in the corresponding quarter last year. We note that the profit in the third quarter last year included income from the realization of investments and other revenues totaling NIS 86 million, whereas the profit from these items in the current quarter amounted only to NIS 19 million. Net of these sums, the earnings in the current quarter amount to NIS 191 million, as compared with NIS 148 million in the corresponding quarter last year (29% increase).

The Group's revenues (gross) for the reported period amounted to approximately NIS 20 billion, as compared with approximately NIS 15 billion in the corresponding period last year, representing an increase of approximately 33%. The Group's revenues (gross) for the third quarter of 2006 amounted to approximately NIS 7 billion, as compared with approximately NIS 6 billion in the corresponding period last year, representing growth of approximately 17%. The growth during this nine-month period is primarily attributed to the inclusion of 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 part of the corresponding period last year.

The Group's EBITDA, earnings before interest, taxes, depreciation and amortization amounted to approximately NIS 1,463 million during the reported period, as compared with approximately NIS 1,264 million in the corresponding period last year, representing an increase of approximately 16%.

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 – as mentioned above – were included in part of the corresponding period last year, coupled with an improvement in the business results of the operations of gasoline stations in the USA and the allocation of shares in 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, amounted to 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 share capital (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.

We note that in the corresponding period last year, capital gains of NIS 130 million were included, primarily on account of the Delek Real Estate and Gadot offerings and placements.

An additional operation that contributed to profitability during the reported period and that was not included in the corresponding period last year, was the insurance companies. This sector contributed a total sum of NIS 53 million to the Group during the reported nine-month period, ended September 30, 2006.

The positive working capital amounted to NIS 672 million as at September 30, 2006, as compared with positive working capital of NIS 127 million as at December 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 14% of the issued and outstanding share capital of Menora Insurance Company. Furthermore, Delek Investments exercised its option to acquire an additional 8% of the issued and outstanding share capital of Phoenix Holdings Ltd. (hereinafter: "Phoenix") and holds – as at the balance sheet date – approximately 33% of the issued and outstanding share capital of Phoenix, although at the date of approval of the financial statements, it holds the control as stated below.

In November 2006, Delek Capital Ltd. (hereinafter: "Delek capital") completed an additional purchase of Phoenix shares, representing 28.5% of the issued and outstanding share capital of Phoenix in consideration of $214 million (approx. NIS 924 million). As a result of the completion of this transaction, the Group holds approximately 61.5% of the issued and outstanding share capital of Phoenix (see additional details in Chapter G1).

Furthermore, in August 2006, a wholly-owned American subsidiary of Delek Capital Ltd., entered into a merger agreement whereby it would acquire all the share capital (100%) of Republic Companies Group Inc. In return for $290 million. The completion of the transaction, subject to certain contingent terms and conditions, is expected to be finalized near the end of 2006 (for further details, see Chapter G3).

During the reported period, the Company raised NIS 468 million through a private placement of debentures to the Israeli institutional market. These are long-term debentures, whose principal is scheduled for repayment in 2018 (annual interest of 5.4% will be paid quarterly).

Moreover, subsequent to the balance sheet date, in November 2006, the Company issued NIS 1.1 billion in debentures, by private placement. The debentures are linked to the Israeli CPI and bear annual interest at a rate of 5.35%, payable biannually. The principal of the debentures will be repaid in three equal annual installments between the years 2015 and 2017.

During the reported period, convertible debentures and options were converted and exercised into shares of the Delek Group in the total sum of NIS 270 million. These conversions increased the Group's shareholders' equity while lowering the outstanding debt.

On November 29, 2006, the Company's Board of Directors resolved to distribute approximately NIS 86 million in dividends. This sum is in addition to the distributed sums amounting to NIS 461 million. The total dividend distributed amounts to NIS 547 million.

We note that at this stage, it was resolved to distribute 40% of the net income, in light of the fact that the non-recurring capital gains from the public offerings of Delek USA, Delek Real Estate and Delek Automotive Systems have yet to be reflected in the cash flows.

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	7-9/06	1-9/06	1-9/05	2005
Delek USA Operations (1)	65	156	80	301	194	310
Israeli Fuel Sector Operations	4	4	5	13	2	(15)
Petroleum and Gas Exploration and Production Operations	11	16	50	77	(3)	(1)
Automotive Operations (2)	30	42	40	112	155	189
Real Estate Operations (3)	28	101	18	147	66	100
Biochemical Operations	7	7	4	18	27	31
Insurance Operations	25	1	27	53	-	4
Telecommunications Operations	(19)	(10)	(6)	(35)	(35)	(57)
Capital Gains and Others (4)	159	393	(8)	544	94	61
Total Income	**310**	**710**	**210**	**1,230**	**500**	**622**

(1) Delek USA's contribution to the Group's profitability was affected by the decrease in the Groups holding rate, following the public offering of Delek USA on the New York Stock Exchange (from 100% to approximately 77%), coupled with the fluctuations in refinery margins between the different reporting periods.

(2) Following the private placement of Delek Automotive Systems to the CEO during the reported period, the Group's holding rate 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 subsidiary of Bank Hapoalim Ltd. during the reported period, the Group's holding rate in Delek Real Estate fell from 80% to approx. 71.5%.

(4) This item includes NIS 443 million in the reported period in capital gains originating from the public offering of Delek USA, in the 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. In the corresponding period last year, this item included capital gains from the offering of Delek Real Estate and Gadot, in the sum of NIS 130 million. This item also included non-ascribed financial expenses and other results of operation on account of infrastructure and investments.

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

	1-3/06	4-6/06	7-9/06	1-9/06	1-9/05	2005
Revenues	6,004	6,857	7,155	20,016	(* 14,664	20,347
Less – excise and royalties	536	529	554	1,619	(* 1,517	2,014
	5,468	6,328	6,601	18,397	13,147	18,333
Cost of Revenues	4,830	5,448	5,862	16,140	(* 11,248	15,802
Gross Profit	638	880	739	2,257	1,899	2,531
Selling, Marketing and Gas Station Operating Expenses	224	237	234	695	632	861
General & Administrative Expenses	100	118	113	331	255	337
Operating Income	314	525	392	1,231	1,012	1,333
Financial Expenses, net	137	177	123	437	452	594
	177	348	269	794	560	739
Gains from realization of investments in investee companies, net	182	443	8	633	130	139
Other income, net	4	5	11	20	108	113
Income before taxes on income	363	796	288	1,447	798	991
Taxes on income	71	162	102	335	246	339
Income after taxes on income	292	634	186	1,112	552	652
Net Share in Profits of Affiliates and Partnerships	78	204	108	390	87	146
Minority Interest in Subsidiary Earnings, Net	(60)	(128)	(84)	(272)	(139)	(176)
Net Income	**310**	**710**	**210**	**1,230**	**500**	**622**

*) Reclassified

Revenues

The Company's consolidated revenues during the reported period amounted to approximately NIS 20 billion, as compared with approximately NIS 15 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 included only in part of the corresponding period last year, from fuel operations in the USA due to the acquisition of rights to operate 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 amounted to NIS 2,257 million in the reported period, as compared with NIS 1,899 million in the corresponding period last year. The increase in gross profit originated primarily from the refinery and fuel sector operations in the USA, coupled with the growth in the number of cars sold by Delek Automotive Systems, as stated above, along with growth in the gas production operations.

Selling, Marketing and Gas Station Operating 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 gas stations and convenience stores in the USA, 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 6E, below).

Financial Expenses, net

The Group's net financial expenses for the reported period amounted to approximately NIS 437 million, as compared with approximately NIS 452 million in the corresponding period last year, representing a net decrease of approximately NIS 15 million.

The financial expenses during the reported period were affected primarily from a revaluation of the NIS exchange rate vis-à-vis the US dollar (a decrease of 6.5% in the reported period, as compared with 6.7% in the corresponding period last year), coupled with a smaller rise in the Consumer Price Index during the reported period, as compared with the corresponding period last year. The financial expenses during the corresponding period last year were affected – inter alia – by the inclusion of refinancing costs, along with the results of a hedging transaction at Delek USA and a rise in the US dollar exchange rate.

Gains from Placements and Public Offerings

During the reported period, gains of NIS 633 million were created for the Company from placements and public offerings at investee companies, originating primarily from capital gains of NIS 443 million from the Delek USA IPO on the NYSE, earnings of NIS 123 million on the allocation of Delek Real Estate shares to Tarshish Hapoalim Holdings and Investments Ltd., as well as from earnings of NIS 59 million from the allocation of Delek Automotive Systems shares to the CEO. In the corresponding period last year, the Company recorded gains of NIS 130 million from the offerings of Delek Real Estate and Gadot.

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 390 million, as compared with approximately NIS 87 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 330 million, share in the earnings of Phoenix in the amount of NIS 43 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 32 million, and net of the losses of Matav, in the sum of NIS 34 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 139 million in the corresponding period last year, to NIS 272 million in the reported period. Most of the 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, as detailed above.

4. Financial Situation, Sources of Finance and Liquidity

Working Capital

The positive working capital amounted to NIS 672 million as at September 30, 2006, as compared with positive working capital of NIS 127 million as at December 31, 2005.

The principal 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 2,218 million, representing an increase of some NIS 702 million.
An increase of NIS 368 million is attributed to the fuel operations in the USA; an increase of NIS 130 million at Delek Group; an increase of NIS 77 million originates from the purchase of marketable securities in the automotive sector, coupled with an increase of NIS 134 million in the cash balance of the real estate sector.

Accounts Receivable - Trade

An increase of NIS 325 million originates primarily from growth of NIS 199 million in accounts receivable in the automotive sector, primarily following the growth in sales, coupled with a NIS 180 million increase in the fuel sector, mostly attributed to the acquisition of the marketing operations and fuel stations in the USA.

Investments Item

The total net investments in subsidiary companies and others amounted to NIS 975 million, net.
This increase stems from the acquisition of 13.68% of the shares of Industrial Buildings Ltd. in consideration of NIS 262 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 214 million and net of the repayment of loans from affiliates in the sum of NIS 57 million and the realization of investments in associated companies in the real-estate sector in the sum of NIS 208 million.

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

The Group's share in the earnings of associated companies amounted to NIS 390 million and also contributed to the growth in this item.

Fixed Assets

Fixed assets increased by approximately NIS 538 million, net. The growth originates from the acquisition of fuel stations and convenience stores in the USA for a sum of NIS 230 million, along with NIS 248 million on account of investments in the oil refinery in the USA.

Short-Term Credit from Banks and Others

A net decrease of NIS 145 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 271 million was recorded, originating primarily from a NIS 103 million increase in the accounts payable balance of Delek Automotive and an overall increase of NIS 187 million in the accounts payable balance of the US fuel and refinery operations, coupled with a NIS 31 million decrease in the accounts payable balance of the Israeli fuel sector.

Accounts Payable
An increase of NIS 149 million was recorded primarily as a result of a NIS 80 million increase at Delek Real Estate, originating primarily from an increase in advance payments from apartment buyers, growth in interest payable on account of debentures, coupled with a NIS 49 million increase at Delek Israel, originating primarily from an increase in the balance of liabilities toward institutions.

Long-Term Loans
A decrease of NIS 54 million was recorded, originating primarily from a decrease in long-term loans in the fuel 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 197 million was recorded, resulting primarily from the conversion of debentures into shares in the reported period in the sum of approximately NIS 257 million, net of a decrease in current maturities in the sum of approximately NIS 62 million.

Other Debentures
A net increase of NIS 526 million was recorded, originating primarily from the issue of the Group's debentures in the sum of NIS 468 million, by private placement. Moreover, during the reported period, Delek Real Estate issued NIS 400 million in debentures by private placement. Furthermore, a sum of NIS 130 million was classified as current maturities for the first time.

It should be noted that the outstanding debentures appear net of financial costs related to the 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 191 million was recorded, originating primarily from the liabilities balance of NIS 109 million on account of the issue of blocked shares to the CEO of Delek Automotive (see details in Note 3c to the financial statements). Growth of NIS 60 million originates from the DES USA's share in the fair value of liabilities on account of a transaction for hedging oil and gas prices, conducted by a partnership that was acquired during the reported period. Moreover, an increase of NIS 19 million was recorded in the liabilities of Delek USA.

Shareholders' Equity
As at September 30, 2006, the Company's shareholders' equity totaled NIS 3,258 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 1,230 million, from conversion of debentures into shares of the Company in the sum of approximately NIS 257 million and from the exercise of option warrants into shares of the Company in the sum of approximately NIS 13 million, less dividends declared in the sum of approximately NIS 461 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 Opinion, to lawsuits against investee companies. For details see Note 4 to the financial statements.

5. Sources of Finance

A. It should be noted that Maalot – The Israel Securities Rating Company Ltd. – a Standard & Poor's strategic partner, has granted all the Company's debentures an (AA) rating, including the Series L debentures that were issued subsequent to the balance sheet date (see below).

During the reported period, the Company effected a private placement of 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.

Moreover, subsequent to the balance sheet date, in November 2006, the Company issued NIS 1.1 billion in debentures (Series L), by private placement. The debentures are linked to the Israeli CPI and bear annual interest at a rate of 5.35%, payable biannually. The principal of the debentures will be repaid in three equal annual installments between the years 2015 and 2017.

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 270 million were converted into shares of the Company. For details, see Notes 7a and b to the financial statements.

C. Surplus financial assets of the Company (in the non-consolidated financial statements) as at September 30, 2006, totaled approximately NIS 43 million (including a total of approximately NIS 1,717 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 September 30, 2006, totaled approximately NIS 1,382 million (including a total of approximately NIS 984 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 September 30, 2006, amounted to NIS 172 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.

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 consolidated financial statements:

	1-3/06			4-6/06			7-9/06		
	Refinery Operations	Convenience Stores and Gasoline Stations	Total	Refinery Operations	Convenience Stores and Gasoline Stations	Total	Refinery Operations	Convenience Stores and Gasoline Stations	Total
	NIS millions								
Revenues	1,691	1,390	3,08	2,047	1,647	3,964	2,278	1,765	4,043
Gross Profit	123	156	279	314	187	501	144	222	366
Selling and Fuel Station Operation Expenses	-	124	124	-	134	134	2	139	141
Profit before mutual expenses	123	32	155	314	53	367	142	83	225
General & Administrative Expenses			33			44			43
Operating Income			122			323			182
Other Income			-			-			-
Financing Expenses (1)			23			18			19
Income Before Taxes			99			305			163
Net Income (excluding minority interest)			**65**			**201**			**111**

	1-9/06				
	Refinery Operations	**Convenience Stores and Gasoline Stations**	**Total**	**1-9/05**	**2005**
	NIS millions				
Revenues	6,016	4,802	10,818	6,319	9,190
Gross Profit	581	565	1,146	848	1,174
Selling and fuel station operation expenses	2	397	399	335	449
Profit before mutual expenses	579	168	747	513	725
General & Administrative Expenses			120	102	127
Operating Income			627	411	598
Other Income			-	10	10
Financing Expenses (1)			60	116	130
Income Before Taxes			567	305	478
Net Income (excluding minority interest)			**377**	**195**	**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 production 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 sells its products to 392 gasoline stations and its operations are especially concentrated in the states of Tennessee, Alabama and Virginia (36 stations), under the name of 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 production capacity of 60,000 barrels, and 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%.

In the third quarter of 2006, 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"). Delek USA intends to convert the convenience stores to the Mapco Mart brand in the next several months.

On July 31, 2006, Delek USA acquired various refinery and fuel marketing assets from the LP-Pride 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 Delek USA terminals and US Air Force base Dyess, as well as storage tanks with total storage capacity in excess of one million barrels.

The following is an analysis of the results of operations of Delek USA

Sales

The sales of Delek USA amounted to NIS 10,818 million during the reported period , as compared with NIS 6,319 million during the corresponding period last year. The increase is primarily attributed to the following factors:

- Sales of Delek Refining, including marketing and supply operations amounted to NIS 4,802 million, as compared with NIS 2,647 million in the corresponding period last year – an operation that was launched on April 29, 2005. (Delek Marketing markets fuel products via two terminals it owns and several terminals owned by third parties and its operations began on July 31, 2006).
- Acquisition of 25 fuel stations and convenience centers in December last year and 43 gas stations and convenience centers in July and August 2006.
- An increase in the same-store volume of sales of convenience stores and gas stations.

Gross Profit

The gross profit in the reported period amounted to NIS 1,146 million, as compared with NIS 848 million in the corresponding period last year. This increase is primarily attributed to the refinery and marketing operations that generated gross profit of NIS 581 million, as compared with NIS 353 million in the corresponding period last year, coupled with 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, along with 43 convenience and fueling centers in July and August 2006.

Selling and Fuel Station Operation Expenses

Operating expenses amounted to NIS 399 million during the reported period, as compared with NIS 335 million in the corresponding period last year. This increase is primarily attributed to an increase in the fuel station and convenience store operating costs, as a result of the acquisition of the operations of 25 convenience stores and fuel stations in December 2005 and the acquisition of 43 convenience and fueling centers in July and August 2006, coupled with an increase in credit card commissions and higher fuel prices.

General & Administrative Expenses

General and administrative expenses amounted to NIS 120 million during the reported period , as compared with NIS 102 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, the acquisition of the Marketing operations on July 31, 2006 and additional expenses that were incurred by Delek USA in parallel to its IPO in May 2006.

Operating Income

The operating income in the reported period amounted to NIS 627 million, as compared with NIS 411 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 contribution of the convenience stores and fuel stations.

Financial Expenses

The financial expenses amounted to NIS 60 million during the reported period , as compared with NIS 116 million during the corresponding period last year. The corresponding period last year included a non-cash, non-recurring expenditure of NIS 14 million related to the refinancing of Delek USA, coupled with loss from future transactions in 2005, for the setting of refinery margins that do not constitute financial hedging, in the sum of $10.7 million, that were allocated to the Israeli financial statements as financing expenses.

Net Income

The net income in the reported period amounted to NIS 377 million, as compared with NIS 195 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 the 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

Presented below are the results of Delek – The Israeli Fuel Corporation, Ltd.:

	1-3/06	4-6/06	7-9/06	1-9/06	1-9/05	2005
	NIS millions					
Revenues	1,595	1,719	1,715	5,029	4,437	6,043
Gross Profit	113	142	111	366	369	469
Operating Income	16	36	11	63	68	45
EBITDA	32	50	27	109	117	112
Financial Expenses	14	23	15	52	57	74
Net income (loss) before share in Delek USA results	4	4	5	13	7	(15)
Delek Israel's share in the results of Delek USA (1)	-	21	3	24	-	-
Net Income (loss)	4	25	8	37	7	(15)

(1) Delek Israel included its share in the Delek USA results for the first time (approx. 3%).

The Group's operations in the Israeli fuel sector are performed by Delek – the Israel Fuel Company Ltd. (hereinafter: "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 230 public gasoline stations in Israel.

Results of Operations

For the nine months ended September 30, 2006:

Revenues
The sales of fuel (including excise taxes) amounted to approximately NIS 5,029 million during the reported period, as compared with NIS 4,437 million during the corresponding period last year (an increase of 13%). The rise in the turnover originates from a 17.9% increase in prices, coupled with a 6.3% quantitative decrease and an increase in the excise tax on diesel.

Gross Profit
The gross profit for the reported period amounted to NIS 366 million, as compared with NIS 369 million for the corresponding period last year.
The decrease in gross profit is primarily attributed to inventory losses during the reported period, as opposed to inventory gains in the corresponding period last year.

Selling Expenses, Service Station Operation Expenses and General and Administrative Expenses
These expenses amounted to NIS 303 million for the reported period, as compared with NIS 301 million for the corresponding period last year. The increase is primarily attributed to the growth in provisions for doubtful debts and expenses related to the environment.

Operating Income

The operating income for the reported period amounted to approximately NIS 63 million, as compared with NIS 68 million.

The decrease is primarily attributed to inventory losses and an increase in the provision for doubtful debts during the reported period.

Financial Expenses

Financing expenses for the reported period amounted to NIS 52 million, as compared with NIS 57 million in the corresponding period last year. The decrease in financial expenses originates primarily from the revaluation of the NIS exchange rate vis-à-vis the US dollar (a decrease of 6.5% in the reported period, as compared with an increase of 6.7% in the corresponding period last year), coupled with a lower increase in the CPI during the reported period (1.5%, down from 1.8%).

Net Income

The Company's net income in the reported period amounted to NIS 37 million, as compared with net income of NIS 7 million in the corresponding period last year.

Net Financial Credit

Delek Israel's total financial credit, net (total financial liabilities net of cash and cash equivalents, emergency inventories, loans to related parties and long-term deposits, loans and receivables) as at September 30, 2006, amounted to NIS 1,290 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	7-9/06	1-9/06	1-9/05	2005
	NIS millions					
Income less royalties	58	51	84	193	137	184
Operating Income	34	29	52	115	72	95
EBITDA	49	41	73	163	108	142
Financial Expenses	21	11	6	38	71	90
The Group's share in results of Avner	7	9	17	33	10	15
Net Income (loss)	11	16	** 50	77	(3)	(1)
Gas sales in BCM (*)	0.5	0.5	0.7	1.7	1.3	1.7

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

(**)This item includes earnings of NIS 6 million originating from a decrease in the holding rate, as described below.

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 holding rate of Delek Investments in Delek Energy Systems fell in the third quarter of the reported period from 89.4% to 88.9%, as a result of the realization of option warrants. The gains created for Delek Investments during the reported period amounted to NIS 6 million.

(c) 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 in Ashdod. Moreover, since July 2006, the Group is selling natural gas to the Reading power station in Tel Aviv as well. In addition to supplying natural gas to the IEC, the Company is also supplying natural gas to the Ashdod Oil Refinery since November 2005. Consequently, the Group continued to record growth in net income during the reported period, coupled with 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 193 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 137 million in the corresponding period last year. The said revenues amounted to NIS 84 million in the third quarter of the reported period, as compared with a sum of NIS 56 million in the corresponding quarter last year.

The 49% increase in revenues between the third quarter of the reported period and the corresponding quarter last year is attributed to the launch of the supply of natural gas to the Reading power station in Tel Aviv, starting in the third quarter of the year. The increase in revenues is also attributed to the supply of gas during peak demand times at the IEC, at Spot prices that are significantly higher than the contract prices from 2002, in line with the amended IEC contract that was signed in August 2006 and which relates to the sale of natural gas starting July 1, 2006, along with the supply of gas to the Ashdod refinery, that began in November 2005.

In respect of the reported period, sums of approximately NIS 12 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 11 million were allocated to reducing the revenues from the sale of gas, while approximately NIS 1 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 for the reported period amounted to approximately NIS 38 million, as compared with approximately NIS 71 million in the corresponding period last year, representing a decrease of approximately NIS 33 million.

- This decrease is primarily attributed to the decrease in the financial expenses of Delek Drilling, that amounted to NIS 5 million in the reported period, as compared with NIS 34 million in the corresponding period last year, representing a decrease of NIS 29 million.
  Delek Drilling incurred financial expenses of NIS 0.2 million in the third quarter, as compared with expenses of NIS 6 million in the corresponding quarter last year. The significant difference between the reported period and the corresponding period last year originates primarily from the fact that during the reported period, the NIS was revaluated by 6.5%, as compared with a devaluation of approximately 6.7% in the corresponding period last year. As a result of the surplus of liabilities over dollar-denominated deposits and cash at Delek Drilling, amounting to NIS 162 million as at September 30, 2006, the revaluation of the NIS led to exchange rate revenues of NIS 13 million in the reported period, as compared with exchange rate expenses of NIS 17 million in the corresponding period last year. These exchange rate revenues were offset by expenses associated with a NIS/$ forward transaction amounting to NIS 3 million in the reported period. Moreover, a decrease was recorded in financial expenses during the reported period as a result of the 0.78% increase in the CPI during the reported period, as compared with a CPI increase of 1.89% in the corresponding period last year. The effect of the CPI reflects a decrease of NIS 5 million in financial expenses, as a comparison between the two periods.

- 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 reported period was higher than it was in the corresponding quarter last year, because of the connection of the Reading power station, coupled with maintenance work performed in the corresponding period last year at the Eshkol Power Station in Ashdod. Natural gas sales to the IEC in the fourth quarter of the year, are expected to be lower than in the third quarter, primarily due to seasonality, maintenance work by the IEC, as well as due to work on the additional development drill Mari 7-B that is being performed at the production platform these days and this is expected to cause brief interruptions in the supply of gas from the platform. We note that there are still significant delays in the timetables for the connection of additional IEC power stations, the desalination plant power generation station at Ashkelon and the AIPM plant in Hadera to the inland transmission array for natural gas.

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

Generally accepted accounting principles in Israel 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	7-9/06	1-9/06	1-9/05	2005
	NIS millions					
Income less royalties	58	51	84	193	137	182
Operating Income	35	29	53	117	74	99
The Company's share in	8	6	15	29	16	21
Net income for the period	16	7	46	69	19	32

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 decrease in financial expenses on CPI-linked loans, due to the 0.78% rise in the CPI during the reported period, as compared with a 1.89% 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 Ltd., is a partner in 25% in a project in Vietnam that includes the petroleum assets in blocks 12W and 12E.
The other partners in the project include: Premier Vietnam - 37.5% and Santos – 37.5%.
On September 29, 2006, Delek Vietnam Premier and Santos acquired the rights to receive royalties of 3.8% from the exploration project in Vietnam. Each of the buyers acquired a relative proportion of the supreme royalties, according to his relative share in the project. Consequently, Delek Vietnam has acquired 25% of the supreme royalties, in consideration of $875 thousand.

The drilling and log work at the Dua-X5 RE vertical drill in Block 12E was completed in September 2006. The drill crossed several gas and oil reserves and is the first successful drill into the main reserve in the part of the Dua structure that lies south of the fault.

The production tests conducted at two reserves in the Dua-X5 RE drill were completed successfully in October 2006. The main target reserve yielded oil at a steady pace of 5,543 barrels per day, in addition to 6.76 million cubic feet of natural gas per day. A secondary, deeper reserve, yielded 247 barrels of oil per day. Premier is expected to begin evaluating the results and preparing a report on the reserves, as a first step toward commercial production.

The drilling and log work at the 12E-CS-1X drill in the Blackbird Prospect, that was started on Oct-17-06, was completed successfully in November 2006.
The drilling was conducted in a large slanted block, 21 km south-west of the successful drills in the Dua field. The drilling reached a depth of 4,058 meters. The drill discovered four reserves containing petroleum at the Middle Due target area.
Tests were conducted in these reserves using logs and oil samples were taken for further evaluation.
A total of 70 meters of oil-bearing layers were found (net pay). Preparations are currently being made for conducting production tests at several reserves.

Delek Vietnam's share in the capitalized costs it is liable for, created during the reported period on account of the said project, amounted to NIS 39 million and is included in the balance sheets under "Joint ventures for oil and gas exploration".
This sum includes NIS 4 million in costs on account of the acquisition of rights for obtaining supreme royalties. The Delek Energy Systems operations in Vietnam in the reported period, led to expenses of NIS 1.7 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").

- In September 2006, DES USA completed the transaction for the acquisition – from an American financial institution – of 83.49% of the rights to the AriesOne limited partnership, that owns petroleum assets located in the Southern USA, including exploration areas and production areas containing 240 oil and natural gas wells.
  DES USA paid the seller the sum of $7.3 million, while also assuming the partner's liabilities in the sum of $0.3 million.
  The general partner in AriesOne, that manages the operations of the limited partnership, has recently submitted a work plan and proposed budget of $700 thousand for the performance of one of three planned development drills for the production of the proven oil reserves of the AriesOne partnership.
  DES USA has undertaken to invest a total sum of $2 million in conducting the three said development drills.

  As part of the agreement, DES USA has also assumed the current liabilities (equal to its share in the partnership) on account of hedging transactions on the prices of oil and gas, made by the partnership prior to the acquisition. The fair value of these liabilities, as at September 30, 2006, amounted to NIS 80 million, of which NIS 20 million are presented as current liabilities, while NIS 60 million appear under long-term liabilities.
  The sum of the acquisition cost of Delek Energy Systems' share in the assets of the said partnership (including Delek Energy Systems' share in the liabilities ensuing from the said hedging transactions), amounted to NIS 114 million and appears in the balance sheets under "Joint ventures for oil and gas exploration".

- An agreement was signed in October 2006 in Houston, Texas, between DES USA and Jay Petroleum LLC, a company owned by Isramco Inc. (Hereinafter: "Jay") of the first part, and McCommons Oil Company (hereinafter: "The Seller"), an American company dealing in the energy sector.
  According to the agreement, DES USA and Jay have each acquired 50% of the right to explore and produce natural gas and/or oil in the layer known as Barnett Shale (at a depth of 2,100 meters or more), at a total area of over 2700 acres in Texas. In return for the said rights, DES USA and Jay will each pay the seller a sum of $1.2 million.
  Upon signing the said agreement, DES USA and Jay signed a Joint Operations Agreement (JOA), pursuant to which, Jay Management Company LLC, owned and controlled by Isramco Inc., was appointed Operator of the exploration project. The JOA also outlined a preliminary work plan within whose framework a three-dimensional seismic survey would be conducted, along with two natural gas drills and that pursuant to the results, the partners will consider conducting additional drills.

(c) In addition, Delek Energy Systems 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	7-9/06	1-9/06	1-9/05	2005
	NIS millions					
Revenues	1,009	1,134	1,011	3,154	2,992	3,868
Gross Profit	122	126	118	366	341	441
Operating Income	107	113	102	322	292	378
EBITDA	109	115	104	328	298	387
Financial Revenues (Expenses)	(10)	(15)	3	(22)	17	14
Profit after taxes	66	70	72	208	208	264
Company's share in the earnings of affiliates and partnerships	0.2	-	0.1	0.3	44	44
Net Income	66	70	72	208	252	309

The contribution of the automotive sector to the Group's net income in the reported period amounted to approximately NIS 112 million, as compared with approximately NIS 155 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:

The following is the quantitative distribution of sales:

	1-9/06	7-9/06	1-9/05	7-9/05	2005
Mazda vehicles	17,939	5,498	17,436	6,703	21,875
Ford vehicles	10,242	3,369	8,900	3,435	12,197
Total sales of Delek Motors	**28,181**	**8,867**	**26,336**	**10,138**	**34,072**
Delek Automotive's share out of total vehicle sales in Israel (Ministry of Transport Licensing Bureau figures)	24%	23%	23%	24%	23.5%

These very days, Delek Automotive is launching the new Mazda BT-50 pickup truck – in parallel to the global launch. The BT-50 is very successful and was even selected as the only vehicle in its category in the Government Procurement Tender. In 2007, the Company is expected to launch a large number of significant models, some in entirely new market segments (such as Mazda 2 in Segment B –super mini). These models will deepen and strengthen the company's activity in the automotive sector.

Net Income

Delek Automotive's net income in the reported period amounted to approximately NIS 208 million, as compared with approximately NIS 252 million in the corresponding period last year. In the corresponding period last year, Delek Automotive included earnings of NIS 45 million, in "share in the earnings 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 – net of the non-recurring income – is therefore identical to the net income in the reported period.

The net income in the third quarter of 2006 amounted to NIS 72 million, as compared with NIS 70 million in the corresponding quarter last year.

Revenues

The sales turnover during the reported period amounted to NIS 3,154 million, as compared with approximately NIS 2,992 million in the corresponding period last year (approximately NIS 3,868 million for all of 2005). The sales turnover in the third quarter amounted to approximately NIS 1,011 million, as compared with approximately NIS 1,143 million during the corresponding quarter last year. The changes in the turnover are primarily attributed to the change in the quantity 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 the advertising expenses in relation to the corresponding period last year. General and administrative expenses for the reported period amounted to NIS 21 million, as compared with NIS 18 million in the corresponding period last year. This represents an increase of NIS 3 million, originating from recording the economic benefit inherent in the options granted to the employees and the shares allocated to the CEO of Delek Automotive. For more details, see below.

Financial Expenses, net

Financial expenses of approximately NIS 22 million were recorded by Delek Automotive during the reported period, primarily attributed to the payment of approximately NIS 27 million in interest on the debt to the banks, coupled with the registration of the fair value of hedging transactions in the sum of approximately NIS 21 million. These expenses were offset by revenues from an increase in the value of investments in marketable securities, in the sum of NIS 7 million, coupled with NIS 19 million in revenues from exchange rate differentials on account of a debt to the vehicle supplier.

In the corresponding period last year, Delek Automotive incurred financial expenses of approximately NIS 17 million, primarily attributed to the registration of the fair value of hedging transactions, offset by interest expenses on account of the bank debts.

Additional Information

1) In January 2006, Delek Automotive 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 Delek Automotive CEO's shares in the event of termination of employment and will be carried 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 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 blocked shares, Delek Investments made available a limited guarantee in the sum of NIS 60 million, while the DAS CEO made available NIS 60 million in collateral to the bank.
   The benefit that is inherent in the guarantee granted by Delek Investments to the Delek Automotive 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 0.5 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 Delek Automotive subsidiary). These may be exercised into 2,720,000 ordinary shares of Delek Automotive, 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 Delek Automotive over the period of eligibility (General & Administrative expenses). Accordingly, a sum of NIS 3 million was allocated to the wage expenses in the reported period.

   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	7-9/06	1-9/06	1-9/05	2005
	NIS millions					
Revenues	112	93	98	303	380	484
Gross Profit	47	37	41	125	157	198
Operating Income	25	11	17	53	125	154
Financial Expenses	47	77	58	182	179	242
Other Income (Expenses), Net	(1)	4	3	6	93	99
Share of profits of affiliates	79	246	70	395	56	130
Net Income	40	141	26	207	78	121
Total Assets	4,992	5,259	5,573	5,573	4,743	4,708

Principal Operations in 2006:

A. In January 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%. At the same date, Delek Real Estate acquired all the rights (13%) 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 consideration of NIS 254 million (including expenses related to the acquisition). 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.

B. 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. The total proceeds obtained from this placement amounted to NIS 400 million. 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).

C. In the course of the nine months ended September 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 the 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).

Moreover, subsequent to the balance sheet date, the associated companies acquired additional income-generating assets in Germany and Switzerland, at a total volume of NIS 700 million. Delek Real Estate's share in financing these acquisitions amounts to NIS 66 million.

Subsequent to the balance sheet date, in October 2006, a foreign subsidiary of Delek Real Estate signed an agreement for the acquisition of 90% of the shares of foreign companies that own 73 income-generating assets that include convenience stores and fuel stations throughout Finland, that are leased under long-term contracts.

The assets were acquired in consideration of 115 million euro (approx. NIS 618 million). The acquisition of assets was financed by a non-recourse loan from banks and by shareholder loans (The share of Delek Real Estate amounts to 15 million euro (approx. NIS 53 million)).

The following table presents a summary of Delek Real Estate's investments since the beginning of 2006:

Date of acquisition	Country	% of Holdings	Principal Tenant
January 2006	Finland	45%	Telia Sonera Headquarters
January 2006	UK	2.4%	Additional shares in parking lot transaction
January 2006	Germany	40%	Deutsche Telekom
January 2006	Germany	40%	Metro shopping center
February 2006	Germany	40%	Adidas shopping center
May 2006	Germany	40%	Allianz
June 2006	Switzerland	45%	COOP
June 2006	Canada	45%	Wal-Mart
October 2006	Germany	40%	Metro
October 2006	Finland	90%	Neste Oil
October 2006	Switzerland	45%	Government body – Swiss government

General:

Delek Real Estate is considering the possibility of expanding the overseas investments in income-generating real estate (offices, commerce, gas stations, parking lots and hotels) by acquiring income-generating real estate while placing an emphasis on high-quality locations, the existence of long-term leasing contracts or management contracts (in hotels), and high quality tenants and/or managers. We note that regarding the acquisition of rights in hotels, acquisitions may be made as part of Delek Real Estate's policy regarding the acquisition of passive investments. Delek Real Estate is examining the possibility of expanding its operations – in line with the said strategy – into France, Italy and the United States.

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 acquired in Germany, Switzerland, Sweden and Finland.

Furthermore, in line with the Delek Real estate strategy to occasionally realize assets, a consolidated subsidiary and an associated company of Delek Real Estate have sold their holdings in two projects – one in Sweden and one in Germany.

A foreign subsidiary controlled by a consolidated subsidiary of Delek Real Estate is working on a possible IPO on the AIM exchange in London. Delek Real Estate intends to work in order for the IPO to take place in the first half of 2007. The foreign subsidiary is negotiating with its partners in some of the foreign asset companies, with the intention of increasing its holdings in the said asset companies. Part of the acquisition of the additional rights will be contingent upon the said IPO.

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. The Company routinely performs valuations of its assets using regular assessors and leading firms, concerning assets belonging to the foreign companies that operate according to international standards.

These valuations are normally conducted once annually. In cases where the management of a consolidated subsidiary of Delek Real Estate feels that a special event has taken place (i.e.: Refinancing and/or advanced negotiations for the sale of assets and/or a significant change in market conditions), the consolidated subsidiary conducts additional valuations (in addition to the regular annual valuation). Moreover, in the case of the acquisition of new assets, the valuation will be performed in the course of the year following the acquisition, unless an extraordinary event has taken place (such as the events outlined above), requiring the consolidated subsidiary of Delek Real Estate to reexamine the value of its assets.

In the course of the period, 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 a 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 examination, a consolidated subsidiary of Delek Real Estate included its share in the higher value of income-generating assets for the nine-month and three-month period ended September 30, 2006, in the amount of NIS 343 million and NIS 51 million, respectively, as part of the Company's share in earnings of affiliates and partnerships (net of the tax influence affecting the foreign consolidated subsidiaries in the sum of NIS 58 million and NIS 2 million, for the periods of nine months and three months, respectively). Of the above, Delek Real Estate's share in the NIS 72 million rise in value is on account of the rise in value of real estate sold in the course of the third quarter of 2006. 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 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.

Parallel to international operations, Delek Real Estate has also significantly expanded its operations in the local real estate market, as follows:

A. An agreement was signed in October 2006 between Delek Real Estate and Vitanya Ltd. (hereinafter: "Vitanya") and its shareholders, pursuant to which Delek Real Estate will make available a loan of $47 million, convertible into 50% of the Vitanya shares in the course of ten years from the date granted.

   Vitanya deals primarily in the development and maintenance of income-generating real estate in Tel Aviv and Herzlia, with assets covering 34 thousand square meters, unrealized construction rights covering 48 thousand square meters and additional construction rights potential of 19 thousand square meters.

   According to the agreement, the parties undertook that any new income-generating real estate project or transaction will first be offered to Vitanya. In this respect, "development of income-generating real estate" was defined by the parties as any project wherein 75% or more of the construction rights have yet to be realized, or any project involving an amendment of the designation of agricultural land – in the area between Hadera and Gedera only – whose scope exceeds $5 million, other than the development of gas stations, or when the income-generating real estate accompanies another main project. For further details, also see Note 3(10) to the financial statements.

   The said transaction forms part of the Delek Real Estate strategy to expand its income-generating real estate assets in Israel, since the Company believes that Vitanya possesses the potential to develop and operate income-generating real estate assets.

B. Delek Real Estate operates through Delek Real Estate Hod Hasharon (Shamtan) Ltd., whose name is expected to be changed to Delek Real Estate – Income Generating Assets Ltd. (hereinafter: "DREI"), that will concentrate all the income-generating assets held by different companies. This move is in line with the Delek Real Estate strategy to concentrate all the income-generating assets within a single company, with the intention of promoting the creation of a REIT fund, or alternately, issuing its shares on the Tel Aviv Stock Exchange. Delek Real Estate intends to continue to acquire income-generating assets in Israel, as part of the operations of the said company. Delek Real Estate also intends to examine the acquisition of shares in companies holding income-generating real estate assets, with the intention of acquiring control and to later consider the merger and/or assimilation of an acquired company within the said company.

C. In May 2004, Delek Real Estate 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. Delek Real Estate is conducting advanced negotiations with Azorim, with the intention of merging or selling Dankner Investments Ltd. to/with Azorim. The intention is to create an added advantage by centralizing the real estate operations in the development, construction and marketing of residential real estate in Israel, within a large and specialized company. Income-generating assets in Israel, the construction operations in Central Europe and the project for the construction of the second cargo terminal at Ben Gurion International Airport will not be merged and will be transferred to the ownership of Delek Real Estate. Based on the negotiations, the value of Dankner Investments, in addition to the projects in Jerusalem (Bayit Vagan) and Nes-Ziona (that will be transferred from Delek Real Estate to Azorim) amounts to $95 million. In consideration of its holdings in Dankner and the projects that shall be transferred from the company as stated above, Delek Real Estate will receive shares in Azorim plus a cash sum.

Results of Operations

The contribution of the real estate sector to the Group's net income in the reported period amounts to approximately NIS 147 million, as compared with approximately NIS 66 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 and capital gains of NIS 2 million as a result of the decrease in the holding rate at Delek Real Estate due to the conversion of debentures and the issue of shares to others.

Delek Real Estate is a company whose shares are publicly traded and in which the Group holds 71.43% as at the balance sheet date.

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 229 million, as compared with approximately NIS 240 million in the corresponding period last year.
The decrease in revenues in the sum of approximately NIS 11 million stems primarily from a decrease in leasing revenues in the UK in the sum of approximately NIS 50 million, due to termination of consolidation of the financial statements of companies and assets sold during the third quarter of 2005, net of an increase in leasing revenues in Canada, as a result of a 10.2% 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 24 million.

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

	1-9/06	**%**	**1-9/05**	**%**
UK	34	14.8	84	35.0
Canada	160	69.9	145	60.4
Israel	35	15.3	11	4.6
Total	**229**	**100.0**	**240**	**100.0**

2) Revenues from the sale of apartments during the reported period amounted to NIS 75 million, as compared with NIS 134 million in the corresponding period last year, a decrease of NIS 59 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 124 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 118 million, as compared with NIS 143 million in the corresponding period last year, a decrease of approximately NIS 25 million.

   The decrease in the gross profit originates primarily from the NIS 44 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 4 million increase in the gross profit in Canada and a NIS 15 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 8 million, as compared with NIS 15 million in the corresponding period last year.

General and Administrative Expenses:

General and administrative expenses for the reported period amounted to NIS 72 million, as compared with NIS 32 million in the corresponding period last year.

The NIS 40 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 43 million, coupled with a NIS 9 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 period amounted to NIS 182 million, as compared with approximately NIS 179 million in the corresponding period last year.

Tax Expenses

Tax expenses for the reported period amounted to NIS 64 million, as compared with approximately NIS 13 million in the corresponding period last year. The NIS 51 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 6 million, consisting mostly of NIS 5 million in dividends from the Delek Real Estate investment in the Hilton Hotel portfolio. In the corresponding period last year, other income amounted to NIS 93 million, originating mostly from the sale of assets in the UK.

Delek Real Estate's Share in the Earnings of affiliates and partnerships

Delek Real Estate's share in the profits of associated companies (gross – excluding taxation influence) during the reported period amounted to NIS 395 million, as compared with NIS 56 million in the corresponding period last year.

An increase of NIS 339 million in relation to the corresponding period last year, originating primarily from the higher value of assets, that contributed a sum of NIS 343 million to the earnings.

Investments in Associated Companies

Delek Real Estate reported that foreign subsidiaries under its control are conducting advanced negotiations, together with partners, for the acquisition of the shares of a foreign company that owns 47 hotels throughout the UK (hereinafter: "The Transaction"). The share of the foreign subsidiaries in the transaction – according to the negotiations, is expected to amount to 17%-19%. The hotels are managed by the Marriott chain, under a management agreement for 30 years. The 47 hotels include 8,456 rooms. The cost of the transaction is NIS 8.6 billion (for 100% of the transaction). The share of the foreign subsidiaries in the shareholders' equity that is necessary for the transaction (after financing) is expected to amount to NIS 285-335 million.

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) In 2006, 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) Delek Real Estate is considering the possibility of a private placement of its shares. Subsequent to such a placement, it will comply with the necessary percentage of public holdings so as to be considered one of the companies in the Tel Aviv 100 index, in accordance with the Tel Aviv Stock Exchange regulations.

F. Gadot Biochemical Industries

The following are the results of Gadot Biochemical Industries:

	1-3/06	4-6/06	7-9/06	1-9/06	1-9/05	2005
	NIS millions					
Revenues	100	99	89	288	276	375
Gross Profit	32	34	25	91	88	117
Operating Income	18	19	12	49	53	69
EBITDA	22	22	16	60	63	83
Financial Expenses	2	3	3	8	5	7
Net Income	11	12	6	29	41	47
Total Assets	454	460	456	456	463	451

The contribution of the biochemicals sector to the Group's net income in the reported period amounted to approximately NIS 18 million, as compared with approximately NIS 27 million in the corresponding period last year. Gadot is a company whose shares are publicly traded and in which the Group holds 64.11%.

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 deterioration in Gadot's business results in the reported period, in relation to the corresponding period last year originates primarily from a sharp rise in financial expenses (exchange rate influence), growth in tax expenses and an increase in energy and transportation costs as a result of the rising price of fuel.

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 amounted to NIS 288 million (of which NIS 269 million from exports), as compared with NIS 276 million (of which NIS 256 million from exports) in the corresponding period last year, representing growth of 4.3%. The growth in revenues during the reported period originates primarily from growth in sales of fructose and special minerals, that was partially offset as a result of the decrease in the dollar exchange rate – that was significant in the third quarter of 2006. The revenues in the third quarter of 2006 amounted to approximately NIS 89 million, as compared with approximately NIS 91 million in the corresponding quarter last year, representing a decrease of approximately 2.2%.

Gross Profit

Gadot's gross profit during the reported period amounted to NIS 91 million, as compared with NIS 88 million in the corresponding period last year, representing an increase of 4.2%. The gross profit in the third quarter of 2006 amounted to approximately NIS 25 million, as compared with approximately NIS 30 million in the corresponding quarter last year, representing a decrease of approximately 16%. The decrease in the gross profit in the third quarter is attributed to the exchange rate differentials and the rise in energy costs, along with the higher marine and overland transportation costs – that were also affected by the war in Northern Israel.

Selling and Marketing Expenses

The selling and marketing expenses during the reported period amounted to NIS 33 million, as compared with NIS 27 million in the corresponding period last year. The increase in these expenses is attributed to the rise in fuel prices and the ensuing rise in maritime and overland transportation.

General & Administrative Expenses

General and administrative expenses for the reported period amounted to NIS 10 million, as compared with NIS 8 million in the corresponding period last year. The growth is primarily attributed to an increase in business development expenses and in the assimilation of information systems (ERP system), coupled with the initial adoption of Accounting Standard No. 24 on account of options granted to company employees as part of the public offering.

Financial Expenses

Financial expenses for the reported period amounted to NIS 8 million, as compared with approximately NIS 5 million in the corresponding period last year. The financial expenses in the third quarter of 2006 amounted to NIS 3 million, as compared with NIS 2 million in the corresponding quarter last year. The growth in financial expenses in relation to the corresponding period last year originates from the fact that last year, there were elevated revenues from derivatives that lowered the financial expenses.

Net Income

The net income for the reported period amounted to approximately NIS 29 million, as compared with approximately NIS 41 million in the corresponding period last year, representing an increase of approximately 29%. The decrease in net income originates from a sharp rise in tax expenses and financial expenses, the rise in energy prices and marine transportation prices as a result of rising oil prices.

The net income in the third quarter of 2006 amounted to NIS 6 million, as compared with NIS 19 million in the corresponding quarter last year. The decrease in the net income in the third quarter in relation to the corresponding quarter last year originated from the sharp rise in tax expenses (tax revenues of NIS 3 million were recorded in the third quarter of 2005 as a result of the decrease in tax rates and the lowering of tax reserves), an increase in financial expenses and a sharp rise in energy and transportation prices.

G. Insurance and Financial Services

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

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

	1-3/06	4-6/06	7-9/06	1-9/06
	NIS millions			
Profit - life insurance	104	21	63	188
Profit - general insurance	52	8	87	147
Revenues from investments and other income, net	21	33	8	62
Interest expenses on long-term liabilities	(11)	(20)	(12)	(43)
Income (Expenses), net, from other companies and insurance agencies	3	12	8	23
General & administrative expenses not allocated to the insurance business statements	(5)	(17)	(6)	(28)
Expenses related to reduction of original difference	(2)	(1)	(2)	(5)
Income Before Taxes on Income	**162**	**36**	**146**	**344**
Taxes on income	(66)	(5)	(58)	(129)
Company's share in net results of investee companies and minority interest in net results of consolidated subsidiaries	12	2	2	16
Net Income	**108**	**33**	**90**	**231**

In December 2005, Delek Investments acquired approximately 25% of the issued and outstanding share capital of The Phoenix in 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 in return for NIS 213 million. As at the balance sheet date, Delek Investments holds 33% of the issued and outstanding share capital of Phoenix, while subsequent to the balance sheet date, it completed the acquisition of control over Phoenix, as described below. Phoenix's contribution to the Group's net income during the reported period amounted to NIS 43 million.

In November 2006, the subsidiary Delek Capital Ltd. (hereinafter: "Delek Capital") completed the acquisition of 28.5% of the share capital of Phoenix from Meir Automobile and Truck Company Ltd. and Meir Holdings (Phoenix) Ltd. (hereinafter: "The Sellers"). The proceeds amounted to $214 million (approx. NIS 924 million). As a result of the closing of the deal, the Group holds – indirectly – approximately -61.5% of the Phoenix share capital.

As part of the approval of the Phoenix acquisition transaction by the Anti-Trust Supervisor, it was determined that by May 13, 2008, Delek Investments would sell part of its holdings in Menora, so as not to hold more than 5% of its issued and outstanding share capital. As part of the authorization of the transaction that was obtained from the Insurance Supervisor (hereinafter: "The Authorization"), Delek Investments undertook to supplement the shareholders' equity of Phoenix Insurance Company Ltd. and that of additional institutional bodies held by Phoenix, to the sum stipulated in the Insurance Supervision Regulations and in the Law for the Supervision of Financial Services. Regarding Phoenix Insurance, Ltd. the sum of the said liability will be the lowest of 50% of the equity required by the regulations or the sum of NIS 557 million. This liability will be implemented only in the event that the equity of the relevant institutional bodies is negative. The authorization granted to the Company's controlling shareholder is in effect for as long as he remains in control of the company and also stipulates certain restrictions on the issuing of means of control at all corporations holding a controlling interest over Phoenix. Moreover, Delek Group has undertaken not to sell control over Phoenix for a period of three years. The authorization stipulates that – for a period of three years from the date of authorization – no more than 50% of the annual earnings of Phoenix may be distributed, provided that the Phoenix Insurance shareholders' equity is smaller than 120% of the shareholders' equity required according to the Insurance Supervision Law.

We note that in accordance with the directives of the Securities Authority, the Group included proforma data in the financial statements (see Note 9 to the financial statements).

Results of Operations

The profit from life insurance during the reported period amounted to NIS 188 million, of which NIS 63 million in the third quarter of the reported period. The increase in earnings in relation to the second quarter of 2006 originates from improved profits on capital market investments.

The earnings were also affected by the implementation for the first time of the directives of the Insurance Supervisor regarding the necessary mortality base for determining pension coefficients for the purpose of estimating the reserves on account of pension-type life insurance policies. Pursuant to the directive of the Insurance Supervisor, the provision for pension was increased by NIS 18.3 million in the nine-month period ended September 30, 2006.

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 147 million, of which NIS 87 million in the third quarter of the reported period. The increase in earnings in the third quarter of 2006 in relation to the second quarter of 2006, originates primarily from higher profits on capital market investments.

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 in consideration of NIS 322.5 million.

(b) On May 17, 2006, Phoenix Insurance entered into an agreement with Properties and Construction (Commercial Centers) Ltd. for the sale of Phoenix'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. (hereinafter: "Phoenix Investments") 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 gains (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).

We note that the Group's financial statements do not include the Group's share in the earnings from the sale of Givatayim Mall and the Rothschild Project due to the attribution of surplus cost to these assets.

Subsequent to the balance sheet date, Phoenix Insurance and Tau Returns Ltd. (hereinafter: "Tau") entered into an agreement for the acquisition of 50% of the rights and liabilities of the Mool Hayam Mall in Eilat (hereinafter: "The Mall"). In return for the said acquisition of rights, Phoenix and Tau will pay a sum of NIS 260 million. The proceeds are based on an asset value (100%) of NIS 925 million, net of debt on account of debentures (100%) in the sum of NIS 403 million. The proceeds will be paid to the Seller in two tranches: NIS 100 million of the proceeds will be paid upon meeting the contingent liabilities. The rest of the proceeds will be paid on January 3, 2007.

As part of the agreement, the partnership relations between the partners and the sellers have been determined. In this capacity, the partnership was guaranteed priority in the Mall's revenues, equal to 7.5% per annum over 8 years, secured from the Seller's share in the revenues of the Mall.

A precondition for the transaction is the approval of the Insurance Supervisor and the approval of the debenture trustee.

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 of 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 in 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. Delek Investments hold a total of 14% of the share capital of Menora (see also Section 1 to this chapter).

During the reported period, dividend from Menora in the sum of approximately NIS 10 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 are equal to $20.40 and the total proceeds amount to $290 million (NIS 1,248 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 yet to be fully 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 general 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):

As at September 30, 2006, the Republic assets total $895 million, while its shareholders' equity amounts to $176 million. True to December 31, 2005, the Republic assets totaled $852 million, while its shareholders' equity amounted to $164 million. True to December 31, 2004, Republic'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:

	1-3/06	4-6/06	7-9/06	1-9/06	1-9/05	2005
	NIS millions					
Revenues	139	150	143	432	408	543
Gross Profit	13	17	30	60	50	61
Operating Income (loss)	(9)	(4)	8	(6)	(21)	(34)
Financial Expenses	12	13	12	37	38	51
Other Income (Expenses)	-	2	(3)	(1)	164	154
Net Income (loss)	(24)	(17)	(4)	(46)	110	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 932 thousand households in Israel, as well as broadband Internet services to approximately 485,000 households. Matav's share of the multi-channel television market is approximately 26%. 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.

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 financial statements, that 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 35 million. This sum is identical to the sum recorded in the corresponding period last year. The balance of the investment in Matav, as at September 30, 2006, amounts to NIS 314 million.

Revenues

Matav's consolidated revenues in the third quarter of 2006 amounted to NIS 143 million, as compared with NIS 134 million in the corresponding quarter last year. Matav's consolidated revenues during the reported period amounted to approximately NIS 432 million, as compared with approximately NIS 408 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 third quarter of 2006 amounted to NIS 129 million, as compared with revenues of NIS 120 million in the corresponding quarter last year. The increase in revenues is primarily attributed to the impact of the price update that was performed in the first quarter of 2006 as part of the transfer of customers to various subscription plans, coupled with the rise in revenues from VOD services.
   The number of CATV subscribers as at the end of the third quarter of 2006 amounted to 249.9 thousand, as compared with 250.7 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 million in the corresponding quarter last year to NIS 14 million in the third quarter of 2006 (down 7%). Most of the decrease in the revenues of the sector originates from a decrease in the ARPU (average monthly revenue per user – before VAT), originating from the escalating 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 third quarter of 2006, amounted to 126.5 thousand, as compared with 101.9 thousand at the end of the corresponding quarter last year.

Matav's consolidated ARPU amounted to NIS 182.5 in the third quarter of 2006, as compared with NIS 171 in the corresponding quarter last year.

The revenues of the held partnership HOT Telecom amounted to NIS 46 million in the third quarter of 2006, as compared with revenues of NIS 22 million in the corresponding quarter last year. The revenues of the HOT Telecom partnership in the reported period amounted to NIS 118.4 million, as compared with NIS 39.7 million in revenues in the corresponding period last year.

The number of telephony customers as at September 30, 2006 totals 140.4 thousand, in addition to approximately 16.4 thousand customers with broadband Internet access for the business sector.

Operating Expenses

Matav's consolidated operating expenses in the third quarter of 2006 amounted to NIS 113 million, as compared with NIS 121 million in the corresponding quarter last year. The NIS 8 million decrease is primarily attributed to the decrease in content expenses and the decrease in operating expenses in the corresponding quarter last year, that originate from the introduction of new services – primarily VOD and the expansion of the customer service network. Matav's consolidated operating expenses during the reported period amounted to approximately NIS 371 million, as compared with approximately NIS 357 million in the corresponding period last year.

Gross Profit

Matav's consolidated gross profit amounted to NIS 30.2 million in the third quarter of 2006 (21.1% of revenues), as compared with NIS 14 million in the corresponding quarter last year (approx. 10% of revenues), representing an increase of 11.1%. Matav's consolidated gross profit amounted to NIS 60.3 million in the reported period in 2006 (approx. 14% of revenues), as compared with NIS 51 million in the corresponding quarter last year (approx. 12.4% of revenues), representing an increase of 19%.

Selling and Marketing Expenses

Matav's consolidated selling and marketing expenses in the third quarter of 2006 amounted to NIS 11 million, as compared with NIS 13 million in the corresponding quarter last year. The decrease in selling and marketing expenses is primarily attributed to the decrease in advertising expenses. Matav's consolidated selling and marketing expenses during the reported period amounted to approximately NIS 31 million, as compared with approximately NIS 41 million in the corresponding period last year.

General & Administrative Expenses

Matav's consolidated general and administrative expenses in the third quarter of 2006 amounted to NIS 12 million, as compared with NIS 11 million in the corresponding quarter last year. Matav's consolidated general and administrative expenses during the reported period amounted to approximately NIS 35 million, as compared with approximately NIS 31 million in the corresponding period last year.

EBITDA

Matav's EBITDA (earnings before interest, taxes, depreciation and amortization) amounted to NIS 40 million in the third quarter of 2006 (approx. 28% of revenues), as compared with NIS 24 million (approx. 18% of revenues) in the corresponding period last year. Matav's EBITDA in the first nine months of 2006 amounted to NIS 92 million (approx. 21% of revenues), as compared with NIS 77 million (approx. 19% of revenues) in the corresponding period last year. (The calculation of Matav's EBITDA and its percentage out of total revenues was made net of the results of the proportionate consolidation with HOT Vision).

Additional Information

During the reported period, Matav completed its delisting process from NASDAQ and the removal of its registration from the SEC. As of June 30, 2006, Matav is 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. As a result of the sale, Matav recorded gains of NIS 2 million.

Matav holds 1.2% of the share capital of Partner.

In August 2006, Matav placed a lien on the Partner shares held by the Matav Investments subsidiary for the purpose of obtaining additional bank credit of up to NIS 50 million, to be repaid by December 31, 2007.

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

1) Infrastructures

(a) Seawater Desalination

The Group's operations in the field of seawater 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 under a BOT agreement with the Government, began operating in Ashkelon. 50% of the plant are held by VID Desalination Company Ltd., (hereinafter: "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 that is one of the largest refineries in the world. The sum of the transaction is approximately US$ 90 million. The plants will be supplied within 15 to 24 months of the order date.

- H2ID Ltd. (an investee company in which Desalination Engineering holds 50% of the rights, while Shikun Ubinui Holdings holds the remaining 50%) secured a tender published by the Government of Israel on September 18, 2006, for the design, financing, construction, operation and maintenance – under the BOT method – of a seawater desalination plant in the Hadera region, with a capacity of 100 million m^3 per annum. According to the agreement that forms the base of this tender (to be signed by the State), the party securing the tender shall undertake to build the plant, operate it and maintain it for a franchise period of 25 years (2.5 years of construction plus 22.5 years of operation and maintenance). Upon the termination of the franchise period, the plant will be transferred to the State free of charge.

(b) 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 mechanical construction stage of the power station has been completed and it is being maintained by the construction contractor until the arrival of natural gas to Ashkelon.

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 December 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 26 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 12 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 Delek Ashkelon 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.

In October 2006, Delek Ashkelon entered into an agreement for the supply of electricity to Mekorot Water Company Ltd. (hereinafter: "Mekorot", at a capacity of up to 10 MW. The agreement is for the period when Mekorot will operate its plants for the purpose of the desalination plant and for as long as the power station will be operated commercially in accordance with the directives of the BOT contract, yet for no longer than 22.5 years. In August 2006, Delek Ashkelon signed a memorandum of understanding with Delkia Israel Ltd. (hereinafter: "Delkia") for the operation of the power station on behalf of Delek Ashkelon, as a Turn-key project, as well as for the operation of the transformation station.

The said agreements are contingent upon obtaining the approvals required according to the terms of the agreements.

2) **Fuel**

Delek Petroleum is conducting discussions with the management of Chevron Corporation (hereinafter: "Chevron"), as part of its participation in a tender for the acquisition of Chevron's marketing operations in the BENELUX countries (Belgium, Netherlands, Luxembourg), which encompass 750 fuel stations. The discussion are being held during the exclusivity period agreed upon between the parties.

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. Philanthropy

On August 30, 2006, the Company's Board of Directors decided to establish a dedicated fund, under the framework of the Delek Fund for Science, Education and Culture Ltd. (hereinafter: "Delek Fund") for assistance in the granting of scholarships to combat soldiers. The Company's Board of Directors decided to donate NIS 18 million for this purpose, according to criteria that will be determined.

During the reported period, Delek Fund donated NIS 2,417 thousand. Of this sum, a total of NIS 361 thousand was donated as scholarships to students and pupils in educational institutions throughout the country, while a sum of NIS 2,056 thousand was donated to various charitable causes, primarily in health, culture and assistance to the needy.

9. 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). Also as a Director at bank Hapoalim (Switzerland) and various other boards of directors.

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.

10. Dividend

i. 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.

ii. 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.

iii. 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 amounted to NIS 250.2 million, and was paid on October 4th 2006.

iv. The Board of Directors of the Company resolved, on November 29, 2006, to distribute a dividend out of the 2006 profits at a rate of 740% of the paid up share capital. The divided amounts to approximately NIS 86.1 million.

11. Critical Accounting Estimates

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

12. Changes in the Company's Board of Directors

The following changes transpired in the composition of the Board of Directors during the reported period:

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.

13. 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 **Assi 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 Nov-2-2006, the Company raised NIS 1.1 billion by way of a private placement of debentures to institutional investors, to be repaid in three equal annual installments between the years 2015-2017. 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 5.35%, to be paid biannually. Maalot - The Israel Securities Rating Company – has granted the debentures an AA rating.

2. Equity Investments in the Company and Transactions in its Shares
To Section 3:
In the course of the months July-September 2006, debentures were converted (Series A2, B2 and E) whose carrying amount totaled NIS 38 million. Option warrants totaling NIS 10 million were converted. For additional details, see Note 7 to the financial statements dated September 30, 2006.

3. Dividend Distribution
To Section 4:
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 4, 2006. On November 29, 2006, the Company declared the distribution of dividend to its shareholders in the sum of approximately NIS 86 million.

4. The Oil Refinery Segment
To Section 7.16.6:
In September 2006, Delek Refining completed the renovation of a facility for the removal of sulfur from diesel, which will allow the diesel produced at the Tyler refinery in Texas, to meet the new low-sulfur diesel standard (ULSD). The production of low-sulfur diesel at this renovated facility began on August 27, 2006. As part of the project, the facility's capacity was expanded from 12,000 to 22,000 barrels per day. Delek USA intends to produce and sell this diesel for automotive, heavy equipment and similar applications. Delek USA also announced that it has completed the construction of a new complex, that includes a facility for the removal of 35 long tons of sulfur per day, as well as a facility for the treatment of 75 long tons per day of process gas. This facility for the treatment of process gas will handle flows from the new sulfur reclaiming facility, as well as flows from the existing sulfur reclaiming facility – so as to enable to significantly lower airborne emissions from the refinery.

5. The Fuel Products Segment in Israel
To Section 9.16.6:
On Nov-8-2006, the agreement of the creditor banks of Pi Glilot was obtained (hereinafter: "The Banks"), regarding the privatization of Pi Glilot, thereby constituting the last precondition for the realization of the Pi Glilot privatization process. The agreement of the banks was provided following the approval of the Pi Glilot

[1] The update includes material changes or innovations that occurred in the Company's business in the course of the third quarter and to date, in respect of any matter that needs to be described in the periodical report, in the event that it was not updated in the second quarter report. The update refers to the section numbers appearing in Chapter A (Corporate Description) in the Periodic Report for 2005.

shareholders – The State of Israel by the Government of Israel (50%), Paz Oil Company Ltd., Delek the Israel Fuel Company Ltd., Sonol Israel Ltd. and Sonafco Bank Street Corp. - to offer a guarantee to pi Glilot, each according to its relative share, in benefit of the banks, of a total sum of up to NIS 100 million, for the event wherein the proceeds from the privatization of the Pi Glilot assets shall not suffice to cover its debts to the banks. Delek Israel's share in the Pi Glilot holdings and in the said guarantee is 15.3%.

To Section 9.17:

i. In late October 2006 and early November 2006, three requests to authorize class action lawsuits were filed against Delek Israel, the Deputy CEO of Delek Israel and additional bodies that are not related to the Company or to Delek Israel. The requests were filed following an investigation that is being conducted by the Israel Police regarding the dilution of fuel, discovered at several fuel stations that market Delek Israel fuel. The petitioners claim that Delek Israel – in conjunction with the additional defendants – acted in a fraudulent, misleading and negligent manner, while disregarding statutory duty. The aggregate amount of the petitions is NIS 1,409 million. Delek Israel's management estimates, based on the opinion of its legal counsel, that, at this preliminary stage of the petitions, the chances of the above proceedings cannot be assessed and, accordingly, no provision has been made in the financial statements.

ii. Moreover, in November 2006, an additional request to authorize a class action lawsuit was filed with the Tel Aviv District Court against Amisragas and two additional gas companies. The applicants claim that Amisragas and the two additional gas companies were derelict in their duty to perform periodical inspections of gas meters installed at consumer homes – as required – every several years. The aggregate amount of the lawsuit is NIS 190 million. It is the estimate of Amisragas' management that, at this time, the effect, if any, of said proceedings on Amisragas' businesses cannot be estimated.

6. The Energy Segment

To Section 10.3:

i. On Oct-9-2006, Delek Drilling and Avner entered into two agreements, as follows: One agreement ("**Tzurim Agreement**") for the transfer of the participation rights (paramount) in the licensed Tzurim enclave ("**Tzurim License**") and a second agreement ("**Zerach Agreement**") for the transfer of the participation rights (paramount) in the licensed Zerach enclave ("**Zerach License**").

According to the Tzurim Agreement, both Delek Drilling and Avner, have each acquired from Ginko Oil Exploration – Limited Partnership ("**Ginko**") 25% of the non-specific participation rights in an enclave with an area of 8,650 acres, covering certain areas within the Tzurim license ("**The Transferred Interest in Tzurim**"). In return for the Transferred Interest in Tzurim, Delek Drilling and Avner will each pay a sum of $75,000 as reimbursement of expenses.

The Tzurim Agreement stipulates that the parties shall sign a Joint Operation Agreement (JOA), pursuant to which Avner Oil and Gas Ltd. will serve as Operator. Upon the completion of the transfer of rights in the Transferred Interest in Tzurim, the rights holders in the enclave shall be as follows: Ginko – 50%, Delek Drilling - 25%, Avner – 25%.

According to the Zerach Agreement, the partners – Delek Drilling and Avner – have each acquired from Zerach Oil and Gas Exploration – Limited Partnership ("**Zerach**") 25% of the non-specific participation rights in an enclave with an area of 4,080 acres, covering certain areas within the Zerach license ("**The Transferred Interest in Zerach**"). In consideration of the Transferred Interest in Zerach, Delek Drilling and Avner shall each bear half of Zerach's expenses related to the "Tzuk Tamrur 3" drilling (up to $1 million) and Tzuk Tamrur 4 (up to $200,000), at the expense of Zerach's share in the Authorization For Expenditure (AFE).

The Zerach Agreement stipulates a work plan and AFE in the sum of $4.4 million and also determines that the parties shall sign a JOA, pursuant to which Avner shall act as Operator. Upon the completion of the transfer of rights in the Transferred Interest in Tzurim, the rights holders in the enclave shall be as follows: Zerach – 50%, Delek Drilling - 25%, Avner – 25%.
These two transactions are contingent upon certain preconditions primarily obtaining the authorization of the Petroleum Affairs Supervisor at the Ministry of National Infrastructures, the authorization of the general meetings of the unit holders at Delek Drilling and Avner and the closing of both transactions together (the closing of each of these transactions is contingent upon the closing of the other).

On Oct-12-2006, Lapidot Israel Oil Exploration Company Ltd. announced that it had received from Ginko findings regarding a production test that was conducted at Tzuk Tamrur 3. For details regarding the findings, see the immediate report of Delek Energy Systems, dated Oct-15-2006.

ii. The AriesOne transaction: The preconditions have been met in the agreement signed between Delek Energy Systems U.S., Inc., a wholly-owned sub-subsidiary of the Company (hereinafter: "DES USA") and an American financial institution, consequently completing the transaction whereby DES USA has acquired 83.49% of the rights to the AriesOne limited partnership, dealing in oil and gas exploration and production and registered in the United States. For additional details, see immediate report dated Sept-27-2006.

iii. McCommons transaction: An agreement was signed on Oct-19-2006 between DES USA and Jay Petroleum LLC (hereinafter: "Jay"), a company controlled by Isramco Inc., of the first part, and between McCommons Oil Company, an American company active in the energy sector (hereinafter: "The Seller"), of the second part.

According to the agreement, DES USA and Jay have each acquired 50% of the right to explore and produce natural gas and/or oil in the layer known as Barnett Shale (at a depth of 2,100 meters or more), at a total area of over 2700 acres in Texas. In return for the said rights, DES USA and Jay will have each paid the seller a sum of $1.2 million. Upon signing the said agreement, DES USA and Jay signed a Joint Operations Agreement (JOA), pursuant to which, Jay Management Company LLC, owned and controlled by Isramco Inc., was appointed Operator of the exploration project. The JOA also outlined a preliminary work plan within whose framework a three-dimensional seismic survey would be conducted, along with two natural gas drills and that pursuant to the results, the partners will consider conducting additional drills.

To Section 10.4:

i. On Sept-20-2006, Delek Energy (Vietnam) LLC (Hereinafter: "Delek Vietnam"), a wholly-owned subsidiary of Delek Energy Systems and its partners in the exploration project in Vietnam – Premier Oil and Santos – have acquired the rights to obtain supreme royalties of 3.8% on the exploration project in Vietnam, from the controlling shareholders in Offshore Production & Exploration Company, Inc. Each of the buyers acquired a relative proportion of the supreme royalties, according to his relative share in the project. Consequently, Delek Vietnam has acquired 25% of the supreme royalties, in consideration of $875 thousand.

ii. In October 2006, the production tests at the Dua-5X drill in sea block 12E were successfully completed as reported by Premier, the Project Operator. In the announcement published by Premier, it stated that the test results at the Dua-5X drill were considerably better than expected and that the result supports the decision to move ahead with the work to study and prepare the development plan. For additional details regarding Premier's announcement concerning the test results and the development budgets, see the immediate reports of Delek Energy Systems, dated Oct-11-2006 and Nov-16-2006.

iii. In November 2006, Premier successfully completed the drilling and logging work at the 12E-CS-1X drill in the Blackbird prospect. Premier's announcement indicates that 4 oil reserves were discovered at the Blackbird drill, in the main target area – Middle Dua. Tests were conducted in these reserves using logs and oil samples were taken for further evaluation. A total of 70 meters of oil-bearing layers were found (net pay). It was further related that preparations are currently being made for conducting production tests at several reserves. For additional details regarding Premier's announcement concerning the drill results and the development budgets, see the immediate reports of Delek Energy Systems, dated Oct-18-2006 and Nov-16-2006.

7. The Real Estate Segment

To Section 12.3.6:

i. As reported in the previous quarterly report, 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 transaction was finalized in September 2006.

ii. In October 2006, a foreign subsidiary acquired 45% of the share capital of a foreign company (hereinafter: "The Associated Company") that holds a complex of three adjacent office buildings in the city of Bern, in Switzerland. The asset covers 27,000 m^2, on a plot of land of 4 acres in the city of Bern (where the central government is located). The foreign subsidiary possesses agreements with additional shareholders for obtaining an option to acquire an additional 5% of the share capital of the Associated Company in the event that the foreign subsidiary of the company goes public overseas. The Asset is leased to a single tenant – Swiss Confederation – under a single leasing agreement with no exit option before December 2003. All the rights in the said asset were acquired in consideration of SwF 146 million (approx. NIS 500 million). A sum of SwF 128 million (approx. NIS 440 million) was financed through a non-recourse, fixed-interest, long-term loan.

iii. In October 2006, a foreign subsidiary acquired 40% of the share capital of a foreign company owning a shopping center in Germany, with a constructed area of 15,000 m^2 on a plot of 12 acres, near the city of Cologne. The foreign subsidiary possesses agreements with additional shareholders for obtaining an option to acquire 11% of the share capital of the acquired company in the event that the foreign subsidiary goes public. The principal tenant in the asset (87%) is the REAL chain, owned by Metro – a leading retailer. This leasing agreement runs through Dec-31-2025, with no exit options, while the other leasing contracts with the other tenants – are also for the long term. All the rights in the said asset were acquired in consideration of 34 million euro (approx. NIS 183 million). A sum of 29 million euro (approx. NIS 156 million) was financed through a non-recourse, fixed-interest, long-term loan.

iv. 90% of the shares of foreign companies holding 73 fuel stations and convenience stores throughout Finland (hereinafter: "The Assets"), located on central traffic arteries, were acquired by a foreign subsidiary in October 2006. Each of the assets includes a fuel station and commercial building, while some of the assets include additional operations. 10% of the fuel sold in Finland is sold through the fuel stations located in these assets. The assets were acquired in consideration of 115 million euro (approx. NIS 618 million). The acquisition of the assets was financed through a non-recourse, fixed-interest, long-term loan of 109 million euro (NIS 581 million). The assets are leased to two central factors:

Kesko Food – A retail chain that is one of the two largest commercial chains in Finland. The leasing contracts have no exit option before 2015, and possess an extension option until 2020.

Neste Oil – Producer, marketer and operator of the largest oil refineries in Finland. A publicly-traded company, controlled by the Finnish government, that operates 900 fuel stations in Finland. The leasing contracts have no exit option before 2021, with an extension option until 2026.

<u>To Section 12.11:</u>

A foreign subsidiary controlled by Delek Belron International is working on a possible IPO on the AIM exchange in London. Delek Real Estate intends to work in order for the IPO to take place in the first half of 2007. The foreign subsidiary is negotiating with its partners in some of the foreign asset companies, with the intention of increasing its holdings in the asset companies. Part of the acquisition of the additional rights will be contingent upon the said IPO.

To Section 12.11.1:
Delek Real Estate is examining the possibility of expanding its operations – in line with the said strategy – into France, Italy and the United States.

To Section 12.11.6:
Delek Real Estate is considering the possibility of expanding the overseas investments in income-generating real estate (offices, commerce, gas stations, parking lots and hotels) by acquiring income-generating real estate while placing an emphasis on high-quality locations, the existence of long-term leasing contracts or management contracts (in hotels), and high quality tenants and/or managers. We note that regarding the acquisition of rights in hotels, acquisitions may be made as part of Delek Real Estate's policy regarding the acquisition of passive investments.

To Section 12.2:
Delek Real Estate reported that foreign subsidiaries under its control are conducting advanced negotiations, together with partners, for the acquisition of the shares of a foreign company that owns 47 hotels throughout the UK (hereinafter: "The Transaction"). The share of the foreign subsidiaries in the transaction – according to the negotiations, is expected to amount to 17%-19%. The hotels are managed by the Mariott chain, under a management agreement for 30 years. The 47 hotels include 8,456 rooms. The cost of the transaction is NIS 8.6 billion (for 100% of the transaction). The share of the foreign subsidiaries in the shareholders' equity that is necessary for the transaction (after financing) is expected to amount to NIS 285-335 million.

To Section 12.22:
An agreement was signed in October 2006 between Delek Real Estate and Vitanya Ltd. (hereinafter: "Vitanya") and its shareholders, pursuant to which Delek Real Estate will make available a loan of $47,387,840, convertible into 50% of the Vitanya shares in the course of ten years from the date granted. Vitanya deals primarily in the development and maintenance of income-generating real estate in Tel Aviv and Herzlia, with assets covering 34 thousand square meters, unrealized construction rights covering 48 thousand square meters and additional construction rights potential of 19 thousand square meters. The loan will be made available to Vitanya upon meeting certain preconditions, principally – obtaining the approval of the Anti-Trust Supervisor to the agreement. The transaction has yet to be completed as at the date of approval of the financial statements. The loan carries interest at a rate of Libor + 1%. In the event that Delek Real Estate elects not to convert the loan, then the interest rate for years 4 though 7 shall be Libor less 1.5%. The loan is secured by a lien on half the company shares held by the current shareholders. Out of the sum of the loan, a sum of $10.4 million is contingent upon meeting milestones that were agreed upon between the parties, related to the realization of construction rights. In the event that the conversion is made before the milestones have been met, the amount relating to the milestones that have yet to be met shall be converted only on the predetermined date. Furthermore, according to the agreement, the Company has undertaken to convert the loan into Vitanya shares upon occurrence of one of the conditions outlined in the Delek Real Estate financial statements as at September 30, 2006 – Section 11 to the update of the periodical report.

To Section 12.24:

Delek Real Estate is conducting advanced negotiations with Azorim, with the intention of merging or selling Dankner Investments Ltd. to/with Azorim. The intention is to create an added advantage by centralizing the real estate operations in the development, construction and marketing of residential real estate in Israel, within a large and specialized company. Income-generating assets in Israel owned by Dankner Investments Ltd., the construction operations in Central Europe and the project for the construction of the second cargo terminal at Ben Gurion International Airport will not be merged and will be transferred to the ownership of the company according to their book value. Based on the negotiations, the value of Dankner Investments, in addition to the projects in Jerusalem (Bayit Vagan) and Nes-Ziona (that will be transferred from Delek Real Estate to Azorim) amounts to $95 million. In consideration of its holdings in Dankner and the projects that shall be transferred from the company as stated above, Delek Real Estate will receive shares in Azorim plus a cash sum.

To Section 12.25:

Delek Real Estate operates through Delek Real Estate Hod Hasharon (Shamtan) Ltd., whose name is expected to be changed to Delek Real Estate – Income Generating Assets Ltd. (hereinafter: "DREI"), that will concentrate all the income-generating assets held by different companies. This move is in line with the strategy to concentrate all the income-generating assets within a single company, with the intention of promoting the creation of a REIT fund, as stated above, or alternately, issuing its shares on the Tel Aviv Stock Exchange. Delek Real Estate intends to continue to acquire income-generating assets in Israel, as part of the operations of the said company. Delek Real Estate also intends to examine the acquisition of shares in companies holding income-generating real estate assets, with the intention of acquiring control and to later consider the merger and/or assimilation of an acquired company within the said company.

8. The Biochemical Segment

To Section 13.19:

On Sept-28-2006, Gadot signed an agreement with Tate & Lyle Investments Ltd. (hereinafter: "T&L"), a global company headquartered in the UK whose shares are traded in London, manufacturer of food and components for the food industry, regarding the establishment of a joint venture for the construction and operation of a raw sugar refining plant within the grounds of the company's plant (hereinafter: "The Agreement"). The joint venture will be carried out by a new privately-owned company that will be held by the Company (35%) and T&L (65%) (hereinafter: "The Joint Company"). The cost of establishing the plant is estimated at $18 million. The construction of the plant will be financed using shareholders' equity that will be made available by the shareholders of the Joint Company and by bank loans. The agreement stipulates additional directives, inter alia, regarding non competition and confidentiality, dividend distribution policy, restrictions on the transfer of shares in the joint Company, cases wherein a part is eligible to acquire the shares of the second party in the Joint Company, etc. The transaction is to be completed within 30 days of the signing of the agreement, or at a later date, to be agreed upon between the company and T&L and is expected to be finalized in the near future. Upon closing, principle agreements will be signed, as outlined in the agreement, and as necessary for the construction of the plant, its operation and the joint purchasing of sugar. Additional actions, as outlined in the agreement, as necessary for launching the operations of the Joint Company will be initiated, all subject to the directives of the agreement. Gadot estimates that the current manufacturing at the plant will begin in the second half of 2007.

9. The Telecommunications Segment

To Section 14.15.1:

In accordance with a court decision dated August 20, 2006, the sale of the Cable Television ("CATV") operations of the Tevel Group to Matav was approved, while implementing the directives of the Tevel Group creditor agreement that entered into effect on January 8, 2004 and that was rendered possible following an order for the stay of proceedings issued against the Tevel Group on April 22, 2002.

The parties reached an agreement on October 19, 2006, whereby the date of completion of the merger of the CATV companies will be deferred from September 2006 to the end of October 2006, while the deferred completion date was set for early December 2006. The remaining directives of the merger agreement will remain in force.

The decision of the Cable and Satellite Broadcasting Council was handed down on August 24, 2006, regarding the approval of the change in holdings of means of control in Matav at the date of completion of the merger. The Council approved that subsequent to the completion of the merger proceedings, the company's broadcasting license will be amended so as to expand the broadcasting zone to encompass the entire country of Israel. The license will also include all the derived changes applicable to the company by virtue of this decision.

10. The Insurance Segment

To Section 15:

Following the company's reports regarding the acquisition of additional shares of Phoenix Israel Insurance Company Ltd. ("The Phoenix"), the company obtained the approval of the Anti Trust Supervisor on November 14, 2006 (hereinafter: "The Supervisor") for the merger between the Delek Capital Ltd. subsidiary and Phoenix Holdings Ltd. The approval of the merger is contingent upon the fact that the subsidiary Delek Investments and Properties Ltd. (hereinafter: "Delek Investments") will sell part of its holdings in Menora Mivtachim Holdings Ltd. by May-13-2008, to an unrelated third party that shall be approved by the Supervisor, in a manner whereby Delek Investments shall hold no more than 5% of the Menora share capital and will possess no right to appoint position holders at Menora and shall also have no right to obtain any perquisites from Menora, other than the right for dividend.

On November 16, 2006, the authorization for control and for holding means of control in The Phoenix was received at the Company's offices, having been issued by the Commissioner of Capital Market, Insurance and Savings to Mr. Yitzchak Sharon (Tshuva), the controlling shareholder in the company, to hold means of control over Phoenix to the extent of 35.02%, in concatenation. The authorization relates to Phoenix and to companies controlled thereby and includes accepted directives for maintaining the framework of the holding group, including the controlling shareholder and the corporations through which he holds the company shares, the Company and the Delek Investments and Delek Capital subsidiaries. In accordance with the instructions of the authorization, Delek Investments and Delek Capital shall not be eligible to place a lien on 33% of the total controlling interest in Phoenix and shall also not be eligible to sell 50.01% or more of the total controlling interest in Phoenix for a period of three years. The authorization also stipulates that no more than 50% of the annual profit of Phoenix shall be distributed as dividend, for a period of three years from the granting of the authorization, in the event that the shareholders' equity of Phoenix Insurance Company Ltd. (controlled by Phoenix) shall fall below 120% of the shareholders' equity required according to the directives of the Insurance Supervision Law or according to regulations determined by virtue of the Law or any other law in its stead.

The transaction for the acquisition of the Phoenix shares by Delek Capital was finalized immediately after obtaining the authorization. A total of 48,252,743 shares in Phoenix was acquired (including 46,847,324 shares each of NIS 1 par value and 1,405,419 shares each of NIS 5 par value), representing 28.5% of the Phoenix share capital and representing 28.5% of the voting rights in Phoenix, in consideration of NIS 924.3 million. Subsequent to the closing of the transaction, the Company has become the controlling shareholder in Phoenix, with a holding percentage of 61.54%.

To Section 15.10:

On Nov-27-2006, Phoenix reported that a limited partnership (under establishment), whose limited partners (in equal shares) include Phoenix Insurance Company Ltd. (a wholly-owned subsidiary of Phoenix) and Tau Real Estate Returns Ltd. (hereinafter: "Tau"), and wherein the general partner is a company under formation that is controlled by Tau and by Attara Partnership Management Ltd. (a wholly-owned Phoenix subsidiary) ("The Partnership"), has signed an agreement with Mool Hayam Eilat (1978) Ltd. ("The Seller") and with Mool Hayam Properties and Rentals (2004) Ltd. and with Mool Hayam Maintenance (2004) Ltd. – companies wholly-owned by the

Seller – (hereinafter: "The Subsidiaries"), for the acquisition of 50% of the rights and liabilities of the Seller in relation to the Mool Hayam Mall in Eilat ("The Agreement" and "The Mall", respectively). As part of the agreement, the partnership has acquired 50% of the Seller's rights to the Mall, including its property rights and its rights to receive revenues from the Mall. As part of the agreement, the partnership also acquired 50% of the issued and outstanding share capital of the subsidiaries. In accordance with the agreement, the partnership shall be eligible for the payment of the Mall revenues pro rata, subsequent to the repayment of the debentures in whose benefit the Mall is under lien ("The Debentures"). As part of the agreement, the partnership relations between the partnership and the seller have been determined. In this capacity, the partnership was guaranteed priority in the Mall's revenues, equal to 7.5% per annum over 8 years, secured from the Seller's share in the revenues of the Mall. The agreement further stipulates that Mr. Eli Israeli will continue to provide top management services to the Mall. A precondition for the transaction is the approval of the Insurance Supervisor and the approval of the debenture trustee. In consideration of the acquisition of the Seller's rights as mentioned above, the partnership will pay the Seller a sum of NIS 260.4 million. The proceeds are based on an asset value (100%) of NIS 925 million, net of debt on account of debentures (100%) in the sum of NIS 403 million. The proceeds will be paid to the Seller in two tranches: NIS 100 million on account of the proceeds will be paid upon meeting the contingent liabilities. The remainder of the proceeds will be paid on Jan-3-2007.

11. Additional Operations

To Section 16.1 of the Report:

On July 6, 2006, a subsidiary of IDE Technologies Ltd. ("IDE Desalination Engineering") submitted a bid for an Israeli Government tender regarding the planning, construction and operation, under the BOT method, of a seawater desalination plant in the Hadera region, with an output capacity of 100 million m^3 per annum. According to the tender agreement – that has yet to be signed by the State – the party securing the tender will undertake to build the plant, operate it and maintain it for a franchise period of 25 years (including 2.5 years of construction). Upon the termination of the franchise period, the plant will be transferred to the State free of charge. The shareholders in the said company include IDE and a company from the Shikun uBinui Holdings Ltd. Group – in equal parts. The Company indirectly holds 50% of IDE. The subsidiary has successfully secured the said tender in September 2006.

To Section 16 of the Report:
Participation in a Gas Station Tender in Europe

Delek Petroleum Ltd. – a wholly-owned subsidiary of the Company (100%) – is conducting discussions with the management of Chevron Corporation (hereinafter: "Chevron"), as part of its participation in a tender for the acquisition of Chevron's marketing operations in the BENELUX countries (Belgium, Netherlands, Luxembourg), which encompass 750 fuel stations. The discussions are being held during the exclusivity period agreed upon between the parties.

DELEK GROUP LTD.

Date:**29.11.06**

Name of Signatories and their functions:

Gabi Last, Chairman of the Board of Directors

Asi Bartfeld, CEO

Nov-29-2006

DELEK GROUP LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 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***
Fax: 972-3-5622555

The Board of Directors
DELEK GROUP LTD.

Dear Sir/Madam:

Re: Review of unaudited interim consolidated financial statements
for the nine and three months ended September 30, 2006

At your request, we have reviewed the accompanying interim consolidated balance sheets of Delek Group Ltd. ("The Group") as of September 30, 2006, and the related interim consolidated statements of income, changes in shareholders' equity and the consolidated cash flows for the nine 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 22% of total consolidated assets as of September 30, 2006, and whose revenues constitute approximately 4% and 5% of total consolidated revenues for the nine and three months then ended, respectively. 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 550 million as of September 30, 2006, and the Group's equity in their earnings for the nine and three months then ended totaled NIS 271 million and NIS 69 million, respectively.

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

Based on our review and the reports of other accountants referred to above, we are not aware of any material modifications that should be made to the interim consolidated financial statements in order for them to be in conformity with generally accepted accounting principles in Israel and with the Securities Regulations (Periodic and Immediate Reports), 1970.

In addition, we have reviewed the accompanying proforma interim consolidated balance sheet as of September 30, 2006, and the related proforma interim consolidated statements of income for the nine and three months then ended.

We have been furnished with reports of other accountants in respect of the review of the proforma interim consolidated financial statements of certain subsidiaries and partnerships, whose assets constitute approximately 9% of total proforma consolidated assets as of September 30, 2006, and whose revenues constitute approximately 4% and 5% of total proforma consolidated revenues from general operations for the nine and three months then ended, respectively. 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 516 million as of September 30, 2006, and the Group's equity in their earnings for the nine and three months then ended totaled NIS 271 million and NIS 69 million, respectively.

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 proforma interim consolidated financial statements in order for them to be in conformity with generally accepted accounting principles in Israel, based on the assumptions as described in Note 9.

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

Tel Aviv
November 29, 2006

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

Consolidated Balance Sheets

	As at September 30		As at December 31
	2006	2005	2005
	Unaudited		Audited
	NIS Millions, Reported		
Current Assets			
Cash and Cash Equivalents	1,302	1,662	835
Short-Term Investments	916	471	681
Trade Receivables	2,681	2,628	2,356
Other Accounts Receivable	535	456	539
Inventories	1,466	(* 1,261	(* 1,463
Real Estate held for Sale	85	43	41
	6,985	6,521	5,915
Long-Term Investments, Loans and Receivables			
Investments in investees and other companies	3,561	1,777	2,586
Real Estate for Rent	2,359	2,279	2,316
Land held for Construction	457	444	462
Loans, Deposits and Long-Term Receivables	707	(* 724	(* 645
Investments in Oil and Gas Exploration	926	810	794
	8,010	6,034	6,803
Fixed Assets, net	3,056	2,261	2,518
Other Assets and Deferred Charges, Net	753	737	747
	18,804	15,553	15,983

(* Reclassified

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

Consolidated Balance Sheets

	As at September 30		As at December 31
	2006	2005	2005
	Unaudited		Audited
	NIS Millions, Reported		
Current Liabilities			
Short-Term Credit from Banks and Others	3,383	2,625	3,528
Trade Payables	1,904	1,727	1,633
Other accounts Payable	776	874	627
Declared dividend	250	-	-
	6,313	5,226	5,788
Long-Term Liabilities			
Long-term loans from banks and others	4,069	4,232	4,123
Debentures Convertible Into Company Shares	8	295	205
Debentures Convertible into Shares of Subsidiaries	310	313	315
Other Debentures	3,013	2,541	2,487
Accrued severance pay, net	13	12	13
Deferred Taxes	356	189	214
Other Liabilities	298	99	107
	8,067	7,681	7,464
Minority Interest	1,166	514	455
Shareholders' Equity	3,258	2,132	2,276
	18,804	15,553	15,983

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

November 29, 2006			
Date of approval of the financial statements	G. Last Chairman of the Board of Directors	A. Bartfeld CEO	A. Gelman Vice CEO and Responsible for Financial Matters

Consolidated Statements of Income

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2006	2005	2006	2005	2005
	Unaudited				Audited
	NIS Millions, Reported (Except earnings per share data)				
Revenues	20,016	(* 14,664	7,155	(* 6,305	20,347
Less – excise and royalties	1,619	(* 1,517	554	(* 542	2,014
	18,397	13,147	6,601	5,763	18,333
Cost of Revenues	16,140	(* 11,248	5,862	(* 4,897	15,802
Gross Profit	2,257	1,899	739	866	2,531
Selling, Marketing and Gas Station Operating Expenses	695	632	234	224	861
General & Administrative Expenses	331	255	113	97	337
Operating Income	1,231	1,012	392	545	1,333
Financial Expenses, net	437	452	123	211	594
	794	560	269	334	739
Gains from realization of investments in investee and other companies, net	633	130	8	18	139
Other income, net	20	108	11	68	113
Income before taxes on income	1,447	798	288	420	991
Taxes on Income	335	246	102	150	339
Income after taxes on income	1,112	552	186	270	652
Group's share in profits of affiliates and partnerships, net	390	87	108	14	146
Minority Interest in Subsidiary Earnings, Net	(272)	(139)	(84)	(50)	(176)
Net Income	1,230	500	210	234	622
Net earnings per share (in reported NIS):(**					
Basic earnings per share	109.34	50.67	18.13	23.52	61.84
Diluted earnings per share	104.73	46.77	17.22	22.03	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 convertible 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 convertible option component of convertible debentures (net of issuing expenses)	-	-	-	6	-	-	6
Differences arising from financial statements of investee companies adjusted to foreign currency	-	-	(63)	-	-	-	(63)
Dividend	-	-	-	-	(400)	(61)	(461)
Conversion of debentures into Company shares	1	262	-	(6)	-	-	257
Exercise of option warrants into company shares	-	13	-	-	-	-	13
Net Income	-	-	-	-	**1,230**	-	**1,230**
Dividend declared subsequent to balance sheet date	-	-	-	-	(86)	86	-
Balance as at September 30, 2006	13	1,543	22	-	1,594	86	3,258

	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	-	-	(3)	-	-	(3)
Dividend	-	-	-	(137)	(104)	(241)
Conversion of debentures into Company shares	1	234	-	-	-	235
Exercise of option warrants into company shares	-	86	-	-	-	86
Net Income	-	-	-	500	-	500
Dividend declared subsequent to balance sheet date	-	-	-	(140)	140	-
Balance as at September 30, 2005	12	1,091	97	792	140	2,132

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 convertible option	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Unaudited						
	NIS Millions, Reported						
Balance as at July 1, 2006	13	1,493	75	2	1,470	250	3,303
Differences arising from financial statements of investee companies adjusted to foreign currency	-	-	(53)	-	-	-	(53)
Dividend	-	-	-	-	-	(250)	(250)
Conversion of debentures into Company shares	-	40	-	(2)	-	-	38
Exercise of option warrants into company shares	-	10	-	-	-	-	10
Net Income	-	-	-	-	210	-	210
Dividend declared subsequent to balance sheet date	-	-	-	-	(86)	86	-
Balance as at September 30, 2006	13	1,543	22	-	1,594	86	3,258

	Share Capital	Premium on shares	Capital Reserves	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Unaudited					
	NIS Millions, Reported					
Balance as at July 1, 2005	11	839	92	702	90	1,734
Differences arising from financial statements of investee companies adjusted to foreign currency	-	-	5	-	-	5
Conversion of debentures into Company shares	1	187	-	-	-	188
Exercise of option warrants into company shares	-	65	-	-	-	65
Dividend	-	-	-	(4)	(90)	(94)
Net Income	-	-	-	234	-	234
Dividend declared subsequent to balance sheet date	-	-	-	(140)	140	-
Balance as at September 30, 2005	12	1,091	97	792	140	2,132

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
Exercise 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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2006	2005	2006	2005	2005
	Unaudited				Audited
	NIS Millions, Reported				
Cash Flows from Operating Activities					
Net Income	1,230	500	210	234	622
Adjustments required to reflect cash flows from operating activities (a)	(431)	(15)	(35)	119	(69)
Net cash provided by operating activities	799	485	175	353	553
Cash Flows from Investing Activities					
Acquisition of fixed and other assets	(472)	(171)	(205)	(72)	(322)
Investments in real estate for construction and leasing	(148)	(235)	(12)	(216)	(347)
Proceeds from realization of fixed assets and real estate	4	307	1	116	316
Realization (acquisition) of marketable securities, net	(19)	19	1	15	(262)
Collection of long-term loans granted	184	141	70	98	56
Withdrawal (deposit) of deposits, net	(217)	(436)	76	(88)	(358)
Increase in joint ventures for oil and gas exploration	(61)	(6)	(43)	(5)	(6)
Gains from realization of investments in investee and other companies	218	30	218	-	50
Investments in Investees and Other Companies	(913)	(284)	(132)	(1)	(1,130)
Acquisition of newly-consolidated subsidiaries and operations (b)	(513)	(317)	(513)	(20)	(487)
Proceeds from realization of investments in previously-consolidated subsidiaries (c)	9	180	-	180	192
Granting of loans to others, net	(24)	(30)	(21)	(9)	(25)
Net cash used in investing activities	(1,952)	(802)	(560)	(2)	(2,323)
Cash Flows from Financing Activities					
Short-term credit from banks and others, net	(73)	(727)	49	(100)	(220)
Long-Term Loans received	973	1,830	329	153	1,960
Long-Term Loans repaid	(998)	(1,809)	(155)	(283)	(1,978)
Issue of shares to minority interest in consolidated subsidiaries, net	1,260	163	6	-	163
Dividend distributed	(211)	(241)	(150)	(137)	(384)
Dividend distributed to minority interest in subsidiaries	(28)	(123)	-	(109)	(125)
Exercise of option warrants into company shares	13	86	10	65	140
Proceeds from exercise of options into debentures at a consolidated subsidiary	-	58	-	-	58
Issue of debentures and debentures convertible into shares, net	866	2,453	866	744	2,733
Redemption of debentures and debentures convertible into shares	(161)	(264)	(47)	(193)	(296)
Net cash provided by financing activities	1,641	1,426	908	140	2,051
Translation Differences in Respect of Cash Balances Held by Autonomous Investee Companies	(21)	8	(13)	1	9
Increase in Cash and Cash Equivalents	467	1,117	510	492	290
Cash and Cash Equivalents at Beginning of Period	835	545	792	1,170	545
Cash and Cash Equivalents at End of Period	1,302	1,662	1,302	1,662	835

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

Consolidated Statements of Cash Flows

	For the nine months ended September 30		For the three months ended September 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	238	259	87	93	350
Deferred taxes, net	158	1	70	(17)	49
Increase (decrease) in accrued employee rights upon retirement over portion funded, net	3	(4)	-	(1)	(4)
Decrease (increase) in value of loans granted, net	(4)	(1)	4	(1)	(17)
Gain from realization of fixed assets, real estate and investments, net	(633)	(228)	(8)	(89)	(246)
Equity in non-distributed earnings of affiliates and partnerships, net (1) (2)	(450)	(18)	(111)	11	(51)
Impairment (increase) in value of securities and deposits, net	8	(5)	(2)	(1)	1
Increase (decrease) in value of long-term liabilities, net	13	116	(42)	47	160
Minority Interest in Subsidiary Earnings, Net	272	139	84	50	176
Cost of share-based payment	50	-	16	-	-
Changes in asset and liability items:					
Decrease (increase) in receivables	(310)	(849)	53	(275)	(605)
Increase in other receivables	(62)	(82)	(71)	(18)	(86)
Decrease (increase) in inventories	(9)	2	(49)	(79)	(103)
Increase in Trade Payables	319	472	132	232	363
Increase (decrease) in payables	(24)	183	(198)	167	(56)
	(431)	(15)	(35)	119	(69)
(1) Net of dividends received	4	71	2	25	101
(2) Prior to tax impact on account of Group's share in associated company earnings	64	2	5	-	6
(b) Acquisition of newly-consolidated subsidiaries and operations					
Working capital, net (excluding cash & cash equivalents)	1	(212)	1	(16)	(211)
Fixed assets, real estate, investments and other property	(477)	(158)	(477)	(4)	(339)
Investments in oil & gas exploration & production	(118)	-	(118)	-	-
Long-Term Liabilities	81	53	81	-	63
	(513)	(317)	(513)	(20)	(487)

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

Consolidated Statements of Cash Flows

	For the nine months ended September 30		For the three months ended September 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 and cash equivalents)	9	15	-	15	27
Investments in Associated Companies	-	(75)	-	(75)	(75)
Real estate for lease and construction, net	-	762	-	762	762
Deferred expenses, net	-	32	-	32	33
Loans from banks	-	(644)	-	(644)	(644)
Deferred taxes, net	-	1	-	1	
Gains from realization of investments in consolidated subsidiaries	-	89	-	89	89
	9	180	-	180	192
(d) Significant Non-Cash Operations					
Increase in "Investments in gas and oil exploration" against liabilities	-	7	-	7	-
Acquisition of fixed assets on credit	19	-	-	-	22
Declared dividend	250	-	250	-	-
Receivables on account of divestiture of investments	-	25	-	25	13
Dividend and earnings to pay to minority interest at consolidated companies	71	-	-	-	72
Dividend and earnings to receive from associated companies	32	-	32	-	70
Conversion of debentures into Company shares	257	235	38	188	358
Conversion of debentures into shares of consolidated subsidiary	3	40	3	40	40

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

Note 1:- General

These financial statements have been prepared in a condensed format as of September 30, 2006, and for the nine and three-month periods then ended (hereinafter: “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 calculation methods that were implemented in the formulation of the interim financial statements are identical to those that were implemented in the formulation of the last annual financial statements, except as stated 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 following are the principal changes promulgated by the Standard in contrast to the principles applied prior to January 1, 2006: 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 42 million, NIS 16 million and NIS 55 million for the nine and three months ended September 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 48.51, NIS 23.2 and NIS 58.0 for basic earnings per share (per NIS 1 par value) for the nine and three months ended September 30, 2005, and for the year ended December 31, 2005, respectively and for the diluted earnings per share (per NIS 1 par value): NIS 46.4 and NIS 20.8 for the nine and three months ended September 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 following are the principal changes promulgated by the Standard in contrast to the principles applied prior to January 1, 2006: 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 March 15, 2005, and which had not yet vested as of January 1, 2006. The Standard is also applicable to modifications that were made to the terms of equity-settled transactions subsequent to March 15, 2005, even if the modifications relate to grants that were made before this date. In the financial statements for 2006, 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 nine and three months ended September 30, 2006, a total of approximately NIS 50 million and NIS 16 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: The demand that the revenues shall be measured according to the fair value of the proceeds obtained and/or eligible to be obtained; the determination that if the proceeds are not obtained at the date of the transaction, the revenues shall be measured by capitalizing the proceeds according to market interest rates; the determination that where it is possible to separately identify components in a single transaction and the separate distinction reflects the essence of the transaction, the measuring of revenues will be made for each component separately; the determination that revenues recognized in the financial statements will include only the sums that the Group has received and/or is eligible to receive for itself, such that sums collected on behalf of a third party do not constitute Group revenues.

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 preceding periods.

The initial adoption of the Standard had no material impact on the consolidated interim financial statements, including in relation to sales transactions by credit, since the accepted credit period for Group customers in most areas of operation, does not exceed four months and does not deviate from the accepted norm in the various areas of operation.

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

3. Accounting Standard No. 27 - Fixed Assets

In September 2006, the Israel Accounting Standards Board published Accounting Standard No. 27, "Fixed Assets" ("the Standard"). The Standard is applicable to financial statements for periods commencing on January 1, 2007 ("the effective date") or thereafter.

The initial recognition of fixed assets will be based on the cost of purchase. Subsequent to the initial recognition, the Standard enables choosing between the cost method or the reevaluation method as the accounting policy and to apply the chosen method consistently with regard to a group of fixed asset items of a similar nature and usage. According to the reevaluation method, fixed assets are to be presented at an amount revalued based on the fair value upon the date of reevaluation, less accumulated depreciation and subsequent impairment losses. The revaluation of fixed assets will be carried to capital

reserve in shareholders' equity, net of the tax effect. This capital reserve will be carried directly to retained earnings once the asset has been disposed of, or during the use of the asset (according to the rate of depreciation). Revalued assets will be depreciated based on the revalued amount.

According to the Standard, each component of fixed assets with a different life and cost that is material in relation to total cost of fixed assets is to be depreciated separately. The asset's depreciation shall be based on its useful life for the Company, which will be tested at year end, and will be discontinued at the earlier of the date of the asset's classification as held for sale or the date of the asset's disposal. An asset held for sale is an asset which is available for immediate sale as is, which the Company has an obligation to sell and in respect of which the sale is expected to be completed within a year from classification. Furthermore, upon the adoption of the Standard, a change in the method of depreciation will be accounted for as a change in accounting estimate, prospectively rather than by way of cumulative effect, as customary prior to the effective date.

The cost of fixed assets obtained in a swap transaction will be measured at fair value unless the transaction is commercially immaterial or if the fair value of the fixed assets obtained or delivered cannot be reliably measured. The Standard actually replaces the restriction for the measurement of similar assets at fair value with a restriction regarding commercially immaterial transactions. A transaction is commercially material if it leads to a change in amount, timing and risk of future cash flows from the asset.

The cost of fixed assets will also include an initial evaluation of costs of the asset's liquidation and evacuation and restoration of the site where the asset is located, which are undertaken by the Company. The evaluation will be recorded at its present value while using a discount rate reflecting the Company's risk.

The transitional provisions of the Standard require retrospective adoption, including the restatement of comparative data, except in the following cases:

(a) A company that elects on the effective date to implement the reevaluation method for a group of fixed assets will carry the difference between the revalued amount in the books and its cost at the effective date to capital reserve in shareholders' equity at the same date.

(b) A company that has not included the initial evaluation of costs of the asset's liquidation and evacuation and restoration of the site where the asset is located in cost of fixed assets will be required to:
   1) Measure the liability at the effective date, in accordance with generally accepted accounting principles;
   2) Calculate the amount that would have been included in the cost of the relevant asset at the date on which the liability was first incurred, by the capitalization of the amount of said liability at the date of its initial incurrence through the company's best estimate of

the historical capitalization rates corresponding to the relevant risk in respect of said liability during the elapsed period;

3) Calculate the accumulated depreciation in respect of the capitalized liability on the effective date based on the asset's useful life at that time;

4) Carry the difference between the amount recorded in respect of the asset, pursuant to items 2) and 3) above, and the liability amount, pursuant to item 1) above, to retained earnings.

The Group is evaluating the effect of the adoption of the Standard on its financial statements, but is presently unable to estimate such effect.

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		
September 30, 2006	110.9	8.043	3.869	4.302	3.647	5.455
September 30, 2005	109.5	8.086	3.938	4.598	4.060	5.528
December 31, 2005	110.0	7.941	3.956	4.603	3.961	5.446
Rate of increase (decrease) for the period	%			%		
September 2006 (9 months)	0.8	1.3	(2.2)	(6.5)	(7.9)	1.7
September 2006 (3 months)	(0.7)	(1.2)	(3.3)	(3.1)	(5.7)	(3.3)
September 2005 (9 months)	1.9	(2.7)	10.0	6.7	(3.4)	(6.0)
September 2005 (3 months)	1.4	(1.3)	6.1	0.5	(1.7)	-
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:- Investments 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 consideration of NIS 260 million (approx. NIS 255 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 consideration of 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 September 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 economic value of the options granted totaled NIS 78 million (the share of the Group's CEO is NIS 9.9 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 September 30, 2006 amounted to NIS 29 million. A sum of NIS 5 million was paid to Naor subsequent to the balance sheet date, on account of the first tranche of the aforementioned bonus.

   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 September 30, 2006 amounted to NIS 5.8 million.

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

5. Some of the associated companies of Delek Real Estate formulate 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 by the company and/or its partners), the associated companies reexamined the value of the real estate they own during the reported period, 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 increased value of income-generating real estate at associated companies for the periods of nine and three months ended September 30, 2006, in the sum of NIS 343 million and NIS 51 million, respectively (after influence of taxes). The fair value of the income-generating real estate was determined based on a valuation by external experts.

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

As of September 30, 2006, Hof Hacarmel has an equity deficiency amounting to approximately NIS 165 million and a working capital deficiency amounting to approximately NIS 387 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 370 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 nine months ended September 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).

   Moreover, subsequent to the balance sheet date, the associated companies acquired additional income-generating assets in Germany and Switzerland, at a total volume of NIS 700 million. Delek Real Estate's share in financing these acquisitions amounts to NIS 66 million.

8. Subsequent to the balance sheet date, in October 2006, a foreign subsidiary of Delek Real Estate signed an agreement for the acquisition of 90% of the shares of foreign companies that own 73 income-generating assets that include convenience stores and fuel stations throughout Finland, that are leased under long-term contracts.

   The assets were acquired in consideration of approximately 115 million euro (approx. NIS 618 million). The acquisition of assets was financed by a non-recourse loan from banks and by shareholder loans (The share of Delek Real Estate amounts to 15 million euro (approx. NIS 53 million).

9. In the nine-months ended September 30, 2006, a foreign subsidiary of Delek Real Estate has sold two associated companies that hold income-generating assets in Sweden and in Germany, in consideration of a total of NIS 990 million. The proceeds of the sale reflect the value of assets as they were included in the financial statements of the associated companies at the date of the sale (subsequent to valuation).

10. An agreement was signed in October 2006, subsequent to the balance sheet date, between Delek Real Estate and Vitanya Ltd. (hereinafter: "Vitanya") and its shareholders, pursuant to which Delek Real Estate will make available to Vitanya a loan of $47.4 million (approx. NIS 200 million), convertible into 50% of the Vitanya shares in the course of ten years from the date granted. Under certain conditions, the Vitanya shareholders may obligate Delek Real Estate to convert the loan into Vitanya shares. Vitanya deals primarily in the holding of income-generating real estate in Tel Aviv and Herzlia, with assets covering 34 thousand square meters. It also possesses unrealized construction rights covering 48 thousand square meters and additional construction rights potential of 19 thousand square meters. The loan will be made available to Vitanya upon meeting certain preconditions, principally – obtaining the approval of the Anti-Trust Supervisor to the agreement. As at the date of the approval of the financial statements, the transaction was not yet completed.

    The loan will carry interest at US$ Libor + 1%. In the event that the loan is not converted into shares within ten years, then Vitanya shall repay the loan, plus interest accrued thereupon, net of an agreed-upon sum equal to the difference between the accrued interest on the loan and an interest rate equal to Libor less 1.5% on account of years four through seven.

    The loan is secured by a lien on half the Vitanya shares held by the current shareholders.

B. FUEL AND REFINERY ACTIVITIES

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 companies".

   Pursuant to the Note 9j(2)(d) to the 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 1,705,218 option warrants that may be exercised into 1,705,218 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 a period 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 NIS 9 million (approx. NIS 39 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 to the CEO and the employees are exercised, the Group's holdings in Delek US are expected to decrease to 72.2%.

   Moreover, subsequent to the balance sheet date, the Group's Audit Committee and Board of Directors resolved that the Group's CEO and the Chairman of the Board of Directors (who also serve as directors of Delek US) will be allocated options for Delek US shares. The quantity of options allocated to each of them will be determined in accordance with the ratio between 500 thousand dollars and the price of the share at the actual date of allocation. The options may be exercised in consideration of the market value of Delek US shares at the option allocation date and the eligibility to exercise them shall vest over a period of four years, from the date of the Delek US IPO. The allocation of options to the Chairman of the Board of the Group is subject to the approval of the General Meeting of Group shareholders.

2. In July 2006, Delek US acquired ownership and leasehold rights to 43 gas stations and convenience stores in Georgia and Tennessee, in the USA, in consideration of NIS 230 million (approx. $51 million).

The cost of the acquisition will be carried to the assets and liabilities of the acquired operations, as follows:

	Unaudited NIS Millions, Reported
Fixed Assets	180
Current assets (primarily inventories)	19
Other assets (primarily goodwill)	42
Long-Term Liabilities	(11)
	230

3. In August 2006, Delek US completed a transaction for the acquisition of various oil refinery and fuel marketing assets from a third party, in consideration of NIS 248 million (approx. $56 million), The acquired assets include terminals for the marketing of fuel products, transport pipelines, tanks for the storage of fuel products and various refinery facilities. As part of the acquisition, Delek US also acquired the fuel product marketing, supply and distribution operations of the third party.

   The cost of the acquisition will be carried to the assets and liabilities of the acquired operations, as follows:

	Unaudited NIS Millions, Reported
Fixed Assets	154
Inventories	3
Long-term agreement for fuel purchasing	54
Goodwill	46
Long-Term Liabilities	(9)
	248

4. As stated in Note 2h to the annual financial statements, the crude oil and refined products inventories at the US refinery and the operational fuel inventories in Israel are presented in the financial statements at the lowest of cost or market value, with the cost being determined according to a “quarterly weighted average”. Following the drop in oil and fuel prices in proximity and subsequent to the balance sheet date, the value of the said inventories as at September 30, 2006, as included in the financial statements, appears net of a NIS 50 million amortization, so as to adjust it to market value.

5. The management of Delek the Israel Fuel Company Ltd., decided that due to the nature and financial indicators of Delek’s engagement with the Fuel Authority regarding the defense inventory balances, the debt of the Fuel Authority as regards this inventory will be presented as part of the long-term

receivables. In light of the above, the comparison figures relating to this debt have been reclassified.

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, in light of the option granted to DAS and/or the DAS CEO to acquire (sell) the DAS CEO's blocked 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 and carry interest). 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 statements of income over the period of eligibility.

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 financial 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 14% of the issued and outstanding share capital of Menora (see also Section 2, below).

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 Holdings Ltd. (hereinafter: "Phoenix") in consideration of 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 allocated to the Phoenix assets and liabilities as follows (net of tax influence):

	NIS Millions, Reported	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, 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 consideration of $214 million (approx. NIS 924 million). The transaction was finalized in November 2006, subsequent to the balance sheet date. Following the closing of the transaction, the Group holds approximately 61.5% of the issued and outstanding Phoenix share capital. The excess of cost of investment over the book value of Phoenix, created upon the additional acquisition, is presently estimated at NIS 520 million. The Group is analyzing the manner of allocating the said excess cost.

As part of the approval of the Phoenix acquisition transaction by the Anti-Trust Supervisor, it was determined that by May 13, 2008, Delek Investments would sell part of its holdings in Menora, so as not to hold more than 5% of its issued and outstanding share capital.
Furthermore, as part of the authorization of the transaction that was obtained from the Insurance Supervisor (hereinafter: "The Authorization"), Delek Investments undertook to supplement the shareholders' equity of Phoenix Insurance Company Ltd. (a consolidated subsidiary of Phoenix, hereinafter: "Phoenix Insurance") and that of additional institutional bodies held by Phoenix, to the sum stipulated in the Insurance Supervision Regulations and in the Law for the Supervision of Financial Services. Regarding Phoenix Insurance, the sum of the said liability will be the lowest of 50% of the equity required by the regulations or the sum of NIS 557 million. The liability for the supplemental equity will be implemented only in the event that the equity of the relevant bodies is negative. The authorization also stipulates certain restrictions on the transfer of control over Phoenix and the Group, as well as restrictions on the distribution of dividends by Phoenix (see also Note 9f).

Proforma financial statements that were formulated subsequent to the closing of the said transaction, are presented in Note 9.

3. Delek Capital was incorporated in the second quarter of 2006. A 94% stake in Delek Capital is 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.

   In August 2006, Delek Capital – operating through an American subsidiary – entered into a merger agreement whereby it would acquire all the shares of Republic Companies Group Inc. (hereinafter: "Republic"), in consideration of a total of $290 million (approx. NIS 1,248 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.

F. Operations in Other Sectors

In September 2006, an investee company (50%) of IDE Technologies Ltd. secured a tender published by the Government of Israel for the design, financing, construction, operation and maintenance – under the BOT method – of a seawater desalination plant in the Hadera region, with a capacity of 100 million m^3 per annum.

Note 4:- Contingent Liabilities

A. In previous years, three requests to authorize class action lawsuits at substantial amounts were filed against an affiliate, 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 the third lawsuit that was filed in December 2003 against Amisragas and three additional gas companies, the sum of the lawsuit amounts to NIS 1 billion. The claim relies on a claim that was filed in April 2004 by the Anti-Trust Supervisor against the defendants concerning the alleged existence of a cartel and coordination of prices between them in the years 1994 through 1999.

Moreover, in November 2006, an additional request to authorize a class action lawsuit was filed with the Tel Aviv District Court against Amisragas and two additional gas companies. The applicants claim that Amisragas and the two additional gas companies were derelict in their duty to perform periodical inspections of gas meters installed at consumer homes – as required – every several years. The aggregate amount of the lawsuit is NIS 190 million.

Furthermore, the Tax Authorities issued orders to Amisragas relating to previous years in which Amisragas' appeal to the District Court was dismissed and, later, Amisragas submitted an appeal to the Supreme Court. Subsequent to the balance sheet date, in November 2006, the Supreme Court rejected the Amisragas appeal regarding tax assessments for the years 1988 through 1990. Amisragas is considering the option of filing a request for an additional hearing regarding this ruling. Amisragas is also considering the implications of the ruling regarding the following years.

It is the estimate of Amisragas' management that, at this time, the effect, if any, of said proceedings – including the Supreme Court decision mentioned above – on Amisragas' businesses cannot be predicted.

As at September 30, 2006, the Group's investment in Amisragas totals approximately NIS 141 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, 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 a consolidated subsidiary - Delek Israel and other petroleum companies. The petitioner claims that Delek Israel 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 Israel 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 Israel'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 Israel'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. It does appear that Delek Israel possesses strong defensive claims to counter the petition and the ensuing sum demanded of Delek Israel. Accordingly, no provision has been made in the financial statements.

F. Subsequent to the balance sheet date, three requests to authorize class action lawsuits were filed against Delek Israel, third parties and Delek Israel's Deputy CEO. The petitioners claim that Delek Israel – in conjunction with the additional defendants – acted in a fraudulent, misleading and negligent manner, while disregarding statutory duty. The said claims and petitions were filed following an investigation that is being conducted by the Israel Police regarding the diluting of fuel, that was discovered to have taken place at several fuel stations that market Delek Israel fuel, in light of potential damages caused as a result thereof. The aggregate amount of the petitions is NIS 1,409 million.

Delek Israel's management estimates, based on the opinion of its legal counsel, that, at this preliminary stage of the petitions, the chances of the above proceedings 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 statements, during the reported period, the partners in the Yam Tethys project entered into a supplementary agreement 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, also applying to supplementary quantities that were acquired since July 2006.

B. During the reported period, 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.

DES USA paid a sum of NIS 34 million in consideration of the said rights. DES USA also committed to invest a sum of $2 million in performing drillings by AriesOne.

As part of the agreement, DES USA has also assumed the current liabilities (equal to its share in the partnership) on account of hedging transactions on the prices of oil and gas, made by the partnership prior to the acquisition (approx. NIS 80 million). The sum of the acquisition cost that was attributed to investments in oil and gas assets given the said undertaking, amounted to NIS 114 million.

C. An agreement was signed subsequent to the balance sheet date, in October 2006, between DES USA and Jay Petroleum LLC, a company owned by Isramco Inc. (hereinafter: "Jay"), of the first part, and McCommons Oil Company (hereinafter: "The Seller"), an American company dealing in the energy sector, of the second part. According to the agreement, DES USA and Jay have each acquired 50% of the right to explore and produce natural gas and/or oil in a certain area in Texas. In return for the said rights, DES USA and Jay will each pay the seller a sum of $1.2 million.

D. As described in Note 13G to the financial statements, a consolidated subsidiary – Delek Energy (Vietnam) LLC (hereinafter: "Delek Vietnam") – owns 25% of the rights to an oil and gas exploration project opposite the Vietnam shore.

During the reported period, the parent company of the project operator (Premier Oil PLC) announced the discovery of oil and gas in several drills at the Dua field. Furthermore, several drills were performed in order to assess the potential of the oil and gas reserves. Subsequent to the balance sheet date, the above-mentioned company announced that production tests were conducted at two reserves. The main target reserve yielded oil at a steady pace of 5,543 barrels per day, in addition to 6.76 million cubic feet of natural gas per day. The project operator will assess the results and prepare an evaluation report regarding the reserves.

Furthermore, subsequent to the balance sheet date, a drilling was performed at the Blackbird prospect, located 21 km southwest of the drillings at the Dua field. This drill discovered oil at four reserves, in which tests were conducted using logs and oil samples were taken for further evaluation. Preparations are currently being made for conducting production tests at several reserves.

Delek Vietnam's share in the accrued costs during the reported period on account of the said project, amounted to NIS 39 million and is included in the balance sheets under "Investments in oil and gas exploration and production". This sum includes NIS 4 million in costs on account of the acquisition of rights for obtaining supreme royalties.

Note 6:- Debentures

The Company effected a private placement of debentures (Series K) in the third quarter of 2006, 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.

Moreover, subsequent to the balance sheet date, in November 2006, the Company issued NIS 1.1 billion in debentures (Series L), by private placement. The debentures are linked to the Israeli CPI and bear annual interest at a rate of 5.35%, payable biannually. The principal of the debentures will be repaid in three equal annual installments between the years 2015 and 2017.

In July 2006, Delek Real Estate effected a private placement of debentures (Series D) to institutional investors at a par value of NIS 371 million, in consideration of approximately NIS 400 million. As to the terms of the debentures, see Note 9j(1)(a)(1)(c) to the annual financial statements.

Note 7:- Shareholders' Equity

A. In the nine months ended September 30, 2006, 33,707,290 debentures (Series A2), whose carrying amount totaled approximately NIS 36 million, were converted into 91,897 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 217,949,887 debentures (series E) whose carrying amount totaled approximately NIS 220 million, were converted into 583,782 Ordinary shares of NIS 1 par value each of the Company.

B. During the nine months ended September 30, 2006, a quantity of 8,000 stock options (series 1) was exercised into 8,000 ordinary shares of NIS 1 par value each of the Company for a total consideration of NIS 3 million. A quantity of 20,000 stock options (series 3) was exercised into 20,000 ordinary shares of NIS 1 par value each of the Company for a total consideration of NIS 10 million.

C. Subsequent to the conversions and exercises detailed above, the Company's issued and outstanding share capital is composed of 11,635,932 ordinary shares of NIS 1 par value each.

D. 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.

E. 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.

F. On August 30, 2006, the Company declared the distribution of dividend to its shareholders in the sum of approximately NIS 250 million.
The dividend was distributed in October 2006.

G. On November 29, 2006, the Company declared the distribution of dividend to its shareholders in the sum of approximately NIS 86 million.

Note 8:- Information Regarding Business Sectors

A. Revenues, net of excise and royalties:

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2006	2005	2006	2005	2005
	Unaudited				Audited
	NIS Millions, Reported				
Israeli Fuel Sector Operations	3,433	2,938	1,171	1,131	4,050
Gas stations and convenience stores in the USA	4,802	3,671	1,764	1,404	4,951
Refinery operations in the USA	6,015	2,648	2,278	1,806	4,239
Automotive sector	3,154	2,992	1,011	1,144	3,868
Real Estate Sector	303	380	98	98	484
Biochemicals sector	288	276	89	90	375
Oil and gas exploration and production	193	134	84	56	182
Other sectors	209	108	106	34	184
Total in statements of income	18,397	13,147	6,601	5,763	18,333

B. Segment results (1):

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2006	2005	2006	2005	2005
	Unaudited				Audited
	NIS Millions, Reported				
Israeli Fuel Sector Operations	65	67	11	30	46
Gas stations and convenience stores in the USA	132	82	70	40	144
Refinery operations in the USA	544	327	133	285	501
Automotive sector	323	292	102	112	380
Real Estate Sector	53	124	17	29	155
Biochemicals sector	49	52	12	18	68
Oil and gas exploration and production	115	73	52	30	95
Other sectors	23	7	18	2	9
Adjustments (2)	(73)	(12)	(23)	(1)	(65)
Total in statements of income	1,231	1,012	392	545	1,333

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

Note 9:- Consolidated Proforma Financial Statements

A. General

As stated in Note 3e(2), subsequent to the balance sheet date, a transaction was completed for the acquisition of an additional 28.5% of the issued and outstanding share capital of Phoenix (hereinafter: "The Additional Acquisition"). As a result of the completion of this transaction, the Group now holds 61.5% of the issued and outstanding share capital of Phoenix. Consequently, in accordance with the directives of the Securities Authority, the Group included proforma data in the financial statements.

The proforma financial statements include the proforma consolidated balance sheets as at September 30, 2006, the proforma consolidated statements of income for the nine months and three months ended September 30, 2006 and 2005 and for the year ended December 31, 2005.

The proforma consolidated statements of income were formulated in order to reflect the Group's results of operation under the assumption that the Group has acquired approximately 61.5% of the issued and outstanding share capital of Phoenix as at January 1, 2005 (hereinafter: "The Acquisition Date"), rather than on the dates described in Note 3e(2).

The proforma consolidated balance sheets were formulated in order to reflect the Group's financial situation as at September 30, 2006, under the assumption that the additional acquisition of Phoenix shares – as stated above – was performed on that date.

B. Assumptions employed in the preparation of the proforma financial statements

Proforma financial statements were formulated on the basis of the Group's and Phoenix's financial statements for the above-mentioned periods, as stated in Section A, above. The accounting policy that was implemented in the formulation of the proforma financial statements is as described in Note 2, above, to the financial statements and as described in Section H below, regarding the main items of the insurance business, as included in the Phoenix financial statements. Moreover, the proforma financial statements were formulated under the following assumptions:

1. On the acquisition date, the Group paid the entire consideration for the acquisition of the Phoenix shares, a payment totaling NIS 1,800 million, that was financed by theoretical loans assumed by the Group. These theoretical loans are linked to the CPI and carry interest at a rate of 5.5% per annum. The financial expenses ensuing from the said theoretical loans were recorded in the proforma consolidated statements of income starting from the Acquisition Date.

2. The excess of cost of investment over the book value, created upon the additional acquisition, was calculated as at September 30, 2006 and totaled NIS 520 million. This excess of cost was attributed to the Phoenix assets and liabilities and to goodwill, on the basis of the allocation of excess cost made in previous acquisitions, as described in Note 3e(2). The total excess costs created on account of all the acquisitions of the Phoenix shares amounted to NIS 966 million and was allocated as follows:

	NIS Millions, Reported	Amortization Period
Reserve for extraordinary risks in life insurance	102	In parallel to utilizing the reserve for extraordinary risks
Outstanding value of the existing life insurance portfolio	402	15 years
Existing general insurance portfolio	50	8 years
Investments in associated company and real estate assets	28	In parallel to realization of investments
Goodwill	384	
	966	

The proforma consolidated statements of income include the amortization of excess costs allocated to the insurance assets starting with the acquisition date (in accordance with the rates outlined above). Goodwill created in the said acquisitions was not amortized.

3. The consolidated financial statements of ADH Holdings Ltd., over which the Group acquired control following the Phoenix acquisition, were consolidated in the proforma financial statements.

   Due to the numerous legal restrictions imposed on the ability to use the assets of the insurance companies, by virtue of the Law for the Supervision Over Insurance Businesses – 1981 and the regulations consequently published and in consideration of the unique nature of the insurance operations, that is materially different from the Group's other operations and whose volume, in relation to the Group's other operations is highly significant, as well as in light of the special reporting rules applying to this sector that were set by virtue of regulations, the insurance operations were presented as a separate component ("Insurance Operations") in the proforma consolidated financial statements.

C. Proforma consolidated balance sheets

	As at September 30 2006
	Unaudited
	NIS Millions, Reported
General Business Assets:	
Current Assets	
Cash and cash equivalents	1,314
Short-Term Investments	924
Trade Receivables	2,681
Other Accounts Receivable	536
Inventories	1,466
Real estate held for sale	85
	7,006
Long-Term Investments, Loans and Receivables	
Investments in investees and other companies	2,562
Real Estate for Rent	2,359
Land held for Construction	457
Loans, Deposits and Long-Term Receivables	738
Investments in Oil and Gas Exploration	926
	7,042
Fixed assets, net	3,102
Other Assets and Deferred Charges, Net	753
Insurance Operations Assets	
Cash and cash equivalents	637
Investments	23,244
Fixed Assets	518
Sums to collect	2,445
Deferred acquisition expenses and other assets	2,235
	29,079
	46,982

C. Proforma consolidated balance sheets (Cont'd)

	As at September 30 2006 Unaudited NIS Millions, Reported
General Business Liabilities	
Current Liabilities	
Short-Term Credit from Banks and Others	3,383
Trade Payables	1,904
Other accounts payable	776
Declared dividend	250
	6,313
Long-Term Liabilities	
Long-term loans from banks and others	5,791
Debentures Convertible Into Company Shares	8
Debentures Convertible into Shares of Subsidiaries	310
Other Debentures	2,117
Accrued severance pay, net	13
Deferred Taxes	634
Other Liabilities	298
	9,171
Insurance Operations Liabilities	
Insurance reserves and contingent liabilities	24,886
Long-Term Liabilities	882
Other Liabilities	698
	26,466
Minority Interest	1,774
Shareholders' Equity	3,258
	46,982

D. Proforma Consolidated Statements of Income

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2006	2005	2006	2005	2005
	Unaudited				Audited
	NIS Millions, Reported				
General Operations					
Revenues	20,017	(* 14,682	7,155	(* 6,305	20,365
Less – excise and royalties	1,619	(* 1,517	554	(* 542	2,014
	18,398	13,165	6,601	5,763	18,351
Cost of Revenues	16,140	(* 11,260	5,862	(* 4,897	15,814
Gross Profit	2,258	1,905	739	866	2,537
Selling, Marketing and Gas Station Operating Expenses	695	632	234	224	861
General & Administrative Expenses	332	258	113	97	340
Operating Income	1,231	1,015	392	545	1,336
Financial Expenses, net	484	558	135	260	734
	747	457	257	285	602
Gains from realization of investments in investee and other companies, net	633	130	8	18	139
Other income, net	18	240	11	68	245
Income before taxes on income	1,398	827	276	371	986
Taxes on Income	335	249	102	151	342
Income after taxes on income, from general operations	1,063	578	174	220	644
Group's share in profits of affiliates and partnerships, net	354	44	84	15	104
Minority Interest in Subsidiary Earnings, Net	(272)	(184)	(84)	(50)	(221)
Net income from general operations	1,145	438	174	185	527
Insurance Operations					
Profit from insurance operations	296	375	137	137	406
Revenues (losses) from investments and others not included in insurance operations	10	5	4	(17)	27
General & administrative expenses not included in insurance business and other expenses	34	32	8	11	52
Group's share in earnings (losses) of associated companies	18	8	2	(1)	9
Minority interest in earnings	(90)	(105)	(36)	(26)	(118)
Income before taxes on income	200	251	99	82	272
Taxes on Income	101	153	52	47	163
Net income from insurance operations	99	98	47	35	109
Overall net income	1,244	536	221	220	636

*) Reclassified.

E. Principal Details Regarding Insurance Operations

	As at September 30 2006 Unaudited NIS Millions, Reported
1. Investments	
Securities	17,385
Loans and bank deposits	5,282
Other Investments	577
	23,244
2. Insurance reserves and contingent liabilities	
Life insurance	
Insurance reserves	20,103
Reserve for extraordinary risks	173
Contingent Liabilities	82
Total life insurance	20,358
General insurance	
Reserve for unexpired risks	968
Contingent Liabilities	3,560
Total general insurance	4,528
Total reserves and contingent liabilities	24,886
3. Assets and liabilities as part of the overall insurance operations	
Investment and liabilities as part of life insurance operations	
	20,580

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2006	2005	2006	2005	2005
	(Unaudited)				(Audited)
	NIS Millions				
4. Summarized insurance operations statements:					
Life insurance					
Premiums net of reinsurance	1,844	1,728	608	574	2,318
Revenues from investments	975	1,672	352	897	1,964
Premiums and revenues from investments	2,819	3,400	960	1,471	4,282
Claims settled and contingent, net of reinsurance	(916)	(855)	(306)	(291)	(1,130)
Excess of revenues over claims	1,903	2,545	654	1,180	3,152
Increase in insurance reserves, net	(1,362)	(1,833)	(480)	(935)	(2,294)
Increase in reserve for extraordinary risks	(8)	(5)	(2)	(2)	(11)
	533	707	172	243	847
Net commissions and G&A expenses, net	354	323	115	96	433
Decrease in deferred acquisition expenses	11	27	-	2	30
	168	357	57	145	384
Amortization of insurance portfolio purchasing expenses	6	6	3	2	8
Reinsurance results	5	11	1	5	14
Profit	157	340	53	138	362
General insurance					
Insurance fees net of reinsurance	1,364	1,353	387	357	1,710
Decrease (increase) in reserve for unexpired risks	(73)	(14)	46	71	57
Insurance fees earned in residual	1,291	1,339	433	428	1,767
Revenues from investments	133	154	47	68	192
Total revenues	1,424	1,493	480	496	1,959
Claims settled and contingent, net of reinsurance	(900)	(1,057)	(262)	(352)	(1,386)
Excess of revenues over claims	524	436	218	144	573
Net commissions and G&A expenses, net	404	422	129	133	544
Decrease (increase) in deferred acquisition expenses	(19)	(21)	5	12	(15)
Profit (loss)	139	35	84	(1)	44
Total profit from insurance operations	296	375	137	137	406

F. Minimal shareholders' equity required of an insurer

The following are data regarding Phoenix Insurance's equity, according to the Insurance Supervision regulation (Minimal shareholders' equity required of an insurer) – 1998, including the 2004 amendments (hereinafter: "The Regulations")

	As at September 30, 2006	
	Unaudited	
	Shareholders' Equity	Original Capital
	NIS Millions, Reported	
Existing sum according to regulations (1)	1,451	967
Minimal sum required according to regulations (2)	1,136	76
	(3) 315	891

(1) Including deferred liability notes considered as secondary capital, according to the regulations in the amount of NIS 483 millions.

(2) The required shareholders' equity includes equity requirements on account of the following, inter alia:

	As at September 30, 2006
	Unaudited
	NIS Millions, Reported
Deferred purchasing expenses in life and health insurance	659
Pension fund management company	8
Unrecognized assets, as defined by the regulations (principally loans)	93
	759

(3) The distribution of dividends from retained earnings is also subject to liquidity requirements, meeting investment method requirements and meeting restrictions according to the control authorization granted to the Group. Pursuant to this authorization, no more than 50% of the Phoenix annual profits can be distributed as dividend for three years from the date the authorization was granted. This restriction shall apply only in the event that the shareholders' equity of Phoenix Insurance shall fall below 120% of shareholders' equity according to the Insurance Supervision directives, or according to any regulation or law that shall come in its place.

G. Information Regarding Business Sectors - Proforma

1. Revenues, net of excise tax and royalties

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2006	2005	2006	2005	2005
	Unaudited				Audited
	NIS Millions, Reported				
Israeli Fuel Sector Operations	3,433	2,938	1,171	1,131	4,050
Gas stations and convenience stores in the USA	4,802	3,671	1,764	1,404	4,951
Refinery operations in the USA	6,015	2,648	2,278	1,806	4,239
Automotive sector	3,154	2,992	1,011	1,144	3,868
Insurance operations	3,136	3,067	1,041	1,002	4,085
Real Estate Sector	303	380	98	98	484
Biochemicals sector	288	276	89	90	375
Oil and gas exploration and production	193	134	84	56	182
Other sectors	209	108	106	34	184
	21,533	16,214	7,642	6,765	22,418

(* Represents insurance premiums earned in self residual, in life and general insurance.

2. Sector results *):

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2006	2005	2006	2005	2005
	Unaudited				Audited
	NIS Millions, Reported				
Israeli Fuel Sector Operations	65	67	11	30	46
Gas stations and convenience stores in the USA	132	82	70	40	144
Refinery operations in the USA	544	327	133	285	501
Automotive sector	323	292	102	112	380
Insurance operations***)	272	348	133	109	381
Real Estate Sector	53	124	17	29	155
Biochemicals sector	49	52	12	18	68
Oil and gas exploration and production	115	73	52	30	95
Other sectors	23	7	18	2	9
Adjustments **)	(73)	(12)	(23)	(1)	(65)
Total in statements of income	1,503	1,360	525	654	1,714

(* Represent segment operating income.
(** Including expenses not attributed to sectors.
(*** Includes profit from insurance operations and general and administrative, other expenses and other revenues of Phoenix, not included in insurance operations.

H. Significant accounting policies relating to main sections of the insurance operations

The financial statements of the insurance business are presented in conformity with the accounting, reporting and presentation principles established by the Supervision over Insurance Business (Reporting Details) Law – 1998 and the ensuing regulations, including reporting regulations and the Circular of the Supervisor of Insurance pertaining to financial reporting of insurance companies and which applies IFRS 4 – Insurance Contracts to insurance companies.

1. Non-marketable assets

Non-marketable assets, except for assets held against the liabilities of profit-sharing insurance policies, are included in the balance sheet on the basis of the last Index published before the balance sheet date, in accordance with the contractual terms of the assets. When the nominal value of the asset is guaranteed to Phoenix, even if it is higher than the Index-adjusted value, the investment is presented at its nominal value.

2. Investments in securities

A. Non-marketable debentures held against profit-sharing policies are presented at fair value, as mentioned in Section 1 above. The remainder of the non-marketable debentures are presented at principal amount, plus premium or less unamortized discount, plus accrued interest income to the balance sheet date, at their adjusted values as per the terms of issue.

B. Marketable debentures are presented at market value at the balance sheet date.

C. Marketable shares and options are presented at market value at the balance sheet date.

D. Participation certificates in mutual funds are stated at their balance-sheet-date redemption value.

E. Non-marketable shares, venture capital funds and investment funds held against profit-sharing policies are presented at fair value, as mentioned in Section 1 above. The remainder of the non-marketable shares, venture capital funds, and investment funds are stated at cost. In the event of impairment, which Management determines to be non-temporary in nature, a provision is made in respect thereof.

F. Derivative financial instruments not stemming from hedging existing assets and liabilities are presented on the balance sheet at their fair value. Any changes therein are carried to the statement of income, on an ongoing basis. The fair value of derivative financial instruments is determined on the basis of their market value. In accordance with the Reporting Regulations, net financial derivative instruments held by insurance companies are presented as part of “Securities” in the balance sheets.

3. Loans and Deposits

Loans and deposits held against profit-sharing policies are presented at fair value, as mentioned in Section 1 above. The remainder of the deposits and loans are included at their original values, plus accrued income as of the balance sheet date. Loans are presented net of the provision for doubtful debts.

4. Investments in Investee Companies

Investments in investee companies are accounted for in the financial statements by the equity method.

5. Rental real estate, office buildings, and other fixed assets

A. Rental real estate and office buildings are stated partially at cost, net of accumulated depreciation, and partially on the basis of valuations performed by a real estate appraiser as of December 31, 2005. In the event that the revaluation determined by the appraiser was more than the adjusted cost of the assets, the excess revaluation over the adjusted amount, net of applicable tax, was allocated to capital reserves. In the event that the appraisal of the expert was less than the book value of the assets, the difference was offset against the capital reserve previously created (if any) (see Section 13, below), with any balance included in the statement of income and in a provision for impairment, in accordance with Accounting Standard No. 15 of the Israel Accounting Standards Board.
Buildings partially rented out and partially used as offices of the companies were presented as "rental real estate" or as "fixed assets", based on the use of the buildings.

B. Other fixed assets are presented at cost, less accumulated depreciation.

C. Leasehold improvements are depreciated on the straight-line method over the duration of the lease, which is less than the expected life of the leasehold improvement.

D. Depreciation is computed by the straight-line method, at rates considered adequate to depreciate the assets over their expected useful lives.

6. Buildings under construction

Buildings under construction are presented at cost, less a provision for decline in value, in accordance with Accounting Standard No. 15 of the Israel Accounting Standards Board. Cost includes the direct cost of land, materials, wages, subcontractors, other direct costs, and credit costs deriving from the investment in constructing the buildings, in the event that they comply with the definitions of Accounting Standard No. 3 (capitalization of credit costs). In addition, administrative and selling expenses are capitalized if they can be clearly and uniquely identified with the specific project. The capitalized costs are carried together with the project’s other expenses upon the recognition of revenue.

7. Works of art

The investment in works of art is presented at cost, net of a provision for a decline in value, which, in management's opinion, is not of a temporary nature, and in accordance with Accounting Standard No. 15 of the Israel Accounting Standards Board.

8. Deferred acquisition expenses and other assets

A. For information pertaining to acquisition expenses in life, general, and hospitalization insurance, see Sections 10(g) and 11(f), below.

B. Original differences and goodwill

1. Original differences generated on the purchase of Hadar, attributable to the value of Hadar's life insurance portfolios, and expenses in respect of the acquisition of life insurance portfolios, are amortized at equal annual installments over a period of 10 years, which the Phoenix management believes reflects the average life of the policies.

   These amortization rates are subject to annual reassessment of the value of the life insurance portfolio, taking into consideration the estimated life expectancy of the portfolio that existed at the time of acquisition.

2. Original differences generated on the purchase of insurance agencies, attributable mainly to commission portfolios, are amortized on the basis of the life expectancy of the commission portfolio and change in accordance with the preservation of the portfolio. Phoenix periodically assesses the remaining expected life of the portfolios and adjusts the rate of amortization accordingly.

3. Original differences generated on the purchase of investee companies, not allocated to assets or liabilities (defined as goodwill), are amortized through to December 31, 2005, over the period regarding which the Company expects to derive an economic benefit (mainly 10%).

C. Issuance expenses of subordinated promissory notes of Phoenix are amortized by the interest method over the period from issuance to redemption date.

9. Provision for Doubtful Debts

A. The provision in respect of premiums receivable, loans and other debts was computed specifically for accounts whose collection, in management's estimation, is uncertain.

B. Regarding debts of reinsurers, see item 12, below

10. Life insurance business

A. Life insurance premiums, including savings premiums, are recorded as revenues upon the due date. Cancellations are recorded when notice is received from the policy owner or are initiated by Phoenix due to payments in arrears, all based on the type of policy and subject to any legal provisions.

B. The payout of a policy is recorded as of the redemption date of the policy.
Annuities are recorded on their redemption date.
Redemptions are recorded upon payment.
Deaths are recorded when the event becomes known to Phoenix.

C. Life-insurance reserves, the share of reinsurers therein and the assessment of the fairness of the allocation of life insurance deferred acquisition costs to future life insurance profits (see Section G, below) were determined based on the declarations of the actuaries of Phoenix and its Hadar subsidiary (Mr. Arie Wurtzburger, an officer of Phoenix and Mrs. Mimi Frankel, a Phoenix employee). The actuaries declared that these amounts were computed on the basis of the Companies' databases, in accordance with accepted actuarial methods in Israel, and in accordance with the data that were used by the companies in their various insurance plans, consistent with preceding periods. In making their calculations, the actuaries used the relevant coverage data, such as: The age of the policyholder, seniority of coverage, type of insurance, amount of insurance, etc.

In respect of collective nursing-care policies, an actuarial reserve is calculated and includes a reserve for expected loss and a reserve for revenue sharing. In the event that there is a collective group in respect of which a loss is forecasted, the financial statements include a reserve on an actuarial basis in respect of the loss.

D. Life insurance reserves relating to policies linked to the semi-annual CPI (June) and the investments covering such policies are presented on the basis of the last known Index as at the balance sheet date, in accordance with the directives of the Insurance Supervisor. Such a presentation does not represent the amount of the contractual liability of Phoenix in respect of these policies, and it has no impact on the results of operations.

E. A reserve in respect of group life insurance was calculated in accordance with the Regulations for the Supervision of Insurance (Group Life Insurance) – 1993. The reserve includes, among other things, a provision in respect of sharing in profits accrued to policyholders, with payments actually refunded to policyholders presented under the item entitled "sharing in profits of collective life-insurance policies".

In April 2005, the Insurance Supervisor published a position paper regarding the adequacy of reserves to pension-type life insurance policies. In October 2005, the Actuary of the Ministry of Finance sent a letter to company managers stating that the implementation of the position paper and the provision in accordance with the mortality tables included therein, will be effective starting in the first quarter of 2006 and that he intended to periodically update the method of calculating and distributing the reserve.

Pursuant to the said position paper, the Insurance Supervisor published a draft memo in July 2006, regarding the calculation of reserves for the payment of pensions in life insurance policies. The draft memo stipulated, inter alia, the method of supplementing reserves for the payment of pensions on policies on account of which pensions are paid and for policies during their savings phase. It was also stipulated that the assumptions for determining the supplementation of reserves for the payment of pensions will be submitted in writing to the Insurance Supervisor every year, along with justifying arguments. Interim regulations were determined in this matter, according to which an insurer may – for the purpose of the said calculation in the 2006 financial statements – use the assumptions of the draft memo, without submitting them in writing to the Insurance Supervisor. Discussions regarding this matter are being held between the insurance companies and the Insurance Supervisor.

In accordance with the decision of the Phoenix Insurance management and in accordance with the estimation of the Phoenix Insurance actuary, that relied on the position paper and the Ministry's memo, a full provision was made during the reported period, on account of the liabilities in policies on which pensions are paid, plus an additional provision on account of liabilities in policies during their savings phase, distributed over the average period until the payment of pensions of the Phoenix portfolio, estimated at 15 years.

Consequently, the earnings from life insurance operations have decreased, along with the income before taxes on income for the nine and three-month periods ended September 30, 2006, in the amount of NIS 18 million and NIS 11 million, respectively. The net income from insurance operations decreased by NIS 11 million and NIS 6 million, respectively.

F. The reserve for extraordinary risks in life insurance is calculated as a percentage of the total amount of the insurance at risk.

In 2002, the Insurance Supervisor circulated to the insurance companies draft regulations in connection with the provision for extraordinary risks in life insurance which was based on the principles agreed to by the parties, as follows:

An insurance company shall have a reserve for extraordinary risks in life insurance at a rate of 0.2% of the amount of self residual risk. Insurance companies having a lower percentage of the provision for extraordinary risks in life insurance as of December 31, 2001, are required to supplement the shortage in equal parts over a period of 12 reporting years. A provision in respect of the change in the amount of the self residual risk between any given reporting year and the previous year, commencing on January 1, 2002, will be set up in equal parts over a period of eight reporting years. Money can be released from the reserve, on condition that the amount of the reserve is greater than 0.25% of the amount of self residual risk.

The present reserve of Phoenix and its subsidiary is lower than 0.2% of the amount of the self residual risk. The Company and the subsidiary provided for the required supplementary provision during the reporting period.

G. Deferred acquisition costs in respect of policies sold commencing January 1, 1999 were calculated using the deferred acquisition cost method, in accordance with the guidelines set forth in the Reporting Regulations (hereinafter – the "New Guidelines"). According to the new guidelines, deferred acquisition costs (DAC) include commissions to agents and purchase supervisors and other expenses related to the acquisition of new policies, including part of the general and administrative expenses. According to these guidelines, deferred acquisition costs are amortized in equal installments over the period of the policy, not to exceed 15 years. Deferred acquisition costs in respect of policies that were cancelled are erased upon cancellation of the policy.

Deferred acquisition costs in respect of policies issued until December 31, 1998 continue to be included on the basis of the “Zillmer deduction” at percentages of the premium or the amount at risk, in accordance with the various policies.

The Company checks to see that the total of the expected future profits from life insurance policies in respect of which deferred acquisition costs were paid is not less than the balance of deferred acquisition.

H. Pending claims, less the share of reinsurers therein, were computed individually, on the basis of the evaluations of the Company's experts, based on notifications in respect of insurance events and insurance amounts.
The reserve for continuing claims in payments of workmen's compensation and nursing care are included in the insurance reserves.

Starting January 1, 2006, Phoenix Insurance is implementing the directives of the Insurance Supervisor regarding the supplemental provision for indirect expenses for claim settlement, pertaining to life insurance policies.

I. The Hadar subsidiary is committed under modified re-insurance agreements ("mod-re") with foreign insurance companies participating in part of the life-insurance policies. The results of "mod-re" are presented separately in the consolidated statements of insurance business. According to the Reporting Regulations, the total amount of commissions, including the excess reinsurance commission received from reinsurers in respect of policies issued commencing January 1, 1999, are spread out on the basis of the deferred acquisition costs.

J. The management fees presented in the statement of life-insurance business are computed in accordance with the guidelines of the Supervisor of Insurance (Procedure for Computation of Yield on Profit-Participating Policies) on the basis of the monthly yields and balances of the insurance reserves.

K. Grants paid to employees on the basis of volume of business are included under "General and administrative expenses".

11. General insurance business

A. Insurance premiums are recorded as revenues in the year in which the policy starts and relate mainly to insurance periods of one year. In the area of compulsory automobile insurance, since the commencement of the coverage is contingent upon the payment of the premium, the premiums are recorded as revenues once paid. In the areas of hospitalization and illness insurance, marine insurance, contractors, sick pay and travel insurance, premiums are recorded on a monthly or daily basis.

The part of the premium that relates to the period subsequent to the balance sheet date is recorded as a reserve for unexpired risks. See Section B, below.

Premiums from policies whose coverage commences subsequent to the balance sheet date or premiums relating to periods exceeding one year, are recorded as prepaid income.

Monthly production reports, mainly in the areas of property and apartment insurance, include automatic renewals of policies whose renewal date has already passed. Revenues included in the financial statements are net of cancellations made by policyholders, and net of cancellations and reserves as a result of non-payment of premiums, subject to the provisions of the law.

B. The reserve for unexpired risks, deferred acquisition costs and pending claims, including the share of reinsurers therein, has been computed in conformity with the Regulations of the Supervision over Insurance Business (Manner of Computing Provisions for Future Claims in General Insurance) – 1984 (hereinafter: “Regulations for Computing Provisions in General Insurance”) and is presented in accordance with the Reporting Regulations and their related clarifications.

The reserve for unexpired risks reflects the premium component that relates to the period subsequent to the balance sheet date (the unearned premium), in accordance with generally accepted accounting principles. These reserves do not reflect the actuarial liability of the unexpired risks. Notwithstanding the above, the reserves in the areas of comprehensive automobile, apartments and businesses, include where necessary, reserves for the premium that does not cover the expected cost of the claims (hereinafter – a "short" premium), calculated on the basis of a model set out in the regulations for computing reserves in general insurance. In addition, reserves are set up for "short" premiums in the area of health insurance on the basis of actuarial estimates.

C. Pending claims, net of the share of reinsurers therein, are included on the basis of actuarial estimates, except for certain branches of insurance.

In accordance with the Regulations for the Computing of Provisions in General Insurance, an insurance company should not recognize the excess of revenues over expenses less provisions (hereinafter – the "Accrual") in branches having a long claims tail (branches in which the time it takes to give notice of damages that were incurred and/or to determine the damages and the compensation therefore may last a number of years), such as compulsory automobile and other liabilities, before the end of the third year from the policy-issuance date, with these profits computed in accordance with the regulations. The accumulation recorded in respect of an excess is included in “pending claims” and in respect of a deficit is expensed. In respect of areas in which the actuarial reserve is computed by the method of surplus revenue over expense, the actuarial reserve in the financial statements for those years shall not fall below the surplus of revenue over expense.

Starting January 1, 2006, Phoenix Insurance is implementing the directives of the Insurance Supervisor regarding the supplemental provision for indirect expenses for claim settlement, pertaining to the assessment of contingent claims on account of general insurance policies that are issued as of that date.

D. The reserve for individual health insurance, such as medical expenses, organ transplants, is calculated on an actuarial basis.

In respect of collective health insurance policies, the computed actuarial reserve includes a reserve for expected loss and a provision for revenue sharing. If there is a group policy in respect of which a loss is expected in the future, a provision is then recorded for it in the financial statements on an actuarial basis.

E. Collective dental insurance involves an actuarial assessment in regard to the overall profit or loss expected from each collective separately.

F. 1. The part of the commission paid and other acquisition costs attributable to the unearned premium is carried forward to the following year as deferred acquisition costs. These expenses are calculated at the lower of actual rates or on the basis of standard rates for each area separately, in accordance with the Standards in Section 11(a) above and are expensed to the general insurance business statements over the duration of the policies.

2. Commencing on January 1, 2005, the Company started implementing the directives of the Supervisor of Insurance pertaining to the calculation of deferred acquisition costs (hereinafter – "DAC") of hospitalization and illness policies sold subsequent to January 1, 2005. According to these directives, DAC are calculated in accordance with the guidelines stipulated in respect of the DAC of life insurance (see G7 above) and are amortized in equal installments over the life of the policy. However, in respect of policies covering a period of more than six years, the DAC can be amortized over a shorter period, but not less than six years.

G. Business obtained from the pool, from other insurance companies and underwriting agencies are included on the basis of bills received until the balance sheet date, plus provisions where applicable, all on the basis of the percentage at which Phoenix participates therein.

H. Investment income is allocated to the various areas of insurance on the basis of the ratio of the opening balance of pending claims and insurance reserves, less deferred acquisition costs, plus half of the total premiums less claims and expenses paid during the reporting period.

I. General and administrative expenses are allocated among the various branches of general insurance on the basis of a model that takes into account output and claim volumes, on the basis of the circular of the Supervisor.

J. The reserve in respect of group health insurance includes, among other things, a provision in respect of profit sharing accumulated for policyholders. When amounts are refunded to policyholders, the refunded amount is deducted from "premiums".

K. Subrogation is included when received as a reduction in claims paid. In addition, subrogation is taken into account in the data base which serves as the basis for the actuarial estimates of pending claims. In branches which are not statistical, subrogation is taken into account when assessments are made of the overall risk in claims portfolios on an individual basis. Remnants of accidents, mainly of motor vehicles, are recorded as reductions of cost of claims on the basis of the expected realization thereof.

12. Reinsurance

A. In accordance with the Reporting Regulations, the liabilities of re-insurers at the balance sheet date in respect of their share in insurance reserves and pending claims, net of the provision for doubtful debts based on Phoenix's management estimates (see B, below), are presented separately in the balance sheets, under "Sums to collect".

B. Phoenix provides for doubtful debts in respect of the debts of re-insurers, the collection of which is doubtful on the basis of individual risk assessments. In addition, in respect of the share of re-insurers in pending claims and insurance reserves, Phoenix takes into consideration, among other things, assessments of the possibility of collection from re-insurers, with the share of the re-insurers being computed on an actuarial basis. The share of those re-insurers who are undergoing difficulties is computed on the basis of the actuary's recommendation which takes into consideration overall risk factors. When re-insurers experience difficulties, they may raise various claims regarding to the recognition of the debt. In such cases, when computing the provisions, Phoenix takes into consideration the readiness of the re-insurers to reach "cut-off" agreements.

C. "Exposure of a re-insurer" – The share of a re-insurer in insurance reserves and pending claims, net of deposits and net of the amount of the letters of credit received from the re-insurer as a guarantee for its liabilities, plus (less) the net current debit (credit) balance.

13. Real estate revaluation reserve

The real estate revaluation reserve includes additions in respect of a re-evaluation of rental real estate and office buildings, less a provision for deferred taxes.

14. Revenues from investments

Investment revenue is included in the statements of income on the basis of investments corresponding to shareholders' equity and to liabilities which are not attributed to insurance business.

15. General & Administrative Expenses

General and administrative expenses directly relating to insurance business are charged to the appropriate business statements. Other expenses are charged on the basis of the principles stipulated in the Reporting Regulations, based mainly on the breakdown of salaries, office area, and turnovers.

16. Recognition of income from the sale of works of art

Gains on the sale of works of art are recognized on the date of sale, in the event of a contractual agreement that binds the purchaser, as long as there is a good chance that the Company will receive the consideration for the sale.

I. Proposal of the Capital Market, Insurance and Savings Division regarding the transfer of funds between provident funds

In July 2006, the Insurance Supervisor published draft regulations for the supervision of financial services (provident funds) (transfer of funds between funds) – 2006 and a draft memo regarding the transfer of savings (including insurance coverage for disability and death) between provident funds. The objective of the drafts is to enable the consumer to migrate the pension savings, at any time, between the bodies that manage pension savings, thereby resulting in greater competition and improved market sophistication. The proposed changes will render it possible, inter alia, to transfer accumulated savings with no regulatory, legal or other restrictions, from pension-type life insurance policies to comprehensive pension funds and vice versa, along with the transfer from lump-sum plans (life insurance, provident funds and continuing education funds), that provide a single lump sum payment, into a pension fund or annuity fund. New regulations were also determined for supporting the proposed measures, including the setting of obligatory dates for the transfer of the information and accumulated funds – for a member who asked to transfer, while determining the method of communication between various producers, for the transfer of information and content regarding a migrating member.

The transfer of savings from an insurance company, as a result of the implementation of the said regulations, may possess an impact on the Phoenix operations and/or its future results.

Since it is unclear whether the draft regulations will be accepted as is, or with amendments, and since it is impossible to assess the behavior of the insured members as a result of the publication of the said regulations, it is consequently impossible to forecast the implications of the regulations.

Discussions are being held in this topic between the insurance companies and the Insurance Supervisor.

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