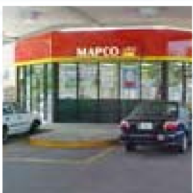
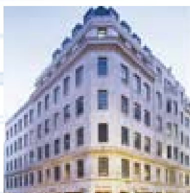
Delek Group

FINANCIAL STATEMENTS

AS OF MARCH 31, 2007





IMPORTANT

This document is an unofficial translation from the Hebrew original of the 2006 annual report of Delek Group Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on May 30, 2007.

The Hebrew version submitted to the TASE and the Israeli Securities Authority shall be the sole binding version. Investors are urged to review the full Hebrew report.

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May 29, 2007

DELEK GROUP LTD.

Board of Directors Report on the State of the Company Affairs

For the first three months of 2007

The Board of Directors of Delek Group Ltd. is hereby honored to present the Company’s Directors’ Report for the three-month period ended March 31, 2007.

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 a subsidiary – Delek the Israel Fuel Company, Ltd. (hereinafter: "Delek Israel") and in the USA via Delek US Holdings, Inc. (Hereinafter: "Delek USA").

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

c. Delek Real Estate Ltd. (hereinafter: “Delek Real Estate”) – Most of the Group’s operations in the real-estate sector overseas are conducted by the Group’s subsidiaries, Delek Belron International Ltd. (hereinafter: “Delek Belron”), and recently through Delek Global Real Estate (hereinafter: “DGRE”), that issued 23% of its shares on the London Stock Exchange in April 2007. Delek Belron and DGRE hold foreign companies that invest primarily 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.

As at March 31, 2007, the Company holds 100% of Delek Petroleum and Delek Investments and 67.9% of Delek Real Estate.

2. Principal Operations

The Group's net income in the reported period amounted to NIS 325 million, as compared with NIS 310 million in the corresponding period last year. The net income for all of 2006 amounted to approximately NIS 1,513 million.

The Group's revenues for the reported period amounted to approximately NIS 6 billion, as compared with approximately NIS 5.5 billion in the corresponding period last year, representing an increase of approximately 9%.

The Group's EBITDA, earnings before interest, taxes, depreciation and amortization amounted to approximately NIS 421 million during the reported period, as compared with approximately NIS 390 million in the corresponding period last year, representing an increase of approximately 8%.

An additional figure that grew significantly is the positive working capital from general business, that amounted to NIS 1,168 million as at March 31, 2007, as compared with positive working capital of NIS 605 million as at December 31, 2006.

The most significant contribution to the growth in net income during the reported period, as compared with the corresponding period last year originated from the impact of the insurance and finance operations. This operation contributed NIS 90 million to the Company in the first quarter of 2007, as compared with NIS 25 million in the corresponding period last year.

The Company also recorded gains during the reported period from the sale of Menora shares in the sum of NIS 143 million (before taxes). On the other hand, an expenditure of NIS 43 million was recorded on account of abandoning two oil drills that were found to be dry in Guinea Bissau.

The Company completed an issue of Series M debentures in March 2007. The debentures, in the sum of NIS 913 million, were allocated for cash as well as against the replacement of Series F-J debentures. See Section 5, below.

In March 2007, an agreement was finalized for the acquisition of the share capital of a British company that holds Motorway Service Areas in the UK, under the RoadChef brand, including filling stations operated by the acquired company, hotels, restaurants and stores. The volume of the transaction amounted to GBP 163 million (approx. NIS 1,350 million). For additional details, see 6E, below.

Subsequent to the balance sheet date, in May 2007, Delek Benelux B.V. (hereinafter: "Delek Benelux") – a wholly-owned subsidiary of Delek Petroleum, signed an agreement pursuant to which Delek Benelux would acquire from Chevron Global Energy Inc. (hereinafter: "Chevron") the entire share capital of three foreign companies that concentrate Chevron's marketing operations in the Benelux countries. The marketing operations include 869 fueling stations, mostly under the Texaco brand. The consideration for the acquisition is €342 million, before working capital adjustments. A sum of €10 million was paid upon signing the agreement, with the rest to be paid upon completion of the transaction and adjusted according to the working capital at that date, with the adjustment estimated by Delek Benelux at an amount ranging between €20 and €70 million. The completion of the transaction is contingent upon several preconditions, chief among which is obtaining anti-trust

authorizations. The final date for the completion of the transaction was determined to be October 31, 2007. The company has guaranteed the liabilities of Delek Benelux in the sales agreement.

The Board of Directors of the Company decided on May 29, 2007, to distribute dividend in the sum of approximately NIS 130 million on account of the profits in the first quarter of 2007. This sum is in addition to a sum of NIS 100 million that was distributed in May 2007.

For further details regarding the operations of the Group companies, see Section 6.

3. Results of Operations

Contribution of Principal Operations to Net Income (NIS millions):

	Jan-Mar/07	Jan-Mar/06	2006
Fuel operations in the USA	57	65	337
Israeli Fuel Sector Operations [(1)]	1	4	25
Oil and Gas Exploration and Gas Production	26	11	108
Oil exploration expenses [(2)]	(43)	-	-
Automotive Operations	56	30	151
Real Estate Operations	20	28	235
Biochemical Operations	5	7	21
Insurance and Finance Operations [(3)]	90	25	109
Telecommunications Operations	2	(19)	(43)
Capital Gains and Others [(4)]	111	159	570
Net Income	325	310	1,513

(1) The contribution of Delek Israel to the Group's results was influenced by an expenditure on account of options granted to the CEO of Delek Israel, see also Section 6B.

(2) The petroleum and gas exploration operations include an expenditure of NIS 43 million on account of the cost of failed petroleum and gas exploration drilling in Guinea Bissau – see Section 6c, below.

(3) During the reported period, the Phoenix results were included at a rate of 55.5% and Delek Finance at 100%, as compared with the corresponding period last year, when the Phoenix results alone were included at a rate of 25%.

(4) This item includes capital gains of NIS 143 million from the realization of Delek Investments holdings in Menora. In the corresponding period last year, this item included NIS 124 million in capital gains originating from the public offering of Delek Real Estate, plus a sum of NIS 59 million from the offering of Delek Automotive. Also included in this item, are non-ascribed financial expenses, tax 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:

	Jan-Mar/07	Jan-Mar/06	2006
General Operations:			
Revenues	5,970	5,468	24,118
Cost of Revenues	5,245	4,831	21,217
Gross Profit	725	637	2,901
Selling, Marketing and Gas Station Operating Expenses	225	224	930
General & Administrative Expenses	169	100	441
Operating Income	331	313	1,530
Financial Expenses, net	147	137	554
	184	176	976
Gains from realization of investments in investee and other companies, net	143	183	702
Other income, net	35	4	3
Income before taxes on income	362	363	1,681
Taxes on Income	108	71	404
Income after taxes on income	254	292	1,277
Group's share in profits of affiliates and partnerships, net	67	78	591
Minority Interest in Subsidiary Earnings, Net	(88)	(60)	(355)
Net income from general operations	**233**	**310**	**1,513**
Insurance Operations:			
Profit from insurance operations	219	-	-
Income from investment and others, not included in insurance operations	40	-	-
General and administrative expenses not included in insurance operations	(4)	-	-
Interest expenses on long-term liabilities	(47)		
Group's Share in profits of associated companies	46	-	-
Income before taxes on income	254	-	-
Taxes on Income	92	-	-
Income after taxes on income, from insurance operations	162	-	-
Minority Interest in Subsidiary Earnings, Net	70	-	-
Net income from insurance operations	**92**	**-**	**-**
Net Income	**325**	**310**	**1,513**

The following is an analysis of the principal changes in the statement of income items, in relation to the corresponding period last year:

Revenues

The Group's revenues during the reported period amounted to approximately NIS 6 billion, as compared with approximately NIS 5.5 billion in the corresponding period last year. The growth in revenues is primarily attributed to the refinery operations in the USA, the expansion of operations and acquisition of rights to operate filling stations with convenience stores in the USA and the increase in the quantity of vehicles sold by Delek Automotive Systems.

Gross Profit

The gross profit during the reported period amounted to approximately NIS 725 million, as compared with approximately NIS 637 million during the corresponding period last year. The increase in gross profit originated primarily from the operations of the refinery and marketing operations in the USA, coupled with the growth in the number of cars sold by Delek Automotive Systems, as stated above.

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 fuel operations in the USA, on account of the expansion of operations in the gas station, convenience stores and marketing sectors and the recording of expenses on account of options granted to the CEO of Delek Israel during the reported period (see details in Note 3C to the financial statements).

Financial Expenses, net

The Group's net financial expenses for the reported period amounted to approximately NIS 147 million, as compared with approximately NIS 137 million in the corresponding period last year, representing a net increase of approximately NIS 10 million.

Gains from realization of investments in investee and other companies

During the reported period, the Company realized most of its holdings in Menora Insurance Holdings Ltd. (approx. 12.2%), thereby generating capital gains of NIS 143 million (before taxes). The gains – amounting to NIS 183 million – recorded in the corresponding period last year, originated from profits from the allocation of Delek Real Estate shares to Tarshish Holdings and Investments Hapoalim Ltd. in the sum of NIS 124 million, coupled with profits from the allocation of Delek Automotive Systems shares to the CEO in the sum of NIS 59 million.

Minority Interest in Subsidiary Earnings, Net

The minority interest in the profits of affiliates and partnerships during the reported period amounted to the sum of approximately NIS 88 million, as compared with approximately NIS 60 million in the corresponding period last year. The increase is primarily attributed to the minority interest in the results of Delek USA and Delek Automotive.

Profit from insurance operations

In the reported period, the Group consolidated for the first time the results of operation of the insurance sector, that comprises the operations of Phoenix and Delek Finance (which holds Republic). The profit from insurance operations during the reported period amounted to NIS 92 million. During the corresponding period last year, the Group recorded gains of approximately NIS 22 million from its holdings of 25% in Phoenix, according to the equity method of financing.

4. Financial Position

The Group's total assets as at March 31, 2007, amounted to approximately NIS 59 billion, as compared with approximately NIS 52.4 billion as at December 31, 2006. The total assets from general operations as at March 31, 2007, amounted to approximately NIS 23.3 billion, as compared with approximately NIS 18.3 billion as at December 31, 2006. Most of the growth – in the sum of NIS 3.5 billion – is attributed to the initial consolidation of the operations of a British company that holds 29 Motorway Service Areas in the UK, under the RoadChef brand. The total assets of the insurance operations as at March 31, 2007, amounted to approximately NIS 35.8 billion, as compared with approximately NIS 34.1 billion as at December 31, 2006.

The following are the principal changes in the balance sheet items of assets and liabilities from general operations, as at March 31, 2007, as compared with December 31, 2006:

Cash and Short-Term Investments

The cash and short-term investment balances increased during the reported period from NIS 1,696 million to NIS 2,807 million, representing an increase of some NIS 1,111 million.
Growth of NIS 390 million originates from the fuel operations in the USA, growth of NIS 500 million originates from the real-estate sector and growth of NIS 70 million originates from Delek Group on its own.

Accounts Receivable - Trade

An increase of NIS 241 million originates primarily from growth of NIS 60 million in accounts receivable in the automotive sector, following the growth in sales, a NIS 80 million increase in the accounts receivable of the real estate sector, a NIS 75 million increase from the expansion of the operations of the US refinery and marketing operations and an increase of NIS 52 million in the Israeli fuel operations.

Inventories

A decrease of approximately NIS 303 million, stemming mainly from a decrease of approximately NIS 290 million in automotive inventories, coupled with a decrease of approximately NIS 91 million in fuel inventories in Israel and in the USA.

Investments in investee and other companies

Total net investments in investee companies and others amounted to NIS 285 million.
Most of the increase originates from the acquisition of shares of Oil Refineries for the sum of NIS 235 million, the rise in the holding percentages at investee companies with income-generating assets – in the UK and in Germany inter alia, the completion of the Marriott transaction, coupled with the sale of 12.2% of the Menora shares for NIS 247 million and the classification of the remaining investment in Menora, in the sum of NIS 44 million, as a current investment.

Fixed Assets

Fixed assets increased by approximately NIS 2,551 million, net. This increase is primarily attributed to the initial consolidation of RoadChef, as mentioned above.

Other assets

Other assets increased by approximately NIS 731 million, net. This increase is primarily attributed to the initial consolidation of RoadChef, as mentioned above.

Short-Term Credit from Banks and Others

There was a NIS 198 million increase. This increase is primarily attributed to the initial consolidation of RoadChef, as mentioned above.

Accounts Payable to Suppliers and Service Providers

An increase of NIS 296 million was recorded, originating primarily from an increase of NIS 117 million in the accounts payable balance of Delek Automotive, coupled with growth of NIS 136 million originating from the initial consolidation of RoadChef, as mentioned above.

Other Accounts Payable

An increase of NIS 238 million was recorded, primarily from the initial consolidation of RoadChef, as mentioned above.

Long-Term Loans

A net increase of NIS 1,362 million was recorded, originating primarily from long-term loans in the sum of NIS 1,268 million, due to the initial consolidation of RoadChef, as mentioned above.

Other Debentures

A net increase of NIS 2,645 million was recorded, originating primarily from the initial consolidation of RoadChef, as mentioned above, in the sum of NIS 1,642 million, coupled with the issue of debentures at the Company and by Delek Real Estate in the sum of NIS 318 million and NIS 769 million, respectively.

Shareholders' Equity

As at March 31, 2007, the Group's shareholders' equity totaled NIS 3,615 million, as compared with NIS 3,447 million at December 31, 2006.
The increase in shareholder's equity stems primarily from earnings in the reported period in the sum of approximately NIS 325 million, from conversion of debentures into shares of the Company in the sum of approximately NIS 4 million and from the exercise of option warrants into shares of the Company in the sum of approximately NIS 6 million, net of declared dividend of NIS 100 million, net of a reserve from translation differences totaling NIS 47 million and net of the adjustment of fixed assets to the fair value of an associated company in the sum of NIS 23 million.

Pending Claims

The Company's CPAs draw attention, in their Opinion, to lawsuits against investee companies. For details see Note 6 to the financial statements.

5. Sources of Finance

a. In March 2007, the Company issued a private placement of Series M debentures in the sum of NIS 913 million. The debentures were allocated against cash (approx. NIS 342 million) and against the replacement of debentures from series F-J (approx. NIS 571 million). For additional details, see Note 5 to the Financial Statements. 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 M debentures that were issued in March 2007.

b. The conversion of debentures and exercise of option warrants for shares in the Company – In the reported year, convertible debentures and option warrants were converted in the sum of approximately NIS 10 million for shares in the Company. For details see Note 7 to the financial statements.

c. Surplus financial assets of the Company (in the non-consolidated financial statements) as at March 31, 2007, totaled approximately NIS 70 million (including a total of approximately NIS 2,596 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 March 31, 2007, totaled approximately NIS 1,100 million (including a total of approximately NIS 432 million in net loans from Group companies).

   The surplus financial liabilities (in the non-consolidated financial statements) of Delek Hungary (which is the direct parent company of Delek USA), as at March 31, 2007, amounted to NIS 175 million.

   The outstanding financial debt of Delek Petroleum (in the non-consolidated financial statements) amounts to negligible sums.

   The surplus financial liabilities (in the non-consolidated financial statements) of Delek Capital and Delek Finance US, Inc. (the direct parent company of Republic), as at March 31, 2007, amounted to NIS 2,062 million.

   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. For details 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:

	Jan-Mar/07			Jan-Mar/06		
	Refinery and marketing operations [1]	**Convenience Stores and Gasoline Stations**	**Total**	**Refinery Operations**	**Convenience Stores and Gasoline Stations**	**Total**
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	2,000	1,396	3,396	1,691	1,390	3,081
Gross Profit	155	168	323	123	156	279
Selling, gas station operation expenses and other ascribed expenses	-	135	135	-	124	124
Ascribed G&A expenses	15	15	30	10	11	21
Profit before mutual expenses	140	18	158	113	21	134
Non-ascribed G&A expenses			30			12
Operating Income			128			122
Financial Expenses			24			23
Income Before Taxes			104			99
Net Income (excluding minority interest)			**74**			**65**

	2006		
	Total	**Refinery and marketing operations [1]**	**Convenience Stores and Gasoline Stations**
	NIS millions	NIS millions	NIS millions
Revenues	14,253	8,072	6,181
Gross Profit	1,402	683	719
Selling, station operation expenses and other ascribed expenses	527	-	527
Ascribed G&A expenses	101	51	50
Profit before mutual expenses	774	632	142
Non-ascribed G&A expenses	75		
Operating Income	699		
Financial Expenses	81		
Income Before Taxes	618		
Net Income	**418**		

(1) The marketing operations were acquired in July 2006.

Delek USA operates a refinery with a maximum production capacity of 60,000 barrels, a pipeline for the transportation of crude oil and a system of fuel marketing terminals in the State of Texas, USA, as well as gasoline stations and convenience centers in eight neighboring states in the southeastern USA.

Delek USA operates various fuel refinery and marketing assets that were acquired in July 2006 from the Pride-LP Group and related companies, based in Abilene, Texas. The assets acquired include two fuel product sales terminals, located at Abilene and San Angelo, Texas, seven fuel product transmission pipelines of approximately 114 miles in length, which connect between Delek USA's terminals and fuel product storage tanks with a total capacity of more than one million barrels.

In February 2007, the subsidiary Mapco Express, Inc., which is wholly owned by Delek USA, entered into a contract for the acquisition of 107 gasoline stations with convenience stores, from Calfee, based in Dalton, Georgia, for consideration of the sum of approximately $65 million. The gasoline and convenience stores are located in the area of Eastern Tennessee and Georgia, and operate under the brand name "Favorite Markets". Subsequent to the balance sheet date, in April 2007, the acquisition of 101 gasoline stations out of the said stations was finalized, in consideration of $62 million. The completion of the acquisition of the remaining stations is subject to preconditions.

The Group's holding percentage in Delek USA is approximately 77%.

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

Revenues

The sales of Delek USA amounted to NIS 3,396 million during the reported period , as compared with NIS 3,081 million in the corresponding period last year. The increase is primarily attributed to the following factors:

- Sales of Delek Refining, including Delek Marketing, amounted to approximately NIS 2,000 million in the reported period, as compared with approximately NIS 1,691 million for the corresponding period last year. Delek Marketing and Supply markets fuel products via two terminals that it owns and a number of terminals that are owned by a third party, since July 31, 2006. These sales, during the reported period, amounted to approximately NIS 496 million.

- The sales of 43 gasoline stations and convenience centers that were acquired in the months of July and August 2006.

- A 1.7% increase in the sales volume of products at convenience stores.

Gross Profit

The gross profit in the reported period amounted to NIS 323 million, as compared with NIS 279 million in the corresponding period last year. The increase is primarily attributed to the refinery and marketing operations that generated a gross profit of NIS 155 million, as compared with NIS 123 million in the corresponding period last year, coupled with the rise in the volume of operations and gross margins of convenience stores and gas stations, as well as due to the acquisition of 43 convenience and fueling centers in July and August 2006.

Selling, station operation expenses and other ascribed expenses (hereinafter: "operating expenses")

Operating expenses, including general and administrative expenses ascribed to the various sectors, amounted to NIS 165 million during the reported period , as compared with NIS 145 million during the corresponding period last year. The increase in operating expenses is attributed to an increase in the fuel station and convenience store operating costs, as a result of the acquisition of the operations of 43 convenience and fueling centers in July and August 2006, coupled with additional expenses associated with the acquisition of marketing operations, as at July 31, 2006.

Non-ascribed G&A expenses

Non-ascribed general and administrative expenses amounted to NIS 30 million during the reported period , as compared with NIS 12 million during the corresponding period last year. The increase is primarily attributed to general and administrative costs associated with additional expenses that were added to Delek USA in parallel to the IPO in May 2006, coupled with the recording of expenses on account of employee options.

Operating Income

The operating income in the reported period amounted to NIS 128 million, as compared with NIS 122 million in the corresponding period last year. The increase is primarily attributed to the increase in the profitability of the refinery and marketing segment as a result of the expansion of the refining margin in the Gulf of Mexico region, coupled with the profitability of the marketing operations that began in the second half of 2006, as mentioned above.

Net Income

The net income in the reported period amounted to NIS 74 million, as compared with NIS 65 million in the corresponding period last year. The increase is attributed to the rise in sales, coupled with the operating margins of Delek USA.

Additional Information

For additional details regarding the operations of Delek USA, see Note 3B to the financial statements.

B. Israeli Fuel Sector Operations

The following are data from the financial statements of Delek Israel:

	Jan-Mar/07	Jan-Mar/06	2006
	NIS millions	NIS millions	NIS millions
Revenues	1,000	1,066	4,455
Gross Profit	133	113	497
Operating Income, prior to expenses on account of CEO options	42	16	92
EBITDA	56	32	153
Financial Expenses	14	14	59
Net income before share in Delek USA results	24	4	25
Delek Israel's portion of Delek USA's results (*)	2	-	24
Net income before expenses related to CEO options	26	4	49
Expenses related to CEO options	(23)	-	-
Net Income	3	4	49

(*) Starting in the second quarter of 2006, Delek Israel included its share in the Delek USA results (approx. 3%).

The Group's operations in the Israeli fuel sector are performed by Delek Israel, 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 227 public gasoline stations in Israel.

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

Revenues

Fuel sales amounted to approximately NIS 1,000 million during the reported period , as compared with approximately NIS 1,066 million in the corresponding period last year (down 6%).
The decrease is primarily attributed to the decrease in the average fuel prices by 1.3%, as a result of decreasing fuel prices on the global market, that was partially offset by a 1% quantitative increase.

Gross Profit

The gross profit in the reported period amounted to NIS 133 million, as compared with NIS 113 million in the corresponding period last year. This increase is primarily attributed to improved margins, a quantitative rise and a decrease in inventory losses.

Operating Income Prior to Expenses on Account of CEO Options

The operating income in the reported period amounted to NIS 42 million, as compared with NIS 16 million in the corresponding period last year. The increased profits are primarily attributed to the improved gross margin and the lower selling and G&A expenses.

For details regarding the options granted to the CEO of Delek Israel, see Note 3C to the financial statements.

Delek Israel's share in the earnings of associated companies

Delek Israel's share in the earnings of associated companies during the reported period amounted to approximately NIS 5 million, as compared with approximately NIS 2 million during the corresponding period last year.

Net Financial Credit

The Company's total financial credit, net (total financial liabilities, net of cash, emergency inventories and loans to related parties and customers) of Delek Israel as at March 31, 2007, amounted to NIS 1,165 million, as compared with NIS 1,066 million at the end of the preceding year. The increase is primarily attributed to the increase in the accounts receivable and other receivables items, coupled with loans for financing the investment in RoadChef.

Additional Information

1. For additional details regarding the fuel operations in Israel, see Note 3C to the financial statements.

2. For information regarding the closing of the RoadChef transaction, see Section 6E, below.

C. Oil and Gas Exploration and Gas Production

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

	Jan-Mar/07	Jan-Mar/06	2006
	NIS millions	NIS millions	NIS millions
Revenues	78	58	268
Operating Income (loss)	(1)	34	154
EBITDA	19	49	223
Financial Expenses	15	21	43
The Group's share in results of Avner	11	7	43
Net Income (loss)	(17)	11	108
Gas sales in BCM (*)	0.6	0.5	2.3

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

1) Results of Operations

a. The Group's loss in the reported period, amounting to NIS 17 million, originates primarily from the abandoning of the two drills in Guinea Bissau. The Group recorded a loss of NIS 43 million from the Guinea Bissau project during the reported period, as stated above. The Company's profit, net of the cost of abandoned drills in Guinea Bissau, totals NIS 26 million, as compared with profit of NIS 11 million in the corresponding period last year.

b. Most of the Group's oil and gas exploration and production operations in Israel are conducted through its direct and indirect holdings in the Yam Tethys project.

c. The subsidiary Delek Energy Systems Ltd. (hereinafter: "DES"), operates in Israel primarily through the limited partnerships Delek Drilling and Avner and operates overseas through the following two principal companies:

- Delek Energy (Vietnam) LLC (hereinafter: "Delek Vietnam") – deals primarily in oil and gas exploration in Vietnam. Delek Vietnam owns 25% of the rights in an oil exploration project in Vietnam.

- Delek International Energy Ltd. (hereinafter: "Delek International") – holds rights to projects in the United States through Delek Energy Systems US Inc. (hereinafter: "DES USA"). Delek International holds – since May 2007 – the shares of Matra Petroleum plc, that deals in exploration in Russia and Hungary.

Subsequent to the balance sheet date, Delek International established a subsidiary that participates in exploration is block 21/20f in the British North Sea.
Delek International also participated in exploration activities at an offshore project in Guinea Bissau in West Africa.

It should be emphasized that the results during the reported period include the results of operations in the United States, starting with the fourth quarter of 2006.

d. The Group's holding percentage in DES is approximately 88.9%.

The following is an analysis of the results of operation

Revenues

a. During the reported period, the Group recorded revenues in Israel from the sale of gas, net of royalties and net of sums for pegging the price of gas to a fixed dollar value pursuant to a hedging transaction, in the sum of NIS 68 million, as compared with NIS 58 million in the corresponding period last year, representing growth of 17%. This growth is after offsetting the impact of the 12% decrease in the dollar exchange rate, in relation to the corresponding period last year.

   The average daily consumption of natural gas by Israel Electricity Company ("IEC") varies, among other things, in accordance with seasonal changes in demand for electricity and according to maintenance work performed by the IEC. The said gas consumption by the IEC in the first quarter of the year was higher than it was in the corresponding quarter last year, primarily because of the connection of the Reading power station to the national natural gas transmission system. Moreover, the increase in quarterly revenues is 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.
   We note that there are still significant delays in the timetables for connecting other power stations of the IEC and American Israeli Paper Mills to the national natural gas transmission system.
   During the reported period, the revenues from the sale of natural gas were presented net of NIS 3 million originating from differences between the price set in the hedging transaction signed in 2004 and the actual price of gas, according to the gas quantities sold. In the corresponding period last year, the revenues from the sale of gas were presented net of NIS 3 million, as aforementioned.

b. During the reported period, revenues of NIS 10 million were included, from the sale of oil and gas in the United States, from the AriesOne partnership.

Oil and gas exploration expenses

Oil and gas exploration expenses during the reported period, amounting to NIS 43 million – or $10 million – originate primarily from expenses on account of two drills that were abandoned in Guinea Bissau. Expenses of $8 million were incurred at the first drill, that started in February and was abandoned in March 2007, without having reached the target layer. Expenses of $2 million were incurred at the second drill, that started in late March 2007 and was abandoned in April 2007, due to the fact that no hydrocarbons were detected. The total expenses incurred on account of the second drill amounted to $5 million, of which $2 million were allocated in the first quarter, as mentioned above, while the remaining $3 million will be allocated in the second quarter of the year.

Operating loss

The operating loss during the reported period amounted to NIS 1 million and originates primarily from the expenses related to the drills abandoned in Guinea Bissau, in the amount of NIS 43 million, as mentioned above.

The operating income, net of the cost of the abandoned drills in Guinea Bissau, totals NIS 42 million in the reported period, as compared with operating income of NIS 34 million in the corresponding period last year.

Financial Expenses

The financial expenses for the reported period amounted to approximately NIS 15 million, as compared with approximately NIS 21 million in the corresponding period last year, representing a decrease of approximately NIS 6 million.
Most of the decrease in the financial expenses in the reported period as compared with the corresponding period last year, originates from the fact that during the reported period, the NIS was revaluated by 1.66%, as compared with a devaluation of approximately 1.35% in the corresponding period last year. The revaluation of the NIS during the reported period led to revenues from exchange rate differentials of NIS 2 million, as compared with expenses from exchange rate differentials in the corresponding period last year, of NIS 4 million.
Furthermore, a decrease was recorded in financial expenses during the reported period due to a 0.2% decrease in the CPI during the reported period, as compared with a CPI increase of 0.6% in the corresponding period last year, that led the Company to record revenues in the reported period on account of linkage differentials in the sum of NIS 1 million, as compared with NIS 3 million in linkage differential expenses in the corresponding period last year.
On the other hand, expenses were incurred by DES USA on account of the AriesOne Partnership, in the sum of NIS 4 million, originating primarily from futures transactions that were made by the Partnership in the past.

2) Additional Information

For additional information regarding investments in oil and gas exploration and production, see Note 4 to the financial statements.

D. Automotive Operations

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

	Jan-Mar/07	**Jan-Mar/06**	**2006**
	NIS millions	NIS millions	NIS millions
Revenues	1,175	1,009	4,060
Gross Profit	170	122	496
Operating Income	155	107	438
EBITDA	157	109	447
Financial Expenses	(12)	(10)	(38)
Net Income	100	67	273

The contribution of the automotive sector to the Group's net income in the reported period amounted to approximately NIS 56 million, as compared with approximately NIS 30 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.

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

The following is the quantitative distribution of sales:

	Jan-Mar/07	**Jan-Mar/06**	**2006**
Mazda vehicles	6,464	5,911	22,883
Ford vehicles	4,321	3,124	13,220
Total sales of Delek Automotive	10,785	9,035	36,103
Delek Automotive's market share out of total vehicle sales in Israel (Ministry of Transport Licensing Bureau figures)	24%	22%	23%

In the course of 2007, Delek Automotive is expected to launch several models, some of which – Mazda 2 for example – will constitute a penetration into new market segments for the company. Moreover, the existing lineup of models will be expanded by additional vehicles, such as the Ford S-MAX minivan, that was selected as Car of the Year in Europe for 2007.

Revenues

The sales turnover amounted to approximately NIS 1,175 million in the reported period, as compared with NIS 1,009 million in the corresponding period last year, representing an increase of 16%. The increase in turnover originates primarily from the rise in the number of vehicles sold.

Selling, Marketing, General and Administrative Expenses

The selling and marketing expenses decreased during the reported period primarily as a result of the decrease in the advertising volume and expenses in relation to the corresponding period last year.

Financial Expenses, net

Net financial expenses of NIS 12 million were recorded by Delek Automotive during the reported period, as compared with NIS 10 million in the corresponding period last year.
The net financial expenses are on account of credit from banks in the amount of NIS 7 million, expenses on the adjustment of the fair value of hedging transactions in the sum of NIS 7 million, while on the other hand, the expenses were partially offset as a result of recording an increase in the value of investment in marketable shares in the sum of NIS 2 million.

E. Real Estate Operations

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

	Jan-Mar/07	**Jan-Mar/06**	**2006**
	NIS millions	NIS millions	NIS millions
Revenues	143	112	439
Gross Profit	55	47	168
Operating Income	33	25	81
Financial Expenses	60	47	234
Other Income (Expenses)	12	(1)	19
Share in earnings of affiliates	62	79	536
Net Income	33	40	330
Total Assets	11,010	4,992	6,629

Total assets as at March 31, 2007, amounted to approximately NIS 11,010 million, as compared with approximately NIS 6,629 million as at December 31, 2006. Most of the growth is attributed to the closing of a transaction for the acquisition of the share capital of a foreign British company (MSA Acquisitions Co. Ltd., hereinafter: "MSA"), in March 2007, that holds – directly and through subsidiaries – 29 Motorway Service Areas in the UK. The foreign company operates under the name RoadChef. The service stations operated by RoadChef include 25 gasoline stations, 15 hotels, restaurants, stores and coffee counters operated both by RoadChef and by franchise holders. The cost of acquiring the MSA shares amounted to GBP 18 million (approx. NIS 148 million), including related acquisition costs of GBP 5 million (approx. NIS 40 million). In addition, the foreign subsidiary granted MSA a long-term loan in the amount of GBP 145 million (approx. NIS 1,202 million), that was financed by a bank loan. For further details see Note 3A(4) to the financial statements.

Results of Operations

The contribution of the real estate sector to the Group's net income in the reported period amounts to approximately NIS 20 million, as compared with approximately NIS 28 million in the corresponding period last year.

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 96 million, as compared with approximately NIS 79 million in the corresponding period last year.
The increase in revenues in the sum of NIS 17 million originates primarily from the first-time consolidation in Germany and Finland in the last quarter of 2006 and in the first quarter of 2007, which led to an increase in leasing revenues in the sum of NIS 19 million, as well as from revenues from new income-generating assets in Israel, that were acquired in late 2006 and during the reported period, in the sum of NIS 4 million, alongside a decrease of NIS 6 million in leasing revenues in Canada.

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

	Jan-Mar/07	**%**	**Jan-Mar/06**	**%**
UK	11	11.5	11	13.9
Canada	51	53.1	57	72.2
Finland	15	15.6		
Germany	4	4.2		
Israel	15	15.6	11	13.9
Total	**96**	**100**	**79**	**100**

(2) Revenues from the sale of apartments during the reported period amounted to NIS 47 million, as compared with NIS 33 million in the corresponding period last year, an increase of NIS 14 million, originating primarily from the maturation of new stages in projects to the stage of revenue recognition. The outstanding revenues not yet allocated to the statement of income total NIS 200 million.

Gross Profit

(1) The gross profit from rentals in the reported period amounted to a sum of NIS 51 million, as compared with NIS 43 million in the corresponding period last year, representing an increase of approximately NIS 8 million in gross profit.

(2) The gross profit from the sale of the apartment inventory in the reported period amounted to NIS 4 million and is identical to the gross profit in the corresponding period last year.

General & Administrative Expenses

General and administrative expenses for the reported period amounted to NIS 22 million, as compared with NIS 21 million in the corresponding period last year.

Financial Expenses

Financial expenses for the reported period amounted to NIS 60 million, as compared with approximately NIS 47 million in the corresponding period last year.

The NIS 13 million increase in financial expenses is primarily attributed to the first-time consolidation of asset companies in Germany and Finland in the fourth quarter of 2006 and in the first quarter of 2007 coupled with the issuing of debentures.

Other Income (Expenses)

Other income during the reported period amounted to NIS 12 million, as compared with other expenses of NIS 1 million in the corresponding period last year, consisting mostly of dividends in the amount of NIS 3 million, from the investment by Delek Real Estate in the portfolio of Hilton Hotels, capital gains of NIS 4 million from a company that was sold in 2006 and NIS 4 million in revenues from a new venture (that were cancelled in the Group's consolidated financial statements).

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

Delek Real Estate's share in the profits of associated companies during the reported period amounted to NIS 62 million, as compared with NIS 79 million in the corresponding period last year.

The NIS 17 million decrease in relation to the corresponding period last year is attributed primarily to a decrease in the asset assessment profits at associated companies.

Additional Information

1. Subsequent to the balance sheet date, Delek Real Estate reported that its subsidiary is conducting advanced negotiations with Paz Oil Company Ltd. for the acquisition of 100% of the shares of a wholly-controlled subsidiary - Sahar Development and Investments Ltd. (hereinafter: "Sahar"). Sahar holds subsidiaries that hold several income-generating assets in office buildings – mostly in Tel Aviv, and the rest in Netanya and Haifa; with a total area of 44,000 m^2. Delek Real Estate is also examining the introduction of partners at a rate that shall not exceed 50%.
2. For additional details regarding the real estate operations, see Note 3A to the financial statements.

F. Biochemical Operations

Gadot Biochemical Industries Ltd. (hereinafter: "Gadot")

	Jan-Mar/07	Jan-Mar/06	2006
	NIS millions	NIS millions	NIS millions
Revenues	99	100	366
Gross Profit	23	32	111
Operating Income	11	18	55
EBITDA	15	22	73
Financial Expenses	1	2	9
Tax Expenses	2	5	14
Net Income	7	11	32

The contribution of the Biochemicals sector to the Group's net income in the reported period amounted to approximately NIS 5 million, as compared with approximately NIS 7 million in the corresponding period last year. Gadot is a company whose shares are publicly traded and in which the Group holds 64% as at the balance sheet date.

Gadot is a manufacturer of food additives and chemicals for the food, health additives, detergents and toiletries industries.
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.

Results of Operations

Revenues
Gadot's revenues in the reported period decreased by NIS 1 million in relation to the corresponding period last year and amounted to NIS 99 million. The decrease originates primarily from the impact of the change in the exchange rate of the US dollar in relation to the NIS. The revenues in the reported period include deferred revenues of NIS 15 million that were recognized as a result of the non-exercise of an option to extend the agreement with Roquette for an additional five years.

Gross Profit
The gross profit during the reported period decreased by NIS 9 million to the sum of NIS 23 million. The gross margin fell by 8.8% and amounted to 23.2%. The decrease in the gross margin originated primarily from the increase in raw material and energy costs (primarily sugar), coupled with the impact of changes in the US dollar exchange rate vis-à-vis the NIS. Gadot consumed approximately 14,000 tons of sugar in the reported period, at an average cost that is $175 per ton higher than during the corresponding period last year, on account of engagements for sugar purchasing that were made in 2006 and 2007 and relate to the supply of sugar in the first quarter of 2007. The gross profit, net of the impact of deferred revenues that were recognized during the reported period amounts to NIS 7 million.

Selling and Marketing Expenses

Selling and marketing expenses during the reported period decreased by NIS 2 million in relation to the corresponding period last year and amounted to NIS 8 million. The decrease is attributed to a change in the sales mix, coupled with the impact of the change in the US dollar exchange rate vis-à-vis the NIS.

Operating Income

The operating income in the reported period amounted to NIS 11 million, as compared with NIS 18 million in the corresponding period last year. The decrease in the operating income, as aforesaid, is attributed to a global rise in raw material prices – primarily sugar - coupled with the continuing rise in input prices and the impact of the change in the exchange rate of the US dollar vis-à-vis the NIS. Net of the impact of the deferred revenues that were recognized in the reported period, Gadot would have recorded an operating loss of NIS 5 million in the reported period.

Financial Expenses

The financial expenses amounted to NIS 1 million during the reported period , as compared with NIS 2 million during the corresponding period last year. The decrease in financial expenses originated primarily from the decrease in the exchange rate of the US dollar in relation to the NIS, that led to financial revenues as a result of the negative valuation of Gadot's outstanding dollar-denominated loans, coupled with the decrease in the CPI during the reported period, in relation to the corresponding period last year, that served to decrease Gadot's expenses on account of convertible debentures.

Net Income

The net income during the reported period amounted to approximately NIS 7 million, as compared with approximately NIS 11 million during the corresponding period last year. Net of the impact of the deferred revenues that were recognized in the reported period, Gadot would have recorded a loss of NIS 4 million in the reported period.

Additional Information

As to additional information regarding developments in Gadot's sector of operations – see Note 3E to the financial statements.

G. Insurance and Finance Operations

Most of the Group's holdings in the insurance sector are concentrated under Delek Capital Ltd., other than the direct holding of Delek Investments in Phoenix Holdings Ltd., at a rate of 29.7%.

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

On the basis of publications by the Association of Israeli Insurance Companies – based on the December 2006 data, the Phoenix Insurance subsidiary commands a 12.2% share of the general insurance market in Israel and 15.6% of the life insurance market.

The following are principal data from the consolidated financial statements of Phoenix, in which the Group holds 55.5% (in NIS millions):

	Jan-Mar/07	**Jan-Mar/06**	**2006**
Profit from life insurance	103	104	374
Profit from general insurance	93	52	190
Revenues from investments and other income, net	28	21	67
Interest expenses on long-term liabilities	(6)	(11)	(39)
Net income from other companies and insurance agencies	-	3	19
General & administrative expenses not allocated to the insurance business statements	(4)	(5)	(37)
Expenses related to reduction of original difference	(2)	(2)	(7)
Income Before Taxes on Income	**212**	**162**	**567**
Taxes on income	86	66	206
Phoenix's share in net results of investee companies and minority interest in net results of consolidated subsidiaries	37	12	21
Net income before extraordinary item	**164**	**108**	**382**
Extraordinary item	178	-	-
Net Income	**341**	**108**	**382**

The profit from insurance operations during the reported period amounted to NIS 196 million in the reported period, as compared with NIS 156 million in the corresponding period last year, representing an increase of 26%. The increase in profit is primarily attributed to the general insurance results - see the analysis of the general insurance financial statements, below.

The net income in the reported period amounted to NIS 341 million, as compared with NIS 108 million in the corresponding period last year. The net income in the reported period includes earnings of NIS 178 million from an extraordinary item as a result of the cancellation of a provision for special life insurance risks. We note that the impact of the earnings from this extraordinary item on the Group's earnings is not material due to the surplus cost that was associated to the provision for special life insurance risks, that was fully amortized in parallel to the liberation of the provision. The net income from current operations in the reported period amounted to NIS 164 million, as compared with NIS 108 million in the corresponding period last year, representing an increase of 51.8%.

Analysis of the Life Insurance and Long-Term Savings Sector

The earnings from life insurance in the reported period amounted to 103 million, as compared with NIS 104 million in the corresponding period last year.

The premiums in the reported period amounted to NIS 658 million, as compared with NIS 630 million in the corresponding period last year, representing an increase of 4.4%.

The payouts in the reported period amounted to NIS 183 million, as compared with NIS 195 million in the corresponding period last year, representing a decrease of 6.2%. The proportion of payouts to the gross life insurance reserves as at March 31, 2007 and March 31, 2006 is approximately 1%.

Following below are details regarding the assessment of net investments sums, attributed to profit-sharing policy holders and the management fees calculated according to the directives of the Insurance Supervisor, on the basis of the return and balances of insurance reserves (in NIS millions):

	Jan-Mar/07	**Jan-Mar/06**
Profit of investments attributed to policy holders, after management fees	335	265
Management fees	89	62

The comprehensive pension fund of Phoenix Group crossed the NIS 1 billion mark of assets under management in early May. This represents growth of 45% in relation to the Fund's assets in the corresponding period last year.

Analysis of the General Insurance Sector

The profit from general insurance in the reported period amounted to NIS 93 million, as compared with NIS 52 million in the corresponding period last year, representing an increase of 78.8%. See the analysis of sectors of operation, below.

The revenues from premiums and fees in the reported period amounted to NIS 706 million, as compared with NIS 720 million in the corresponding period last year, representing a decrease of 1.9%.

The investment revenues in the reported period amounted to NIS 77 million, as compared with NIS 62 million in the corresponding period last year, representing an increase of 24.2%. The investment revenues in the reported period include gross gains of NIS 23 million from the sale of Phoenix Insurance's entire rights to a project known as Omni in Edinburgh, Scotland.

The following is the distribution of premiums and fees for the three months ended March 31, 2007, in general insurance, by sector:

	Gross %	**Self Residual %**
Compulsory vehicle insurance	12.2	14.5
Property vehicle insurance	29.4	36.3
Other property insurance	25.4	15.5
Liability insurance	12.1	12.7
Health and hospitalization insurance	18.0	19.2
Other insurance sectors	2.9	1.8
	100.0	100.0

Additional Information

(a) As to additional information regarding the Phoenix operations, see Note 3F to the financial statements.

(b) **Proforma Consolidated Statements of Income**

The Group has consolidated the Phoenix statements of income in its consolidated financial statements, that were included in the proforma consolidated financial statements. As to the proforma consolidated financial statements and the assumptions used in their preparation, see Note 10 to the financial statements.

The following is an analysis of the Phoenix results of operation, as included in the comparison figures in the proforma consolidated financial statements:

The profit from insurance operations during the reported period amounted to NIS 219 million in the reported period, as compared with NIS 140 million last year, representing an increase of 56%. Most of the growth is attributed to general insurance operations.

The net income from insurance operations, net of minority interest, in the reported period amounted to NIS 162 million, as compared with NIS 100 million.

The earnings from life insurance in the reported period amounted to 93 million, as compared with NIS 92 million in the corresponding period last year.

The profit from general insurance in the reported period amounted to NIS 126 million, as compared with NIS 48 million in the corresponding period last year, representing an increase of 62.5%.

2) **Delek Finance US Inc. (hereinafter: "Delek Finance")**
Delek Finance is an American insurance holdings company that holds Republic Companies Inc. (hereinafter: "Republic"), an insurance company that holds insurance companies and agencies and deals primarily in property and other general insurance, primarily in the states of Texas, Louisiana, Oklahoma and New Mexico.

The following are the results of operation of Delek Finance, as included in the Group's financial statements, as part of the results of operation of the insurance business (in NIS millions):

	Jan-Mar/07
Profit from general insurance operations	41
Revenues from investments and other income, net	3
Interest expenses on long-term liabilities	(23)
Income (Expenses), net, from other companies and insurance agencies	10
General & administrative revenues not allocated to the insurance business statements	2
Income Before Taxes on Income	**33**
Taxes on income	12
Delek Finance's share in net results of investee companies and minority interest in net results of consolidated subsidiaries	7
Net Income	**28**

The following is an analysis of Republic's results of operation:

Revenues from premiums (gross) in the first quarter of 2007 amounted to approximately $168 million (approx. NIS 706 million), as compared with approximately $126 million in the corresponding quarter last year, representing growth of approximately 33%. The growth in premium revenues originates from an across-the-board improvement at Republic, including growth in premiums from individual and commercial insurance, accelerated growth in Program Management operations at MGAs and the continued growth in the insurance services sector (providing insurance services to other insurance companies).

The net insurance fees amounted to $82 million, as compared with $64 million in the corresponding quarter last year, representing growth of 28%.

The insurance fees that were earned (residual) amounted to $70 million (approx. $80 million without influence of PGAAP Accounting, that was implemented following the acquisition of Republic by Delek Finance), as compared with $63 million in the corresponding period last year.

Republic's shareholders' equity as at March 31, 2007 amounted to $257 million, while the net income during the reported period amounted to $9 million.

The following is the distribution of premiums and fees for the three months ended March 31, 2007, in general insurance, by the various distribution channels:

		Gross %		Self Residual %
Individual insurance		24		46
Commercial insurance		17		27
MGAs		32		27
Insurance Services		27		0
		100.0		100.0

Additional Information

In April 2007, Republic entered into an agreement for the sale of its holdings (approx. 30%) in Seguros Atlas S.A. (an insurance company active in Mexico) in consideration of $29 million (approx. NIS 120 million). The gains recorded by Republic as a result of the sale amounted to an immaterial sum.

3) Menora Holdings Ltd.

In January and February 2007 and in light of the demand of the Anti-Trust Commissioner that was handed down as part of the acquisition of control over Phoenix, Delek Investments sold approximately 12.2% of the Menora shares to a third party, in consideration of a total of NIS 392 million. As a result of the said sale, Delek Investments' share in Menora has dropped to 2.2%. The gains recorded by Delek

Investments as a result of the above sales (after taxes) amounted to approximately NIS 105 million. See also Note 3F(3) to the financial statements.

4) Barak Capital Ltd.

In February 2007, Delek Capital signed an agreement with Barak Capital Ltd. (hereinafter: "Barak Capital") (hereinafter: "the Option Agreement"), pursuant to which Delek Capital shall be entitled to purchase shares in Barak Capital during a period of six months, in consideration for payment of the sum of approximately NIS 24 million and the provision of shareholders' loans, on conditions as agreed in the option agreement, such that if and when such sale is concluded, Delek Capital shall hold up to 49.9% of the issued and outstanding capital of Barak Capital. Barak Capital deals in financial operations which include, mainly, trading in securities. Delek Capital obtained the approval of the Anti-Trust Commissioner in April 2007 for the said acquisition and the said option was exercised on May 1, 2007.

H. Telecommunications Operations

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

On December 31, 2006, the cable companies' merger transaction (hereinafter: the "Merger"), under which Matav purchased all of the operations of the other parties to the transaction in the relevant fields from them, was concluded.
As a result of conclusion of the Merger, the resolutions approved by the general meeting of Matav, changing Matav's name to Hot Cable Communications Systems Ltd. (hereinafter: "Hot") came into force, the articles of association of Matav were amended so as to reflect the name change and the new structure of the board of directors, and directors who were approved by the general meeting of Matav were appointed as aforesaid in accordance with the new structure of the board of directors, contemporaneous with termination of the office of all of the current members of the board of directors of Matav (apart from the external directors).

HOT is a company whose shares are publicly traded and in which the Group holds 15.9% as at the balance sheet date.

The investment in Matav is reported in the Group's financial statements by the equity method of accounting.
The earnings recorded by the Group in respect of its holdings in Matav during the reported period amounted to NIS 2 million, as compared with a loss of NIS 19 million in the corresponding period last year.
The balance of the investment in Matav, as at March 31, 2007, amounts to NIS 283 million.

I. Additional Operations

1) Infrastructures

(a) Seawater Desalination

1. The Group's operations in the field of seawater desalination are conducted via IDE Technologies Ltd. (hereinafter – "IDE"), in which Delek Infrastructure Ltd. (hereinafter: "Delek Infrastructure") holds 50%. (Delek Infrastructure is 100% owned by Delek Investments).

   IDE is engaged in production and sales of water desalination plants, industrial concentrators (evaporators) and heat pumps, and in the operation and maintenance of desalination facilities. At various locations worldwide, IDE has established seawater desalination plants. In certain locations it acts as operator while at some it constructs the facilities as a contractor, working on behalf of the owners. Among other projects, IDE has established a partnership that operates a seawater desalination plant in Cyprus that has had an output of 18 million m^3 per annum since July 2001. The Company also established a company named VID Desalination Company Ltd. (hereinafter: "VID"), in which it holds 50%. VID has built and operates a seawater desalination plant in Ashkelon with an output capacity of 100 million cubic meters of water per annum, as part of a BOT agreement with the State of Israel.

   H2ID Ltd. (an investee company in which IDE 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 cubic meters per annum. According to the agreement that forms the basis 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.

2. For details regarding the granting of options to the CEO of IDE, see Note 3g(4) to the financial statements.

(b) Electricity Generation Plant

The Company holds whole ownership (indirectly) in a company called IPP Delek Ashkelon Ltd. (hereinafter: "Delek Ashkelon"), that deals in the construction of an electricity generation plant (hereinafter: "The Power Plant") that will provide electricity to the desalination plant in Ashkelon (as part of the BOT agreements between VID and the State) and to others.

The Power Plant will produce 80 megawatts of electricity and forms part of the BOT contracts for the Ashkelon desalination plant. Most of the capacity of the Power Plant is to be used by the desalination plant, with the rest being sold to private customers and/or to Israel Electric Company (IEC). After the operation period of the desalination plant, the power station will become State property.

In 2003, a financing and financial closing agreement in the sum of approximately NIS 260 million was signed to build the Power Plant, which represented approximately 80% of the total anticipated cost of the project. A Notice to Proceed has been issued to the construction contractor, Siemens Nederland N.V.

The completion of the construction of the Power Plant requires a process of running it on natural gas. The Power Plant was not run and operated on time as planned (by the end of the second quarter of 2005). Due to the delay in providing natural gas to the Power Plant and in order to finance the costs of preservation and purchase of electricity from the national electricity grid in order to operate the desalination plant, Delek Ashkelon requested and obtained the consent, in principle, from Bank Leumi, to increase its credit facility by a total sum of approximately NIS 40 million, part of which would be given under guarantee by Delek Investments, for the operating period, until repayment. The total shareholders' equity injected by shareholders in Delek Ashkelon will account for 20% of the total credit for this project. See also Note 3g(3) to the financial statements.

The operation of the Power Plant is contingent upon the supply of natural gas via an inland pipeline for the delivery of natural gas from Ashdod to Ashkelon, that was built by Israel Natural Gas Routes Ltd. (hereinafter: "Gas Routes"). On May 9, 2007, Gas Routes informed Delek Ashkelon that the supply of natural gas through the national pipeline has begun. It is therefore expected that natural gas will arrive at the Power Plant in the near future. Starting at that time, the necessary operations will be carried out to ensure the quality of the gas, so as to enable the running-in process of the Power Plant. See also Note 3g(3) to the financial statements.

(c) Power Plant in Brazil

Subsequent to the balance sheet date, in April 2007, Delek Infrastructure entered into agreements with third parties for the construction of a power plant in Brazil with a capacity of 140 MW. The cost of constructing the power plant is estimated at $50 million. Delek Infrastructure's share in the project is approximately 35%. The agreement is contingent upon several preconditions, that have yet to be met as at the date of approval of the financial statements.

Delek Infrastructure has entered into additional agreements for the development and construction of additional power plants in Brazil. These agreements are contingent upon preconditions, as agreed between the parties.

7. Details Concerning Exposure to and Management of Market Risks

Since the Company's annual financial statements for 2006, changes occurred in the market risks to which the Group is exposed, originating from the sector of operating Motorway Service Areas in the UK. The risks associated with this sector have been reviewed in the update to the Periodic Report that is attached to this report.

8. Dividend

a) The Board of Directors of the Company resolved, on March 28, 2007, to distribute a dividend out of the 2006 profits at a rate equal to 857% of the paid-up share capital. The dividend amounts to approximately NIS 100 million and was paid on May 1, 2007.

b) The board of directors of the Company resolved, on May 29, 2007, to distribute a dividend out of the 2007 profits at a rate of 1,113% of the paid-up share capital. The dividend amounts to approximately NIS 130 million.

9. Critical Accounting Estimates

No material changes occurred during the reported period, as compared with the report as at December 31, 2006.

10. Changes in the Company's Board of Directors

No changes occurred during the reported period, as compared with the report as at December 31, 2006.

11. Company Employees

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

Sincerely,

Gabriel Last	**Asi Bartfeld**
Chairman of the Board of Directors	Managing Director

Update to Chapter 1 (Description of the Company's Business) of the Periodic Report of Delek Group Ltd. (hereinafter: "The Company" for the Year 2006[1]

1. Company Operations and Development of its Business

To Section 1.4:

In March 2007 Delek Group announced an issue of debentures at a volume of NIS 913 million by private placement to institutional investors (hereinafter: "**Series M"** or **"The Series"**). Approximately NIS 571 million of the Series were allocated against the swap of debentures (Series F-J) issued by the Company, to the Company. The remaining NIS 342 million were allocated in exchange for cash.

The debentures bear CPI-linked annual interest of 5.1% until their registration for trade on the stock exchange, and 4.6% thereafter. The interest will be paid in semi-annual installments starting September 2007. The principal will be repaid in ten equal semi-annual installments in the years 2013-2014 and 2019-2021. "Maalot" has granted the debentures an AA/Stable rating.

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

To Section 3:

In the course of the months April-May 2007, debentures with a carrying amount of NIS 4 million were converted.

3. Dividend Distribution

To Section 4.1:

On March 28, 2007, the Company decided upon distribution of dividend in the sum of NIS 100 million, that was distributed on May 1, 2007. On May 29, 2007, a decision was made to distribute NIS 130 million in dividend, for distribution on July 10, 2007.

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

To Section 8.1.2b:

In April 2007, MAPCO acquired 101 convenience stores and gas stations operating under the Favorite Markets brand from Calfee, in consideration of $62 million, excluding inventories. The acquisition of an additional 6 convenience stores and gas stations, at an expected cost of $3 million, is expected by Delek USA to be concluded in the course of the next quarter, whereas at this stage, MAPCO has signed an agreement whereby it would operate the additional 6 convenience stores and gas stations. The stores are located primarily in Eastern Tennessee and Northern Virginia.

5. The Fuel Product Sector in Israel

To Section 9.16.6:

In July 2005, as part of the approval of the terms of employment of the CEO of Delek Israel, Delek's Board of Directors approved, inter alia, the granting of option warrants convertible into shares to the Delek Israel CEO, representing 5% of the issued and outstanding share capital of Delek Israel, at no cost. The Delek Israel CEO is eligible to exercise the options over a period of 5 years from the date of commencement of employment, at terms and exercise price as determined in a detailed agreement to be signed by the parties. In May 2007, the principal points of the stock option plan were

[1] The update includes material changes or new events that have occurred in the Company's business in the course of the first quarter and until the date of this report, in relation to any matter that should be described in the periodic report. The update refers to the section numbers appearing in Chapter A (Description of the Company's Business) in the Periodic Report for 2006.

agreed upon with the Delek Israel CEO, whereby he would be granted, at no cost, option warrants convertible into shares representing 5% of the issued and outstanding share capital of Delek Israel, in consideration of an exercise price that reflects a value of $200 million for Delek Israel (contingent upon adjustments for dividends, bonus shares, etc.). The eligibility of the CEO of Delek Israel to exercise the option warrants will be spread over five years from the date of his initial employment (July 2005) and the options may be exercised until July 2013. It was further determined, that upon termination of his employment, the CEO of Delek Israel would be eligible to sell his shares to Delek Israel, according to the value of Delek Israel at that date. True to the date of approval of the financial statements, the said plan had yet to be approved by the Delek Israel board of directors. At this stage, the economic value of the options is estimated at $11 million (approx. NIS 46 million), based on the principal points of the plan. In its financial statements for the first quarter of 2007, the Company included an expenditure of NIS 31 million (NIS 23 million after taxes), on account of the said option warrants, according to the terms of their maturity.

6. The Energy Sector

To Section 10.3.1:

In a meeting held May 2, 2007 with the Supervisor of Petroleum Affairs, the Supervisor informed Isramco Inc. – the project operator – that he does not intend to extend the date determined for the signing of a contract with a drilling contractor in relation to the Yam 3 drilling. The Supervisor also determined that in the event that the possession is not returned by the partners, then he would act to have it annulled. Following the Supervisor’s announcement, a meeting of partners was scheduled, to discuss the Supervisor's demand from May 27, 2007.

To Section 10.3.2:

On April 26, 2007, Noble Energy Mediterranean Ltd., operator of the Tamar 1 drilling site licensed by Matan (hereinafter: “Noble”) informed the partners in the Matan license and the partnerships in general, that a rig slot exchange agreement had been signed between Noble and third parties, following which, the arrival of an oil rig to the Tamar 1 drilling site will probably be possible. The agreement is subject to certain preconditions that have yet to be met, although Noble estimates that they will be met in the near future. Noble estimates that the drilling will begin approximately at the end of 2007.

To section 10.7.4:

In 2002-2004 Premier Africa conducted two drillings in the Sinapa franchise area, which revealed petroleum signs. The drillings did not amount to a commercial discovery, but they allowed Premier Africa to expand the geological knowledge base and to identify additional prospects which it determined were drill-worthy and showing potential for commercial discoveries.

The work plan for the franchises included two drillings in block A4, which were conducted sequentially. The first drilling, Espinafre1, was made at a depth of 30 meters of water and planned to be drilled to a depth of 2,800 meters, commenced drilling on Feb-7-07. The drilling located a salt layer at shallower than expected depths and repeated attempts to divert the drilling from the salt layer and continue drilling diagonally toward the target reservoir have failed due to severe issues with regard to stability of the drilling hole in layers much shallower than the target layer. The project

operator, Premier Africa, consequently recommended that the drilling be sealed and abandoned, which it was on Mar-27-07. The cost of the Espinafre1 drilling is estimated at $35 million. The cost of Delek International's share is estimated at $8.5 million.

Upon conclusion of operations at the Espinafre1 drilling site, work commenced on the Eirozes1 drilling site, which was drilled to a final depth of 2,252 meters. The drilling traversed, as expected, a layer of sandstone of the Albian era. Nevertheless, the electric logs recorded have shown that the drilling did not discover significant quantities of hydro-carbons. A decision was therefore made on Apr-24-07 to seal and abandon the drilling.

The cost of the Eirozes1 drilling is estimated at $25 million. The cost of Delek Energy International's share is estimated at $3.3 million.

To Section 10.8:

a) On Apr-26-07 Delek Energy Gibraltar signed an agreement with Noble Energy (Oilex) Limited (hereinafter: "**Noble Oilex**"), which is a subsidiary of Noble Energy Inc. Pursuant to the agreement, Delek Energy Gibraltar would acquire 25% of the rights in Block 21/20f in the North Sea, covering an area of 22 km^2 and located 190 km east of the shores of Scotland, in proximity to productive oil fields (hereinafter in this section: "**the License**"). Noble Oilex has formulated a drill-worthy prospect within the area of the License. In exchange for the aforementioned rights, Delek Energy Gibraltar has committed to bear 28.33% of expenses of the first drilling in the license area (excluding cost of production testing) and to bear its pro-rated share (25%) of all other project expenses. The agreement is contingent upon obtaining the necessary authorizations, pursuant to British law.

   The partners to the license are Noble Oilex (40%) and Dana Petroleum, which has contracted an agreement with Noble Oilex concurrently with Delek Gibraltar. Dana Petroleum is a British petroleum company operating in the North Sea, whose shares are traded on the primary list of the London Stock Exchange under the ticker "DNX" (35%). Noble Oilex would serve as the project operator.

   In the past, geological and seismic surveys have been conducted in the license area, and a single drilling was conducted 10 years ago down the formation, whose results indicated oil signs.

   As per the work plan for the license area, an exploratory drilling is planned to be conducted in late 2007 or early 2008 to a depth of 2,700 meters, at a total estimated cost of $22 million. Delek Energy Gibraltar's share is expected to amount to $6.2 million. The performance of this drill is contingent upon an engagement with an oil rig.

b) On Mar-29-07 Delek International signed an agreement with Matra Petroleum PLC, a company listed on the London AIM Stock Exchange and engaged in oil exploration primarily in Central Europe (hereinafter: "**Matra Petroleum**"). Pursuant to the agreement, Delek International acquired 135,000,000 Matra Petroleum ordinary shares at a price of GBP 0.045 per share, for a total investment of GBP 6 million. Furthermore, pursuant to the agreement Matra Petroleum has granted Delek International an option to acquire a further 24,000,000 Matra Petroleum ordinary shares at an exercise price of GBP 0.08 per ordinary share, exercisable through

February 15, 2009. Matra Petroleum's market cap on the AIM Stock Exchange as at Mar-28-07 (one day prior to signing the agreement) amounted to GBP 8.9 million (GBP 0.03375 per share).

The allocation agreement is contingent on conclusion of a transaction whereby Matra Petroleum would acquire oil rights in Russia (as described below) in exchange for allocation of 55,000,000 Matra Petroleum shares to the seller of the oil rights. Moreover, the agreement is contingent upon the approval of the general meeting of Matra Petroleum shareholders. Pursuant to an announcement made by Matra Petroleum, both conditions were met and the closing therefore took place on May-15-07. The oil rights in Russia, whose acquisition by Matra Petroleum constitute a precondition of the agreement, refer to a license located 25 km from the City of Orenburg, some 1,200 km south-east of Moscow. The license refers to an area of 158 km^2 and is located in the vicinity of productive oil fields.

The aforementioned license is effective through August 2009, and is contingent on conducting 4 drillings, as set forth in the license terms. Delek International holds 29.87% of Matra Petroleum's issued capital (excluding options previously granted to others). Assuming full dilution and excluding exercise of options granted to Delek International, the latter would hold 22.19% of Matra Petroleum's share capital, and if the options granted to Delek International should also be exercised, the latter would hold 25.15% of Matra Petroleum's share capital. Starting on the closing date of the allocation transaction, and for as long as Delek International holds over 20% of Matra Petroleum's issued capital, Delek International would have the right to appoint a member of Matra Petroleum's Board of Directors which, as at the prospectus date, includes 5 members (including the one appointed by Delek International). The first drilling planned in the license area, intended to test the Sokolovskaya prospect located at a depth of 3,900 meters, is expected to start in July 2007 and to last for four months. The proceeds of the allocation subject to the agreement is earmarked, inter alia, for financing of the drilling in the Sokolovskaya formation.

7. The Real Estate Sector

To section 12.9.5:

On Mar-1-07 Delek Belron contracted into an agreement to acquire the entire share capital of a British company holding 29 Motorway Service Areas in the UK (hereinafter: "**MSA**") under the RoadChef brand. The transaction was concluded on Mar-30-07.

The acquisition of the shares was financed by a GBP 150 million loan from Merrill Lynch, extended to a foreign subsidiary established for this acquisition, which is held 25% by Delek Israel and 75% by Delek Real Estate. The loan consisted of two separate loans – one for 25% of the total loan amount, guaranteed by the company and by Delek Israel, and the other for 75% of the total loan amount, guaranteed by Delek Real Estate and Delek Belron. The acquisition is valued at GBP 382 million, which includes a loan that exists at the acquired company amounting to GBP 215 million. The price paid for 100% of the shares, inclusive of all expenses, totals GBP 167 million.

The operations of RoadChef within the service stations include the operation of gas stations, 15 hotels (with 600 rooms), restaurants, shops and coffee stands operated by RoadChef itself and by franchise holders (such as: Costa coffee ,Pizza Hut ,Wimpey and Burger King), convenience stores and entertainment complexes, with a total constructed

area of 60,000 m^2 over a land area of 2,400,000 m^2.

RoadChef's market share, based on reports by its management, is 23% of the UK service station market, which includes 86 stations owned/operated by 3 major operators. RoadChef is one of these 3 operators. Operation of the service stations is subject to multiple legislative limitations, mainly with regard to limitations on construction of service stations (the major limitation being the required distance of 30 miles between service stations) as well as limitations regarding the type of products and services which may be sold at service stations (the major limitations being sale of products required for road travelers only, and a requirement to operate certain services round the clock). The aforementioned restrictions result in low probability of another significant entity entering the market.

The real estate on which the service stations are located: The real estate properties where the service stations are operated are fully owned (7 properties), leased for a long term of over 70 years (5 properties), while the remainder are leased for a medium term (under 70 years). One property is leased for 25 years (through 2029) with no option for extension, and is owned by one of the owners of a competing chain of service stations. All properties are located in England, with the exception of two properties in Scotland.

Products and Services: Service station revenues are mainly derived from five major types of operations: Sale of fuel; retailing; dining services; hotels and accommodation services; entertainment.

Fuel sales – RoadChef operates 25 filling stations in its service stations. Only 2 of these stations are operated by a third party, and RoadChef has contracted various operating agreements for the remaining stations. Filling stations are usually located away from the dining and retail area, and include shops offering a similar range of products to that offered by local gas stations.

Retailing – In the past it was only lawful to offer products required by road travelers. Over time, the definition of "required products" was expanded, and currently a wide range of products is on offer, including food (snacks, sandwiches, etc.), newspapers and magazines, tobacco products, gifts and automotive accessories.

Dining – The various sites include restaurants operating under brands owned by RoadChef, including self-service restaurants offering a wide range of cold and hot dishes, hot and cold meals, salads, sandwiches and various desserts. The trend is to also add restaurants operated under well-known brands to the various sites. Under an exclusive franchise agreement, RoadChef operates the Costa Coffee chain, which is well known in the UK and operates over 300 coffee shops around the UK. Furthermore, since 2001, RoadChef has operated, under an exclusive franchise agreement, Wimpey restaurants - a fast food chain. RoadChef has also contracted a franchise agreement with the Pizza Hut Express and O'Brien's chains, which sell sandwiches throughout the UK.

Hotels – RoadChef operates 15 hotels with 629 rooms. The hotels are operated under the Premier Travel Inn brand, which is a leading chain in England (daily operation is by RoadChef while the management is by Premier). The hotel rooms are adequately equipped and provide various services, although some traditional hotel services are not included. The average occupancy rate of the hotels is 65%.

Entertainment – Most sites include a range of gaming and gambling machines, with a total of 500 machines in place.

Other revenues – other revenues are derived from overnight parking of trucks, ATMs, passport photo machines and public payphones.

Employees: The new RoadChef management replaced the previous management in April 2004 and possesses extensive experience in achieving operational improvement in a wide range of businesses. RoadChef employs 2,100 employees, mostly in the service stations it operates. Approximately 30% of the employees are employed on a part-time basis. In addition, some employees are employed as temporary employees. 264 employees are members of the GMB Union, whereby the union has the right to represent them with regard to various issues, including wages, sick pay, vacation and pension.

Risk factors related to the RoadChef operations: Increase in fuel prices that may result in a decrease in the number of travelers on motorways and consequently to a decrease in the RoadChef revenues; cancellation of legislative limitations related to the required distance between service stations, which can result in the establishment of additional stations that will harm the revenues of existing RoadChef stations; non-granting of exemptions as part of existing legislation, that would mean difficulties in placing signs and selling products, that may harm the revenue growth forecasts; failure to obtain new franchise agreements or non-extension of existing franchise agreements with existing brands; inability to locate additional sites for building additional service stations; rise in the minimum wage in the UK that will increase the RoadChef expenses and will lower profits.

<u>To section 12.9.7:</u>
On Mar-16-07 DGRE announced its intention to offer its shares to institutional investors and to register its shares for trade on the London AIM Stock Exchange. The said offering was completed on Apr-05-07. DGRE allocated to institutional investors taking part in the offering 50 million ordinary shares of the company at a price of GBP 2 per share. The new shares allocated constitute 19.2% of DGRE's issued capital, post-offering. DGRE announced its intention to use the proceeds from the offering to finance the acquisition of additional income-generating properties in countries where it operates, including for several transactions currently under review, and for financing its working capital. DGRE shares trade under the ticker "DGRE". In total, DGRE's issued share capital post-offering (excluding optional exercise of an option granted to the underwriters for a further offering as set forth below) will total 259.8 million shares. Merrill Lynch International was appointed lead underwriter and coordinator of the offering and Panmure Gordon (Broking) Ltd. was appointed consultant and co-leader manager of the offering. DGRE granted Merrill Lynch an option to conduct a follow-on offering of shares at the issue price (GBP 2 per share) at a rate of 2.8% of the share capital (after exercise of the option). The option was exercised on May-2-2007.

Subsequent to the exercise of the option, the total shares allocated in the offering constitute 21.5% of DGRE's issued share capital. As part of the offering process, an underwriting agreement was signed between Delek Belron, DGRE and the underwriters whereby, subject to terms of the agreement, Delek Belron would refrain from selling to the public DGRE shares it owns for a period of 270 days from the offering date. As part

of the issue, Delek Belron acquired 6.25 million DGRE shares. In total after the offering (prior to exercise of the option for a further offering granted to the underwriters as set forth above), Delek Belron holds 78% of DGRE's issued and outstanding share capital. The shares acquired by Delek Belron as part of the aforementioned offering are not subject to its obligation to refrain from selling them to the public, as set forth above. The management of Delek Real Estate estimates that the gains recorded as a result of the offering of DGRE shares will amount to NIS 100 million. Of the said sum, a sum of NIS 35 million constitutes deferred earnings in light of a right granted to Blenheim to sell its holdings in DGRE to a consolidated subsidiary of Delek Real Estate. For additional details, see Note 3A(1) to the March 31, 2007 financial statements.

To Section 12.23:
Delek Real Estate is in the midst of terminating its operations in the residential sector and its sale to another entity. Delek Real Estate intends to sell to a third party its residential operations. Until such sale, Delek Real Estate intends to continue to build the residential projects that are currently under construction.

Delek Real Estate reported on May 24, 2007 that its subsidiary is conducting advanced negotiations with Paz Oil Company Ltd. for the acquisition of 100% of the shares of a wholly-controlled subsidiary - Sahar Development and Investments Ltd. (hereinafter: "Sahar"). To the best of Delek Real Estate's knowledge, Sahar holds subsidiaries that hold several income-generating assets in office buildings – mostly in Tel Aviv, and the rest in Netanya and Haifa; with a total area of 44,000 m^2. Delek Real Estate is also examining the introduction of partners at a rate that shall not exceed 50%.

8. The Biochemical Sector

To Section 13.20:
On May-04-07 a wholly-owned foreign subsidiary of Gadot ("**the Subsidiary**") signed an agreement to acquire 85% of the issued and outstanding capital of Pharmline Holding Corp., a privately-held US company ("**the Acquired Company**"), with the remaining 15% of the acquired company's issued and outstanding capital held, upon conclusion of the transaction, by some of the acquired company's shareholders ("**the Remaining Shareholders**"). In consideration for the acquisition of the acquired company's shares, the subsidiary has undertaken to pay the acquired company's shareholders, upon conclusion of the transaction, $11.3 million in cash, an amount to be adjusted upon conclusion of the transaction based on the acquired company's working capital on that date ("**the Acquisition Amount**"). Gadot has guaranteed the payment of the acquisition amount by its subsidiary. Gadot is reviewing several options for bank financing of the acquisition amount.

The acquired company produces and markets dry raw materials for the dietary supplement industry. Most of the acquired company's sales are in North America. The acquired company has a wide customer base consisting of dietary supplement producers.

Pursuant to the terms of the shareholders agreement signed by the subsidiary, the acquired company and the remaining shareholders, the remaining shareholders have been granted a put option to sell their remaining shares in the acquired company (15%) to the subsidiary, starting 18 months after the transaction is concluded, at a price based on a formula set forth in the said agreement. Furthermore, the subsidiary was granted a call option to acquire the acquired company's remaining shares owned by the remaining

shareholders, which may be exercised starting 36 months after conclusion of the transaction (where in certain cases the subsidiary may bring forward the date of exercise of the option), at a price based on a formula set forth in the said agreement. The exercise price for the option is derived from an EBITDA multiple for the period prior to the exercise date, less certain liabilities. Gadot has guaranteed the payment by its subsidiary to the remaining shareholders for exercise of the option.

The acquired company's financial statements are prepared based on US GAAP. Based on the acquired company's audited financial statements for 2005 and 2006, its sales turnover for the said years amounted to $33.8 million and $36.5 million, respectively. As at Dec-31-05 and Dec-31-06 its total assets amounted to $14.6 million and $16 million, respectively. Its liabilities amounted to $12.3 million and $13.6 million, respectively.

The gross profit of the acquired company in 2005 and 2006 amounted to $6.64 million and $6.97 million, respectively. The operating income of the acquired company in 2005 and 2006 amounted to $841,226 and $875,516, respectively. The net income of the acquired company in 2005 and 2006 amounted to $223,792 and $113,569, respectively. The acquired company's expenses in 2005 and 2006 include various payments to its shareholders which were also its employees (including wages and bonus payments) amounting to $1.45 million and $1.59 million, respectively.

The objective of the aforementioned acquisition is to diversify Gadot's operations and to extend its range of products in synergy with its existing operations.

Conclusion of the aforementioned transaction is contingent on obtaining approvals to Gadot's satisfaction with regard to the acquired company's compliance with certain environmental protection standards. Gadot anticipates that the transaction is expected to close in June 2007.

9. The Insurance and Finance Sector in Israel

To section 14.14.5:

On Mar-22-07, Phoenix raised NIS 600 million by private placement of debentures with institutional investors. The debenture principal is repayable in six equal annual installments in each of the years 2014-2019 (inclusive). Interest at 4.5% (after registration of the debentures for trade by Phoenix) is payable annually. The debentures are linked to the Consumer Price Index. The issue was rated AA by Maalot. Phoenix intends to register the debentures for trade on the stock exchange. Pending such registration, Phoenix would pay the bond holders additional interest of 0.7% per annum. On Apr-22-07 Phoenix Insurance raised NIS 200 million by issue of a deferred note to Bank Hapoalim and to others, for a term of 6 years, bearing interest at 4.5% per annum. The principal and interest are linked to the Consumer Price Index. The principal is repayable in 8 equal semi-annual installments starting in October 2009. The interest is payable semi-annually, starting in October 2007.

To Section 14.23:

On Apr-30-07 Phoenix representatives held a meeting with the Antitrust Commissioner to informally discuss the transaction to acquire 25% of shares of Isracard Ltd. and of Europay (Eurocard) Israel Ltd. Phoenix was notified that based on its position, the company is required to submit a formal request to the Antitrust Commissioner. Phoenix is currently reviewing this issue.

10. The Insurance Sector in the USA

To Section 15.16:

On Apr-27-07 Republic contracted into an agreement to sell all its holdings in Siguras Atlas in exchange for $28.5 million. The transaction was concluded on May-02-07. The gains from the realization of the investment amount to a negligible sum.

11. Additional Operations

To Section 16.2:

Delek Infrastructure, a wholly-owned subsidiary of the Company, has contracted into agreements with third parties to construct a 140 MW power station, at an estimated cost of $50 million, in Guiania, Brazil. Delek Infrastructure's share of the project is 35%, and the agreement is contingent on meeting preconditions. Delek Infrastructure intends to consider participation in the construction of additional power stations in Brazil. The preconditions for the contract include, inter alia, obtaining permits for transfer of the shares from the local electric authority and from the Brazilian partner, and completion of missing documentation. The proceeds of $2.5 million (Delek Infrastructure's share of past expenses of the project developers) would be financed from internal sources. As the project progresses, with a total budget (for all partners combined) of $50 million, most of the investment would be financed by loans from banks in Brazil.

To Section 24:

In August 2006, Delek Petroleum Ltd. (hereinafter: "Delek Petroleum"), a wholly owned subsidiary of the Company (100%), participated in a tender held by Chevron Global Energy Inc. (hereinafter: "Chevron") for the acquisition of its marketing operations in the Benelux countries (Belgium, Netherlands and Luxembourg), which include 803 filling stations under the Texaco brand and 66 stations under private brands (hereinafter: "The Marketing Operations"). In November 2006, Delek Petroleum began conducting discussions with the Chevron management, during an exclusivity period that was agreed upon between the parties and that was extended from time to time.

Subsequently, on May 24, 2007, Delek Benelux B.V. (hereinafter: "Delek Benelux"), a wholly-owned subsidiary (concatenated) of Delek Petroleum and Chevron subsidiaries, signed an agreement (hereinafter: "The Sales Agreement"), whereby Delek Benelux would acquire the share capital (100%) of 3 foreign companies that own the marketing operations. The consideration for the acquisition is €342 million, before working capital adjustments. A sum of €10 million will be paid upon signing the agreement, with the rest to be paid upon completion of the transaction and adjusted according to the working capital at that date, with the adjustment estimated by Delek Benelux at an amount ranging between €20 and €70 million. The consideration was agreed upon in negotiations between the parties, following a tender process with the participation of additional elements. The agreement set terms for the completion of the transaction, including the obtaining of regulatory authorizations regarding anti-trust issues. The last date set in the agreement for meeting the said preconditions is Oct-31-2007 and may not be extended. For additional details regarding this engagement, see the Company's immediate report dated may 24, 2007, whose included information is hereby included by way of referral.

DELEK GROUP LTD.

Date: May 29, 2007

Names of Signatories and their functions:
Gabi Last, Chairman of the Board of Directors
Asi Bartfeld, Managing Director

DELEK GROUP LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS AT MARCH 31, 2007

UNAUDITED

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ERNST & YOUNG

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- ***Phone: 972-3-6232525***
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To the attention of:
The Board of Directors
DELEK GROUP LTD.

Dear Sir/Madam:

Re: Review of Interim Consolidated Unaudited Financial Statements
For the three-month period ended March 31, 2007

At your request, we have reviewed the accompanying interim consolidated balance sheets of Delek Group Ltd. (hereinafter: "The Group") as at March 31, 2007, and the related interim consolidated statements of income, changes in shareholders' equity and the consolidated cash flows for the three months then ended. Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included, inter alia: Reading the above-mentioned financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain subsidiaries and partnerships, whose assets constitute approximately 13% of total consolidated assets as at March 31, 2007, and whose included revenues constitute approximately 5% of total consolidated revenues from general operations and approximately 31% of revenues from insurance operations for the three months then ended. In addition, we have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain associated companies and partnerships, the investment in which as at March 31, 2007 totaled NIS 1,085 million. The Group's share in the earnings of these associated companies and partnerships for the three months then ended totaled NIS 58 million.

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, we are not aware of any material modifications that should be made to the said financial statements in order for them to be in conformity with generally accepted accounting principles in Israel and with the Securities Regulations (Periodic and Immediate Reports), 1970.

We have also reviewed the proforma interim consolidated statements of income, for the three-month period ended March 31, 2006.

We have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain subsidiaries and partnerships, whose consolidated revenues constitute approximately 5% of total proforma consolidated revenues from general operations for the three-month period ended March 31, 2006. In addition, we have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain associated companies and partnerships. The Group's share in the earnings of these associated companies and partnerships for the three months ended March 31, 2006, totaled NIS 57 million.

Based on our review and the reports of other accountants, we are not aware of any material modifications that should be made to the said proforma interim statements of income in order for them to be in conformity with generally accepted accounting principles on the basis of the assumptions outlined in Note 10.

We draw attention to the matter discussed in Note 6 to the financial statements regarding claims filed against investees.

Tel Aviv
May 29, 2007

Kost Forer Gabbay and Kasierer
CPAs

	As at March 31		As at December 31
	2007	2006	2006
	Unaudited		Audited
	NIS in Millions, Reported		
General Business Assets:			
Current Assets			
Cash and cash equivalents	1,832	738	881
Short-Term Investments	975	470	815
Accounts Receivable - Trade	2,593	2,501	2,352
Other Accounts Receivable	791	445	557
Inventories	1,064	(* 1,287	1,367
Buildings and Land for Sale	136	65	110
	7,391	5,506	6,082
Long-Term Investments, Loans and Receivables			
Investments in investee and other companies	3,100	3,082	2,815
Real Estate for Rent	3,426	2,384	3,230
Land for Construction	439	460	477
Loans, Deposits and Long-Term Receivables	811	(* 688	903
Investments in Oil and Gas Exploration	1,000	790	969
	8,776	7,404	8,394
Fixed assets, net	5,628	2,573	3,077
Other Assets and Deferred Charges, Net	1,472	647	741
Total General Business Assets	23,267	16,130	18,294
Insurance Operations Assets:			
Cash and cash equivalents	1,233	-	1,115
Investments	27,340	-	26,018
Fixed Assets	345	-	(* 342
Sums to collect	4,132	-	3,880
Deferred acquisition costs and other assets	2,729	-	(* 2,785
Total Insurance Business Assets	35,779	-	34,140
	59,046	16,130	52,434

(* Reclassified

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

	As at March 31		As at December 31
	2007	2006	2006
	Unaudited		Audited
	NIS in Millions, Reported		
General Business Liabilities:			
Current Liabilities			
Short-Term Credit from Banks and Others	3,383	3,243	3,185
Trade Payables	1,594	1,366	1,298
Other Accounts Payable	1,146	713	908
Declared dividend	100	61	86
	6,223	5,383	5,477
Long-Term Liabilities			
Long-term loans from banks and others	6,242	4,054	4,880
Debentures Convertible Into Company Shares	6	195	8
Debentures Convertible into Shares of Subsidiaries	299	306	301
Other Debentures	6,866	2,410	4,221
Accrued severance pay, net	71	13	16
Deferred Taxes	394	253	399
Other Liabilities	374	231	337
	14,252	7,462	10,162
Total General Business Liabilities	20,475	12,845	15,639
Insurance Operations Liabilities:			
Insurance reserves and pending claims	28,708	-	27,841
Long-Term Liabilities	2,796	-	2,253
Other Liabilities	1,053	-	1,022
Total Insurance Business Liabilities	32,557	-	31,116
Minority Interest	2,399	727	2,232
Shareholders' Equity	3,615	2,558	3,447
	59,046	16,130	52,434

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

May 29, 2007			
Date of approval of the financial statements	Gabriel Last	Asi Bartfeld	Alan Gelman
	Chairman of the Board of Directors	Managing Director	Deputy Managing Director and Responsible for Financial Matters

Consolidated Statements of Income

	For the three months ended March 31		For the Year Ended December 31
	2007	2006	2006
	Unaudited		Audited
	NIS in Millions, Reported (Except profit per share data)		
General Operations			
Revenues	5,970	5,468	24,118
Cost of Revenues	5,245	4,831	21,217
Gross Profit	725	637	2,901
Selling, Marketing and Gas Station Operating Expenses	225	224	930
General & Administrative Expenses	169	100	441
Operating Income	331	313	1,530
Financial Expenses, net	147	137	554
	184	176	976
Gains from realization of investments in investee and other companies, net	143	183	702
Other income, net	35	4	3
Income before taxes on income	362	363	1,681
Taxes on Income	108	71	404
Income after taxes on income	254	292	1,277
Group's share in profits of affiliates and partnerships, net	67	78	591
Minority Interest in Subsidiary Earnings, Net	(88)	(60)	(355)
Net income from general operations	233	310	1,513
Insurance Operations			
Profit from insurance operations	219	-	-
Income from investment and others, not included in insurance operations	40	-	-
General and administrative expenses not included in insurance operations	(4)	-	-
Interest expenses on long-term liabilities	(47)	-	-
Group's Share in profits of associated companies	46	-	-
Income before taxes on income	254	-	-
Taxes on Income	92	-	-
Income after taxes on income, from insurance operations	162	-	-
Minority interest in earnings of consolidated subsidiaries, net	(70)	-	-
Net income from insurance operations	92	-	-
Net Income	325	310	1,513
Net earnings per share (in reported NIS):			
Basic earnings per share	27.92	28.32	133.4
Diluted earnings per share	27.44	26.82	128.7

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

	Share Capital	Premium on shares	Capital Reserves	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Unaudited					
	NIS in Millions, Reported					
Balance as at January 1, 2007 (audited)	13	1,543	14	1,777	100	3,447
Differences arising from financial statements of investee companies adjusted to foreign currency	-	-	(47)	-	-	(47)
Profits yet to be realized in interest swaps at a foreign affiliate	-	-	3	-	-	3
Adjustment of fixed assets at associated company to fair value (see Note 2b(4))	-	-	-	(23)	-	(23)
Dividend	-	-	-	-	(100)	(100)
Conversion of debentures into Company shares	-	4	-	-	-	4
Exercise of option warrants into company shares	-	6	-	-	-	6
Net Income	-	-	-	325	-	325
Dividend declared subsequent to balance sheet date	-	-	-	(130)	130	-
Balance as at March 31, 2007	13	1,553	(30)	1,949	130	3,615

	Share Capital	Premium on shares	Capital Reserves	Proceeds from convertible option	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Unaudited						
	NIS in 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	-	-	17	-	-	-	17
Dividend	-	-	-	-	-	(61)	(61)
Conversion of debentures into Company shares	-	7	-	-	-	-	7
Exercise of option warrants into company shares	-	3	-	-	-	-	3
Net Income	-	-	-	-	310	-	310
Dividend declared subsequent to balance sheet date	-	-	-	-	(150)	150	-
Balance as at March 31, 2006	12	1,278	102	6	1,010	150	2,558

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

	Share Capital	Premium on shares	Capital Reserves	Proceeds from convertible option	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Audited						
	NIS in Millions, Reported						
Balance as at January 1, 2006	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	-	-	(76)	-	-	-	(76)
Profits yet to be realized in interest swaps at a foreign affiliate	-	-	5	-	-	-	5
Dividend	-	-	-	-	(486)	(61)	(547)
Conversion of debentures into Company shares	1	262	-	(6)	-	-	257
Exercise of option warrants into company shares	-	13	-	-	-	-	13
Net Income	-	-	-	-	1,513	-	1,513
Dividend declared subsequent to balance sheet date	-	-	-	-	(100)	100	-
Balance as at December 31, 2006	13	1,543	14	-	1,777	100	3,447

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

Consolidated Statements of Cash Flows – General Operations

	For the three months ended March 31		For the Year Ended December 31
	2007	2006	2006
	Unaudited		Audited
	NIS in Millions, Reported		
Cash Flows from Operating Activities			
Net income	325	310	1,513
Insurance operations results	(92)	-	-
Adjustments required to reflect cash flows from operating activities (a)	385	(217)	(497)
Net cash provided by operating activities	618	93	1,016
Cash Flows from Investing Activities			
Acquisition of fixed and other assets	(68)	(86)	(580)
Investments in real estate for construction and leasing	(128)	(71)	(291)
Proceeds from realization of fixed assets and real estate	-	3	6
Realization (acquisition) of marketable securities, net	(42)	182	(20)
Collection of long-term loans granted	25	33	117
Withdrawal (deposit) of deposits, net	(8)	30	(152)
Increase in joint ventures for oil and gas exploration	(38)	(8)	(121)
Gains from realization of investments in investee and other companies	392	-	58
Investments in Investees and Other Companies	(410)	(393)	(844)
Acquisition of newly-consolidated subsidiaries (b)	(1,261)	-	(1,853)
Proceeds from realization of investments in previously-consolidated subsidiaries	-	9	9
Repayment (granting) of loans to others, net	(9)	10	(139)
Net cash used in investing activities	(1,547)	(291)	(3,810)
Cash Flows from Financing Activities			
Short-term credit from banks and others, net	8	(263)	15
Long-Term Loans received	1,546	423	1,415
Long-Term Loans repaid	(301)	(481)	(1,183)
Issue of shares to minority interest in consolidated subsidiaries, net	-	503	1,478
Dividend distributed	(86)	-	(461)
Dividend distributed to minority interest in subsidiaries	(14)	(22)	(120)
Exercise of option warrants into company shares	6	3	13
Proceeds on account of options exercised into debentures of consolidated subsidiary	-	-	2
Issue of debentures, net	790	-	1,942
Redemption of debentures and debentures convertible into shares	(60)	(69)	(239)
Net cash provided by financing activities	1,889	94	2,862
Translation Differences in Respect of Cash Balances Held by Autonomous Investee Companies	(9)	7	(22)
Increase (Decrease) in Cash and Cash Equivalents	951	(97)	46
Cash and Cash Equivalents at Beginning of Period	881	835	835
Cash and Cash Equivalents at End of Period	1,832	738	881

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

	For the three months ended March 31		For the Year Ended December 31
	2007	2006	2006
	Unaudited		Audited
	NIS in 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	90	77	340
Deferred taxes, net	48	28	229
Increase in accrued employee rights upon retirement over portion funded, net	2	-	2
Rise in value of loans granted, net	(6)	(2)	(10)
Gain from realization of fixed assets, real estate and investments, net	(143)	(185)	(713)
Equity in non-distributed earnings of affiliates and partnerships, net (1) (2)	(78)	(93)	(638)
Impairment (increase) in value of securities and deposits, net	(38)	(1)	23
Increase (decrease) in value of long-term liabilities, net	(49)	18	(83)
Minority Interest in Subsidiary Earnings, Net	88	60	355
Cost of share-based payment	62	-	59
Changes in asset and liability items:			
Increase in receivables	(150)	(140)	(12)
Decrease (increase) in receivables and prepayments	(2)	22	(31)
Decrease in inventories	409	183	120
Increase (decrease) in Trade Payables	176	(275)	(258)
Increase (decrease) in payables	(24)	91	120
	385	(217)	(497)
(1) Net of dividends received	-	-	20
(2) Prior to tax impact on account of Group's share in associated company earnings	11	15	67
(b) Acquisition of newly-consolidated subsidiaries			
Deficit in working capital (working capital), net (excluding cash)	282	-	49
Fixed assets, real estate, investments and other property	(3,476)	-	(491)
Long-Term Liabilities	1,930	-	690
Insurance operations assets (excluding cash)	-	-	(34,140)
Insurance operations liabilities	-	-	31,116
Minority Interest	3	-	923
	(1,261)	-	(1,853)

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

	For the three months ended March 31		For the Year Ended December 31
	2007	2006	2006
	Unaudited		Audited
	NIS in Millions, Reported		
(c) Significant Non-Cash Operations			
Acquisition of fixed assets on credit	1	23	19
Receivables on account of divestiture of investments	-	-	16
Dividend and earnings to pay to minority interest at consolidated companies	56	-	71
Declared dividend	100	61	-
Conversion of debentures into Company shares	4	7	257
Conversion of debentures into shares of consolidated subsidiary	-	-	3
Receivables on account of issue of debentures	318	-	-

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

	For the three months ended March 31 2007
	Unaudited
	NIS in Millions, Reported
Cash Flows from Operating Activities	
Net income from insurance operations	92
Adjustments required to reflect cash flows from operating activities (a)	239
Net cash provided by operating activities	331
Cash Flows from Investing Activities	
Changes in investment items corresponding to shareholders' equity and to non-insurance liabilities:	
Securities, net	(824)
Loans, net	3
Investments in Investees and Other Companies, net	(7)
Investment in rental properties and building under construction	(9)
Proceeds from realization of rental properties	61
Acquisition of fixed assets	(11)
Proceeds from realization of fixed assets	1
Investment in other assets	(22)
Net cash used in investing activities	(808)
Cash Flows from Financing Activities	
Loans from banks and from others, net	(2)
issue of debentures	597
Net cash provided by financing activities	595
Increase in Cash and Cash Equivalents	118
Cash and Cash Equivalents at Beginning of Period	1,115
Cash and Cash Equivalents at End of Period	1,233

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

Consolidated Statements of Cash Flows – Insurance Operations

	For the three months ended March 31 2007
	Unaudited
	NIS in Millions, Reported
(a) Adjustments required to reflect cash flows from operating activities	
In life insurance business:	
Income and expenses not involving cash flows:	
Change in insurance reserves	602
Change in pending claims	(2)
Change in deferred acquisition costs	19
Depreciation and Amortization	3
Amortization of life insurance portfolio purchasing expenses	6
Realization of investments (investments), net:	
Securities	(304)
Loans on policies	(1)
Bank deposits	68
Gains from realization of investments, net	(2)
Acquisition of rental properties	(133)
Changes in other balance sheet items, net:	
Insurance companies, net	(8)
Premium to collect	(45)
Various receivables, net	7
Various payables, net	(11)
	199
In general insurance business:	
Income and expenses not involving cash flows:	
Change in insurance reserves	255
Change in pending claims	41
Change in deferred acquisition costs	(72)
Depreciation and Amortization	10
Realization of investments (investments), net:	
Securities	15
Other loans	(44)
Bank deposits	(78)
Changes in other balance sheet items, net:	
Insurance companies, net	(53)
Premium to collect	(202)
Various receivables, net	5
Various payables, net	(31)
	(154)

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

	For the three months ended March 31 2007 Unaudited
	NIS in Millions, Reported
In other operating activities:	
Items not involving cash flows:	
Company's share in net results of associated companies	(46)
Depreciation and Amortization	115
Loss from investments in investee companies	1
Minority interest in net earnings of consolidated subsidiaries, net	153
Change in deferred taxes, net	1
Changes in balance sheet items:	
Change in various payables, net	8
Change in various receivables, net	(58)
Deferred purchasing expenses in life insurance	(4)
Cost of share-based payment	2
Valuation of long-term loans	18
Deferred notes, net	4
	194
	239

(b) Significant non-cash operations in insurance operations

Receivables on account of sale of rental properties and building under construction	58
Dividend to pay to minority interest at consolidated subsidiary	67

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

Note 1:- General

These financial statements have been prepared in a condensed format as at March 31, 2007, and for the three months 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, 2006 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. Accounting Standard No. 16 - Investment Property

On January 1, 2007, the Company adopted the provisions of Accounting Standard No. 16, "Investment Property" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes the accounting treatment and disclosure requirements for investment property.

An investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation (or both) and not for use in manufacture or the supply of goods or services or for administrative purposes or sale during the ordinary course of business.

Investment property is to be presented using the cost model or the fair value model. At this stage, the Group has elected to adopt the cost model according to which investment property is accounted for pursuant to the provisions of Accounting Standard No. 27, "Fixed Assets", namely, according to the accounting treatment adopted to date. Accordingly, the initial adoption of the Standard had no material effect on the interim financial statements.

2. <u>Accounting Standard No. 23 - Accounting Treatment of Transactions Between an Entity and its Controlling Shareholder</u>

On January 1, 2007, the Company adopted the provisions of Accounting Standard No. 23, "Accounting Treatment of Transactions Between an Entity and its Controlling Shareholder" of the Israel Accounting Standards Board ("the Standard"). The Standard is applicable, among others, to transactions involving the transfer of assets, the assumption of liabilities, indemnification, and the waiver of loans between a company and its controlling shareholder and between companies under common control that occur subsequent to January 1, 2007 as well as to a loan granted or received from the controlling shareholder prior to January 1, 2007.
The Standard is not applicable to business combinations involving companies under common control. According to a decision promulgated by the Israel Securities Authority, as of January 1, 2007, business combinations involving entities controlled by the same shareholder will be accounted for similar to a pooling of interests and not based on the use of fair values. In cases of transactions that have the characteristics of shareholders' investments, the Standard may also apply to transactions with non-controlling shareholders in their capacity as shareholders.

The initial adoption of the Standard had no material effect on the interim financial statements.

3. <u>Accounting Standard No. 26 - Inventories:</u>

On January 1, 2007, the Company adopted the provisions of Accounting Standard No. 26, "Inventories" ("the Standard") of the Israel Accounting Standards Board regarding the accounting treatment of inventories .

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.

According to the Standard, inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined based on the "first in - first out" (FIFO) method **or** weighted average cost.

In accordance with the Standard, when inventories are purchased under credit terms whereby the arrangement involves a financing element, the inventories should be presented at cost reflecting the cash purchase price and the financing element should be recognized as a financial expense over the period of the financing.

If in a particular period production is not at normal capacity, the cost of inventories should not include an allocation of fixed overhead costs in excess of the amount that would have been allocated based on normal capacity. Such unallocated overhead costs should be recognized as an expense in the statement of income in the period in which they are incurred. Furthermore, cost of inventories should not include abnormal amounts of materials, labor and other costs resulting from inefficiency.

The initial adoption of the Standard had no material effect on the interim financial statements.

4. Accounting Standards No. 27 - Fixed Assets and No. 28 - Amendment to the Transition Provisions of Accounting Standard No. 27 - Fixed Assets

On January 1, 2007, the Company adopted the provisions of Accounting Standards No. 27, "Fixed Assets" and No. 28, "Amendment to the Transition Provisions of Accounting Standard No. 27, 'Fixed Assets'" of the Israel Accounting Standards Board ("the Standards") regarding the accounting treatment of fixed assets in the financial statements.

In accordance with the Standards, an associated company has elected to adopt the exemption prescribed by IFRS 1 whereby fixed assets can be presented at fair value as deemed cost as of January 1, 2007 without restating comparative data. The impact on the Company of the adoption of the provisions of the Standard by the associated company is a decrease in the retained earnings of the Company by approximately NIS 23 million, while recording a parallel decrease in the investment in the associated company.

5. Accounting Standard No. 30 - Intangible Assets:

On January 1, 2007, the Company adopted the provisions of Accounting Standard No. 30, "Intangible Assets" of the Israel Accounting Standards Board ("the Standard") that prescribes the accounting treatment, recognition, measurement and the disclosure requirements regarding intangible assets that are not dealt with in another standard.

As a result of the initial adoption of the Standard, the Group has reclassified the cost of computer software at insurance companies as “other assets”, rather than as was previously included in fixed assets. The comparison figures as at December 31, 2006, were reclassified accordingly.

C. Disclosure of the effect of a new Accounting Standard in the period prior to its adoption

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 potentially have a material impact on the Company's financial position and results of operations. The initial adoption of IFRS will require the Company to identify such differences, a process that will entail a significant amount of time and resources.

The Group’s management is evaluating the effect of the new Standard on the financial statements.

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				
	In Israel *)	GBP	CAD	US dollar	100 Japanese yen	Euro
As at	Points			NIS		
March 31, 2007	109.6	8.125	3.601	4.155	3.520	5.5343
March 31, 2006	110.6	8.127	4.020	4.665	3.972	5.6619
December 31, 2006	109.9	8.288	3.641	4.225	3.553	5.5643
Rate of increase (decrease) for the period	%			%		
March 2007 (3 months)	(0.2)	(2.0)	(1.1)	(1.6)	(0.9)	(0.5)
March 2006 (3 months)	0.6	2.3	1.6	1.3	0.3	3.9
December 2006 (12 months)	(0.1)	4.4	8.1	(8.2)	(9.4)	2.1

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

Note 3:- Investments in investee and other companies

A. Real Estate Operations

1. In December 2006, Delek Real Estate allocated shares to a third party representing 1.92% of its issued and outstanding share capital (post allocation), in consideration of NIS 86 million. The allocation agreement stipulates that a sum of NIS 11 million will be paid in cash, while NIS 75 million will be made available as a loan from Delek Global – a Delek Real Estate subsidiary. The loan was repaid in one lump sum on January 15, 2007. Simultaneously with the allocation of shares, Delek Global entered into a memorandum of understanding with a foreign company controlled by the third party (hereinafter: “Blenheim”) for the acquisition of holdings in 15 different foreign companies that hold real estate assets and wherein Delek Global and Blenheim possess joint holdings (hereinafter: “The Acquisition”). The value of the holdings was estimated at GBP 91 million. The completion of the transaction is contingent upon a Delek Global IPO on the London Stock Exchange, no later than September 30, 2007. It was agreed that the consideration would be paid by way of a private placement of 4.9% of the Delek Global shares, at the issuing price, with the rest being paid in cash. Delek Global also granted Blenheim a Put option (hereinafter: “The Option”) – valid through January 15, 2007 – pursuant to which Blenheim will be able to obligate Delek Global to acquire from Blenheim part of the shares in the said foreign companies, in consideration of approximately GBP 11 million (approx. NIS 89 million). The option was not contingent upon the Delek Global IPO. Blenheim exercised its option in January 2007 and Delek Global subsequently acquired holdings in some of the foreign companies. The gains derived by the Group as a result of the allocation of shares of Delek Real Estate, in the sum of NIS 40 million, was deferred and offset from the cost of acquiring the shares in the foreign companies acquired by Delek Global in January 2007, as mentioned above.

   Furthermore, in March 2007, Delek Global granted Blenheim an option that will enter into effect if and when the Delek Global shares are issued to the public. The option will obligate Delek Global to acquire all the Blenheim holdings in certain affiliates (including some of the affiliates that are included in the aforementioned memorandum of understanding). The option is valid through October 1, 2007 and the exercise price will be based on the asset value (value of the real estate assets less the value of certain liabilities) of the affiliates at the date of exercise of the option.

   In addition to the aforesaid, Blenheim was granted an option to obligate a consolidated subsidiary of Delek Real Estate (90 days subsequent to the Delek Global IPO) to acquire all the Blenheim holdings (4.9%) in Delek Global, at the market price of the Delek Global shares as at the date of the demand.

Subsequent to the balance sheet date, in April 2007, an IPO of 50 million ordinary shares of Delek Global (representing approx. 19.2% of the issued and outstanding share capital, post-IPO) was held on the London AIM. The proceeds of the IPO totaled GBP 100 million (approx. NIS 830 million). As part of the IPO, a wholly-owned subsidiary of Delek Real Estate acquired 6.2 million shares of Delek Global. Also in May 2007, the underwriter of the IPO exercised an option it was granted, to conduct a follow-on offering of Delek Global shares, representing 2.8% of the issued and outstanding share capital of Delek Global (post-exercise). The overall proceeds from the follow-on offering amounted to GBP 11 million.

Furthermore, in parallel to the offering, Delek Global allocated approx. 4.9% of its shares (post-offering) to Blenheim and paid it GBP 54 million (approx. NIS 448 million) in return for the acquisition of Blenheim holdings in various foreign companies, as mentioned above. Subsequent to the said acquisition, Delek Global now controls these foreign companies and their financial statements will be consolidated with the Group's financial statements. Subsequent to the said public offerings, the holdings of Delek Real Estate in Delek Global have decreased to approximately 76.7%.

Delek Real Estate's management estimates that the gains it will record as a result of the issuing of shares in Delek Global will amount to NIS 100 million. Of this sum, a sum of NIS 35 million constitutes deferred earnings in light of a right granted to Blenheim to sell its holdings in Delek Global to a consolidated subsidiary of Delek Real Estate.

2. In their review of the financial statements as at March 31, 2007 of the affiliate Hof Hacarmel Recreation and Tourism 89 Ltd. (hereinafter: "Hof Hacarmel"), the CPAs draw attention to the financial condition of Hof Hacarmel and to its dependency upon continued financing of its activity, primarily by banks.

   As at March 31, 2007, Hof Hacarmel has a shareholders' deficiency amounting to approximately NIS 177 million and a working capital deficiency amounting to approximately NIS 401 million. The construction of the apartment hotels Almog and Pnina (which represent the principal properties of Hof Hacarmel) is primarily financed by a bank as part of financial support agreements, the balance of credit of which at balance sheet date totals approximately NIS 371 million, as well as by long and short-term credit available from related parties the balance of which at balance sheet date totals approximately NIS 36 million (the share of Delek Real Estate is approximately NIS 10.4 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.

The surplus losses over the outstanding investment of Delek Real Estate in Hof Hacarmel (including loans granted) amounts to NIS 11 million as at March 31, 2007.

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.

3. In March 2007, a transaction was closed whereby foreign subsidiaries of a consolidated subsidiary of Delek Real Estate acquired – jointly with others (the subsidiaries' share = 17%) – all the rights in foreign companies that own 47 hotels located throughout the UK (hereinafter: "The Hotels"). The hotels are managed by the Marriott Chain under a 30-year agreement with an extension option for Marriott for an additional 10 years.

   The hotels were acquired from Royal Bank of Scotland (hereinafter: "RBS") in consideration of a total of GBP 1.07 billion (approx. NIS 8.8 billion). The shareholders' equity that is required for the transaction is GBP 0.2 billion (approx. NIS 1.7 billion), with the share of the foreign subsidiaries amounting to GBP 35 million (approx. NIS 285 million). The outstanding cost of the acquisition was financed by a non-recourse loan from RBS in the sum of GBP 0.86 billion (approx. NIS 7 billion) for a period of seven years, with a fixed interest rate. The financing bank will be eligible for a certain percentage of the profits (as defined in the agreement) from the future sale of the assets.

4. On March 1, 2007, a foreign subsidiary (75% of which are held by Delek Real Estate and 25% by Delek Israel) entered into an agreement for the acquisition of all the share capital of a British company that holds 29 Motorway Service Areas (hereinafter: "MSA") in the UK, under the RoadChef brand. These include filling stations operated by the acquired company, hotels, restaurants and stores.

   The transaction was closed on March 30, 2007. The cost of acquiring the MSA shares amounted to GBP 17.8 million (approx. NIS 148 million) (including related acquisition costs of GBP 4.8 million (approx. NIS 40 million)). The shareholders' equity of MSA as at the acquisition date amounted to GBP 107.2 million (approx. NIS 890 million). Negative excess cost of GBP 89.4 million (approx. NIS 742 million) was therefore created in the acquisition. In addition, the foreign subsidiary granted MSA a long-term loan in the amount of GBP 145 million (approx. NIS 1,202 million), that was financed by a bank loan.

The Group is consolidating the MSA assets and liabilities starting March 31, 2007. Delek Real Estate is examining the manner of attributing this excess negative cost created at acquisition to the assets and liabilities of MSA. According to an initial assessment that was conducted, the excess negative cost of GBP 163 million (approx. NIS 1,353 million) was attributed to fixed assets, a negative sum of GBP 14 million (approx. NIS 116 million) to debentures and the rest amounts to a positive sum of GBP 88 million (approx. NIS 730 million) and was attributed to other assets (primarily goodwill).

Following below are the assets and liabilities of MSA as at the acquisition date, including the attribution of the said excess cost:

	March 31, 2007
	NIS in Millions, Reported
Current assets	185
Fixed assets, net	2,559
Other assets, net	755
Current liabilities	(456)
Long-term liabilities	(1,769)
	1,274

Upon completion of examining the manner of attributing the cost of acquisition, changes in classification are possible between the asset and liability items, as included above.

5. On March 18, 2007, a consolidated subsidiary of Delek Real Estate entered into partnership with additional parties in an investment fund for hotel ventures in Europe (hereinafter: "The Fund"). The Fund intends to acquire hotels in various cities in Europe. The hotels will be managed by the Fattal Europe chain of hotels. The total shareholders' equity that will be invested by the partners in the Fund is 100 million euro. The remaining financing of the acquisition of the hotels will be made using non-recourse bank loans. The Fund's life span will be 7-10 years. The share of the Delek Real Estate consolidated subsidiary in the Fund partnership will be 21% and its investment therein is expected to total 21.33 million euro (approx. NIS 115 million).

6. In the course of March 2007, the acquisition was completed of 90% of the share capital of an additional foreign company that holds an office building in Germany, in consideration of 26 million euro (approx. NIS 160 million).

7. In the course of the first quarter of 2007, certain associated companies of Delek Real Estate examined the fair value of the real estate they own and Delek Real Estate consequently included its share in the profit from the increase in the value of the income-generating real estate, in the sum of NIS 32 million (after taxes).

8. Pursuant to the details in Note 9j(a)(2) to the annual financial statements, In April 2007, the Delek Real Estate holdings in the shares of Industrial Buildings Ltd. (hereinafter: "Industrial Buildings") rose to reach 15% of its share capital. Pursuant to the agreement dated December 2005 between Jerusalem Economic Corporation Ltd. (controlling shareholder in Industrial Buildings) (hereinafter: "JEC") and Delek Real Estate, JEC has undertaken to vote in the general meeting of the shareholders of Industrial Buildings, in favor of the appointment of two directors on behalf of Delek Real Estate.

   In light of the above, Delek Real Estate's investment in Industrial Buildings is expected to be included by the equity method of accounting, starting with the second quarter of 2007.

   As at March 31, 2007, Delek Real Estate's investment in the Industrial Buildings shares totals NIS 317 million.

B. Fuel operations in the USA

1. In February 2007, a wholly-owned subsidiary of Delek US Holdings, Inc. (hereinafter: "Delek US") signed an agreement for the acquisition of 107 gas stations with convenience stores in return for $65 million (excluding inventories). The gasoline and convenience stores are located in the area of eastern Tennessee and Georgia, and operate under the brand name "Favorite Markets". Subsequent to the balance sheet date, in April 2007, the acquisition of 101 gasoline stations out of the said stations was finalized, in consideration of $62 million (approx. NIS 258 million). Delek US also signed an agreement for operating the rest of the stations until their acquisition is completed. The completion of the acquisition of the remaining stations is subject to preconditions that have yet to be met, as at the date of approval of the financial statements.

2. In January 2007, Delek US allocated 28,000 options, that may be exercised into 28,000 ordinary shares of Delek US, to the Group's Chairman, who also serves as a Director of Delek US. The exercise price is $16 per option warrant. The option warrants will vest within four years of their issue. The economic value of the options granted amounts to NIS 650 thousand.

C. Fuel Sector Operations in Israel

Pursuant to that stated in Note 9j(c) to the annual financial statements regarding the granting of option warrants to the CEO of Delek Israel, subsequent to the balance sheet date, in May 2007, the principal points of the option plan were agreed upon with the CEO of Delek Israel, whereby he would be granted, free of charge, option warrants exercisable into shares representing 5% of the issued and outstanding share capital of Delek Israel in return for an exercise price that reflects a value of $200 million (subject to adjustments on account of dividends, bonus shares, etc.). The eligibility of the CEO of Delek Israel for the exercise of the option warrants will be spread over five years from the date of his initial employment (July 2005) and they shall remain valid until July 2013. It was further determined, that upon termination of his employment, the CEO of Delek Israel would be eligible to sell his shares to Delek Israel, according to the company value at that date.

True to the date of approval of the financial statements, the said plan had yet to be approved by the Delek Israel board of directors. Based on the principal points of the said plan, the economic value of the options is currently estimated at $11 million (approx. NIS 46 million). In its financial statements for the first quarter of 2007, the Group included an expenditure in the sum of NIS 31 million (approx. NIS 23 million after taxes) on account of the said option warrants, in accordance with their vesting terms.

D. Fuel Sector Operations in Europe

Subsequent to the balance sheet date, in May 2007, Delek Benelux B.V. (hereinafter: “Delek Benelux”) – a wholly-owned subsidiary of Delek Petroleum, signed an agreement pursuant to which Delek Benelux would acquire from Chevron Global Energy Inc. (hereinafter: “Chevron”) the entire share capital of three foreign companies that concentrate Chevron’s fuel marketing operations in the Benelux countries. The marketing operations include 869 fueling stations, most of which operate under the Texaco brand.

The consideration for the acquisition is €342 million, before working capital adjustments. A sum of €10 million will be paid upon signing the agreement, with the rest to be paid upon completion of the transaction and adjusted according to the working capital at that date, with the adjustment estimated by Delek Benelux at an amount ranging between €20 and €70 million. The completion of the transaction is contingent upon several preconditions, including obtaining anti-trust authorizations. The final date for the completion of the transaction was determined to be October 31, 2007.

E. Operations in the Biochemicals Sector

1. In March 2007, an agreement was signed between Gadot Biochemical Industries Ltd. (hereinafter: “Gadot”) and a Chinese partner, for the establishment of a joint venture in China for the construction and operation of a plant for the manufacture of citric acid and citric acid salts. The joint venture will be conducted through a company that will be incorporated in China and will be owned by Gadot (51%) and by the Chinese partner (49%).

The total expected investment in the construction and running-in of the plant totals $30 million, of which up to $12 million are to be financed by shareholders' equity provided by the parties (Gadot's share totals approx. $6 million). As part of the agreement, various directives were set regarding the manner of decision making at the joint company and the appointment of executives therein.

The agreement was approved by the Chinese authorities on April 7, 2007.

2. Subsequent to the balance sheet date, in May 2007, a wholly-owned Gadot subsidiary, Gadot Bio-Chem (USA) (hereinafter: "Gadot USA"), signed an agreement with Pharmline Holding, In. (hereinafter: "Pharmline"), a company that deals in the manufacture and marketing of dry raw materials for the dietary supplements industry, primarily in North America, pursuant to which Gadot USA will acquire 85% of the issued and outstanding share capital of Pharmline in consideration of $11.3 million (approx. NIS 47 million). As part of the agreement, the minority shareholders were granted an option to sell their remaining shares in Pharmline to Gadot USA, while Gadot USA was granted an option to acquire the remaining shares of the minority shareholders in Pharmline, according to terms outlined in the agreement. The closing of the deal is contingent upon certain preconditions, including the presentation of authorizations regarding Pharmline's compliance with certain environmental standards.

F. Operations in the Insurance and Finance Sectors

1. In February 2007, Delek Capital Ltd. (hereinafter: "Delek Capital") signed an agreement with Barak Capital Ltd. (hereinafter: "Barak Capital") pursuant to which Delek Capital shall be entitled to purchase shares in Barak Capital during a period of six months, in consideration for payment of the sum of approximately NIS 24 million and the provision of shareholders' loans, on conditions as agreed in the option agreement, such that if and when such sale is concluded, Delek Capital shall hold 49.9% of the issued and outstanding capital of Barak Capital. Barak Capital deals in financial operations which include, mainly, trading in securities. Subsequent to the balance sheet date, in May 2007, Delek Capital acquired the shares of Barak Capital in accordance with the said agreement. Delek Capital is currently examining the manner in which the proceeds of the acquisition will be carried to the assets and liabilities.

2. Subsequent to the balance sheet date, in April 2007, Republic Companies Group Inc. (hereinafter: "Republic"), a wholly-owned subsidiary of Delek Capital, entered into an agreement for the sale of its holdings (30%) in Seguros Atlas S.A. in consideration of $28.5 million (approx. NIS 120 million). The gains from the realization of the investment amounted to negligible sums.

3. As described in Note 9j(g)(1) to the annual financial statements, in light of the demand of the Anti-Trust Commissioner, in January and February 2007, Delek Investments sold approximately 12.2% of the shares of Menora Holdings Ltd. (hereinafter: "Menora") shares, in consideration of a total of NIS 392 million. The gains recorded by Delek Investments as a result of the said sale amounted to NIS 143 million (before taxes).

   The remaining investment in Menora, representing approximately 2.2% of its issued and outstanding share capital, was included in the financial statements as at March 31, 2007 as a current investment, according to market value.

4. A memorandum of understanding was signed on March 9, 2007 between Phoenix and Bank Hapoalim Ltd. (Hereinafter: "Bank Hapoalim"), pursuant to which Phoenix would acquire 25% of the total share capital of Isracard Ltd. and Europay (Eurocard) Israel Ltd. (hereinafter: "The Companies"), that are companies wholly controlled by Bank Hapoalim. The company will be eligible to appoint directors on its behalf, as agreed in the MOU.
   The consideration for the shares shall be calculated on the basis of an aggregate value of NIS 2.55 billion, with adjustments for the payment of dividends, if and to the extent paid as at the date of closing of the transaction. In the event that the Companies conduct a public offering within 15 months, the basis for the Companies' value shall be adjusted upwards for the purpose of the transaction to 90% of the Companies' value for the purpose of the public offering, but not above an aggregate value of NIS 2.7 billion.
   Performance of the transaction is subject to a due diligence examination, to conditions (including the consent of Phoenix as to arrangements between Isracard Ltd. and Bank Hapoalim), regulatory approvals to the extent necessary, to the approvals of management and the board of directors of Bank Hapoalim, and to the approval of the board of directors of The Phoenix.

5. In February 2007, the Insurance Commissioner published a tender that determined that as of the first quarter of 2007, the provision for a reserve for extraordinary risks in life insurance in the financial statements of insurance companies would be cancelled.
   As a result of the cancellation of the said reserve, Phoenix recorded earnings of NIS 178 million from an extraordinary item in the first quarter of 2007. The Group's share in the said earnings (after deducting the excess cost attributed to the said reserve and net of minority interest) amounted to negligible sums.

G. Operations in Other Sectors

   1. In February 2007, Delek Investments acquired approximately 3.5% of the issued and outstanding share capital of Oil Refineries Ltd. (hereinafter: "ORL") in consideration of a total of NIS 235 million.
      The ORL shares are publicly traded on the Tel Aviv Stock Exchange.
      The investment in ORL was included in the Group's financial statements at cost.

2. Subsequent to the balance sheet date, in April 2007, Delek Infrastructures Ltd. (hereinafter: “Delek Infrastructures”) – a wholly-owned subsidiary of the Company – entered into agreements for the construction of a power plant in Brazil. The cost of establishing the plant is estimated at $50 million. Delek Infrastructures’ share in the project is approximately 35%. The agreement is contingent upon several preconditions, that have yet to be met as at the date of approval of the financial statements.

3. As stated in Note 12k to the annual financial statements regarding the operation of the Delek Ashkelon power plant, the operation of the power plant is contingent upon the supply of natural gas via the inland national pipeline from Ashdod to Ashkelon, that was built by Israel Natural Gas Routes Ltd. (hereinafter: “Gas Routes”). On May 9, 2007, Gas Routes informed the Company that the supply of natural gas through the national pipeline to Ashkelon has begun. It is therefore expected that natural gas will arrive at the Power Plant in the near future. Once the gas arrives, the necessary operations will be carried out to ensure the quality of the gas, so as to enable the running-in process of the Power Plant.

4. On March 12, 2007, the board of directors of an investee company (50%) – IDE Technologies Ltd. (hereinafter: “IDE”), approved a private placement, for no consideration, to the IDE CEO, of option warrants for the acquisition of 2.5% of the issued and outstanding share capital of the company. The option warrants will vest (contingent upon obtaining all the necessary authorizations) in five equal annual tranches, starting with the grant date and through to December 2010. The exercise price was set according to a company value of NIS 70 million. The economic value of all the option warrants, as calculated according to the Black & Scholes formula, is $5,280 thousand)approx. NIS 23 million). The benefit will be carried to the statement of income over the vesting period of the option warrants.

   The allocation of the option warrants is contingent upon the approval of the respective boards of directors of each of the IDE shareholders. As at the date of approval of the financial statements, the allocation has not yet been approved by all the shareholders, although since the CEO has started to provide services on account of the said options, the Group has carried to the statement of income during the reported period, its share in the expenditures on account of the said options in the sum of NIS 3 million, in accordance with the vesting terms of the option.

Note 4:- Investments in Oil and Gas Exploration

A. In February 2007 an agreement was signed between Delek International Energy Ltd. (hereinafter: "Delek International") – a wholly owned subsidiary of Delek Energy Systems Ltd. (hereinafter: "DES") and Premier Oil West Africa B.V. (hereinafter: "Premier Africa"). Pursuant to the agreement, Delek International acquired from Premier Africa 11.43% of the rights to two marine franchises in Guinea Bissau in West Africa. The work plan of these franchises included two drillings at a total cost of $58 million. In return for the said rights, Delek International undertook to cover 22.86% of the drilling expenses, up to a total cost of $29 million per drilling and to cover its relative share (11.43%) of the project's remaining total expenses.

The first drilling (whose cost is estimated at $35 million) was conducted in March 2007 and a decision was made to abandon it. Delek International's share in the cost of the drilling was $8.5 million and this sum was carried to the statement of income as an expenditure. Subsequent to the balance sheet date, in April 2007, the second drilling (whose cost is estimated at $25 million) was conducted and a decision was made to abandon it. Delek International's share in the cost of the drilling is estimated at $3.3 million and this sum will be carried to the statement of income as an expenditure in the second quarter of 2007.

2. In March 2007, Delek International signed an agreement with Matra Petroleum PLC (hereinafter: "Matra Petroleum"), a company listed on London's AIM exchange, dealing with oil exploration primarily in Central Europe, pursuant to which Delek International would acquire shares in Matra Petroleum at a total investment of GBP 6 million. The agreement is contingent upon the completion of a deal whereby Matra Petroleum would acquire oil rights in Russia relating to a license located in a region 1,200 km south-east of Moscow, covering an area of 159 km^2, in proximity to producing oil fields, in return for the allocation of its shares to the seller of the rights. The transaction for the acquisition of the said oil rights was closed in April 2007. The license is valid through to August 2009 and is contingent upon the performance of four drillings. Subsequent to the completion of the transaction, Delek International will hold approx. 29.9% of the issued capital of Matra Petroleum(22.2% fully diluted). As part of the said agreement, Delek International will be issued options for the acquisition of additional shares. In the event that these are exercised, it will hold 25.2% of the capital of Matra Petroleum, fully diluted.

3. Subsequent to the balance sheet date, on April 26, 2007, an agreement was signed between a consolidated subsidiary of DES and Noble Energy (Oilex) Limited (hereinafter: "Noble Oilex"), a subsidiary of Noble Energy Inc. Pursuant to the agreement, the consolidated subsidiary will acquire 25% of the rights to Block 21/20f in the North Sea (hereinafter: "The Franchise"), covering an area of 22 square kilometers and located 190 km east of the Scottish shore, in proximity to yielding oil fields. Noble Oilex has formulated a drill-worthy prospect within the area of the Franchise that possesses the potential of a marketable discovery.

In return for the said rights, the Company agreed to bear 28.33% of the expenses of the first drill that will be drilled at the franchise area (without the cost of the production tests) and to bear its relative share (25%) of all the other expenses of the project.

According to the work plan in the franchise area, an exploration drill is planned to be performed toward the end of 2007, down to a depth of 2,700 meters, at a total estimated cost of $22 million. The performance of this drill is contingent upon an engagement with an oil rig. It should further be noted that the agreement is contingent upon obtaining the necessary authorizations, pursuant to British law.

Note 5:- Debentures

1. In March 2007, the Company issued a private placement of Series M debentures in the sum of NIS 913 million. The debentures will be repaid in 10 equal semi-annual installments, on March 29th and September 29th of each of the years 2013 and 2014 and on March 29th and September 29th of each of the years 2019 through 2021. The debentures carry fixed annual interest rate as follows: Starting with the date of issuing of the debentures and until the date of their registration for trade on the stock exchange – 5.1% and subsequent to their registration - 4.6%. The interest will be paid semi-annually, starting September 29, 2007. The debentures are linked to the CPI. The Company is acting to register the said debentures for trade on the stock exchange.

   Of the total debentures (Series M) that were issued, approximately NIS 342 million were allocated against cash and approximately NIS 571 million were allocated against the replacement of some of the debentures (Series F-J) that were previously issued by the Company and whose book value prior to the swap amounted to NIS 560 million.

   The difference created as a result of the said swap, between the outstanding liability of the Company on account of the debentures prior to the swap and subsequent to it – in the sum of NIS 11 million – was attributed to the debentures (Series M) issued and will be carried as financial expenses, according to the effective interest rate method.

B. In February 2007, Delek Real Estate raised NIS 753 million by way of a private placement of debentures (Series E) to institutional investors. The principal of the debentures is linked to the CPI and is scheduled to mature in seven equal installments, on February 27th of each of the years between 2013 and 2019. The principal of the debentures will bear a fixed annual interest rate of 5.4%, until the date of their registration for trade and 4.8% thereafter. Delek Real estate undertook to register the debentures for trade within 18 months. In the event that the debentures are not registered for trade in the said period, the debenture holders will be eligible to demand the early redemption of the debentures.

Subsequent to the balance sheet date, in May 2007, Delek Real Estate raised an additional NIS 343 million by way of a private placement of debentures (Series E) to institutional investors. The terms of the additional debentures are identical to the terms of the debentures (Series E) that were issued in February 2007, as mentioned above.

Note 6:- Contingent Liabilities

Pending claims of significant sums, that may reach hundreds of millions or billions of NIS, have been filed against certain investee companies. For some of these, 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 (see Sections A through G, below).

A. 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. Based on the opinion of Gadot's legal counsel, that in view of all the uncertainty factors that exist in all of the 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.

B. As part of the merger of the cable television companies (see Note 9j(e) to the annual financial statements), HOT - Cable Communications Systems (hereinafter: "HOT") has assumed the existing claims filed against the Cable TV (hereinafter: "CATV") companies in their previous format. In preceding years, several lawsuits, including requests to authorize part as class action lawsuits were filed against the CATV companies, which aggregate in 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 the CATV companies and HOT Telecom Ltd. (a Matav investee company) and others. One lawsuit concerns the legality of the basic package for CATV subscribers that was offered by the CATV companies to its subscribers, starting in the early 1990s. The amount of the lawsuit is NIS 4.9 billion. The second lawsuit relates to damages incurred by telephony subscribers, as a result of communication problems that took place in May 2006. The amount of the lawsuit is NIS 100 million. The third lawsuit 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 lawsuit is approximately NIS 106 million. Furthermore, in January 2007, a lawsuit and a motion to approve the lawsuit as a class action suit was filed against the CATV companies and additional telecommunication companies, in the sum of NIS 11 million, with the part of the CATV companies amounting to approximately NIS 500 million. The lawsuit concerns the fact that the CATV and other telecom companies operate in conflict with the Telecommunications Law by not allowing for the mobility of telephone lines between companies, via the mobility of telephone numbers.

It is the opinion of HOT'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 HOT. For additional details, see Note 20a to the annual financial statements of HOT which are publicly published.

C. 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 charged a full service fee from handicapped individuals at stations where there exist self-service fuel pumps, while this should not be charged to vehicles bearing a handicapped tag. 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.

The Group’s management estimates, based on the opinion of the management of Delek Israel and 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. Accordingly, no provision has been made in the financial statements.

D. Three requests to authorize class action lawsuits were filed against Delek Israel, third parties and Delek Israel's former Deputy CEO in November 2006. 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.

In all the proceedings, applications were lodged by Delek Israel for dismissal in limine, applications to have the three proceedings heard before the same bench and applications to extend the date for submitting rejoinders to the application for approval, until after the hearing on the application for dismissal in limine. The court accepted the applications to have the three proceedings heard before the same bench and also instructed the parties not to submit rejoinders to the applications for approval or applications for dismissal in limine until after the said hearing.

The Group's management estimates, based on the opinion of the management of Delek Israel and its legal counsel, that, at this preliminary stage of the petitions and in light of the fact that there is great uncertainty regarding the facts raised in the authorization requests, the chances of the above proceedings cannot be assessed and, accordingly, no provision has been made in the financial statements.

E. As described in Note 38h(b) to the annual financial statements, 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 were unlawfully collected, compensation in insurance events at lowered sums, etc. For most of these lawsuits, no provisions were made in the financial statements and for some, it is impossible to estimate the chances of the lawsuits at this stage.

Moreover, subsequent to the balance sheet date, in May 2007, a request to authorize a class action lawsuit was filed against Phoenix on account of the collection of excess insurance fees. At this stage, the Group's management and the Phoenix management have yet to study the details of the lawsuit and are therefore unable to estimate its chances and its potential impact.

F. As described in Note 38h(b)(10) to the annual financial statements, requests to approve three class action lawsuits were filed against Republic subsidiaries in 2006, as a result of hurricanes Katrina and Rita. The petitioners claim that the subsidiaries are in breach of their insurance policies by not properly paying their insurance claims and by not properly applying the law on various matters.

These proceedings are in preliminary stages and class action lawsuits have not yet been approved. The Group's management, based on the Republic management is unable to estimate at this time the outcome of the proceedings, the range of potential losses arising therefrom, if any, and is unable to estimate whether any of the lawsuits would have material negative impact on its business, results or operations. Therefore no provision was made for the aforementioned proceedings in the financial statements.

G. As described in Note 25a(1) to the annual financial statements, in previous years, requests to authorize class action lawsuits at substantial amounts (hundreds of millions of NIS) were filed against an affiliate, Amisragas - the American Israeli Gas Corporation Ltd. (hereinafter: "Amisragas") and additional gas companies.

The claims address the following issues: Overcharging the customers, failure to conduct periodical checks of gas counters and price fixing with other gas companies.

Moreover, the tax authorities have issued orders to Amisragas for the years 1987-1990 and 1991-2002.

Amisragas estimates that it is impossible to assess the outcome of these proceedings. As at March 31, 2007, the Group's investment in Amisragas totals approximately NIS 149 million, with an effective holding percentage of 39%.

H. In the past, three foreign airlines filed claims against Aviation Services Ltd. and against its shareholders (Paz, Sonol and Delek) totaling approximately NIS 50 million (as of the date of filing). In 2000, Delek's holdings in Aviation Services Ltd. were sold (subject to the possibility to indemnify Aviation Services for claims relating to the period preceding the selling of the holdings therein, based on Delek's holding in Aviation Services at the eve of the sale, i.e.- -22.5%). Subsequent to the balance sheet date, on May 9, 2007, a decision was handed down pursuant to which Delek Israel is obligated to pay the petitioners compensation in the sum of NIS 4 million. The Delek books have a provision for this sum.

I. Subsequent to the balance sheet date, in April 2007, an associated company of Phoenix was informed that the Israel Securities Authority had launched an investigation of the company. The associated company estimates this has to do with brokerage fees in mutual funds. At this stage, it is impossible to estimate the impact of the investigation on the operations of the associated company.

Note 7:- Shareholders' Equity

A. During the three-month period ended march 31, 2007, a sum of 3,749,559 debentures (series E) whose carrying amount totaled approximately NIS 4 million, were converted into 11,040 ordinary shares of NIS 1 par value each of the Company.

B. During the three-month period ended March 31, 2007, a sum of 13,560 stock options (series 2) were exercised into 13,560 ordinary shares of NIS 1 par value each of the Company for a total consideration of NIS 6 million.

C. Subsequent to the conversions and exercises detailed above, the Company's issued and outstanding share capital is composed of 11,660,532 ordinary shares of NIS 1 par value each.

D. Subsequent to the balance sheet date, a sum of 3,636,988 debentures (series E) whose carrying amount totaled approximately NIS 4 million, were converted into 10,729 ordinary shares of NIS 1 par value each of the Company. Subsequent to the conversions detailed above, the Company's issued and outstanding share capital is composed of 11,671,261 ordinary shares of NIS 1 par value each.

E. On March 28, 2007, the Company declared the distribution of a dividend to its shareholders in the amount of approximately NIS 100 million. The dividend was distributed in May 2007.

F. Subsequent to the balance sheet date, on May 29, 2007, the Company declared the distribution of a dividend in the amount of NIS 130 million to its shareholders.

Note 8:- Information Regarding Business Sectors

A. Revenues

	For the three months ended March 31		For the Year Ended December 31
	2007	2006	2006
	Unaudited		Audited
	NIS in Millions, Reported		
Israeli Fuel Sector Operations	1,000	1,066	4,455
Gas stations and convenience stores in the USA	1,395	1,390	6,181
Refinery operations in the USA	2,001	1,692	8,072
Automotive sector	1,175	1,009	4,060
Real Estate Sector	142	112	439
Biochemicals sector	99	100	366
Oil and gas exploration and production	78	58	268
Overseas insurance sector *)	296	-	-
Israel Insurance sector *)	1,052	-	-
Other sectors	80	41	277
Total in statements of income	7,318	5,468	24,118

*) Represents insurance premiums that were earned in self residual in life and general insurance.

B. Segment results *):

	For the three months ended March 31		For the Year Ended December 31
	2007	2006	2006
	Unaudited		Audited
	NIS in Millions, Reported		
Israeli Fuel Sector Operations	11	16	94
Gas stations and convenience stores in the USA	17	21	143
Refinery operations in the USA	140	112	632
Automotive sector	155	107	440
Real Estate Sector	33	26	81
Biochemicals sector	11	18	55
Oil and gas exploration and production	(1)	34	154
Insurance overseas ***)	54	-	-
Insurance in Israel ***)	201	-	-
Other sectors	10	3	35
Adjustments **)	(45)	(24)	(104)
Total in statements of income	586	313	1,530

*) Represents segment operating income.
**) Including expenses not attributed to sectors.
***) Including earnings from insurance operations as well as general and administrative expenses and other expenses and other income not included in earnings from insurance operations.

Note 9:- Principal Items for Insurance Operations Data

	March 31 2007	December 31 2006
	Unaudited	Audited
	NIS in Millions, Reported	
A. Investments		
Securities	21,826	20,741
Loans and bank deposits	4,519	4,465
Other Investments	995	812
	27,340	26,018
B. Insurance reserves and pending claims		
Life insurance		
Insurance reserves	21,618	20,842
Reserve for extraordinary risks	-	178
Pending Claims	68	69
Total life insurance	21,686	21,089
General insurance		
Reserve for unexpired risks	2,203	1,923
Pending Claims	4,819	4,829
Total general insurance	7,022	6,752
Total reserves and contingent liabilities	28,708	27,841
C. Assets and liabilities as part of the overall insurance operations		
Investment and liabilities as part of life insurance operations	21,912	21,331

D. Summarized insurance operations statements

	For the 3 months ended March 31, 2007
	Unaudited
	NIS in Millions, Reported
Life insurance	
Premiums net of reinsurance	639
Revenues from investments	503
Premiums and revenues from investments	1,142
Claims settled and contingent, net of reinsurance	314
Excess of revenues over claims	828
Increase in insurance reserves, net	585
	243
Net commissions and G&A expenses, net	127
Decrease in deferred acquisition costs	23
	93
Amortization of insurance portfolio purchasing expenses	3
Reinsurance results	(3)
Earnings	93
General insurance	
Insurance fees net of reinsurance	919
Increase in reserve for unexpired risks, net	(210)
Insurance fees earned in residual	709
Revenues from investments	95
Total revenues	804
Claims settled and contingent, net of reinsurance	461
Excess of revenues over claims	343
Net commissions and G&A expenses, net	294
Increase in deferred acquisition costs	(77)
Earnings	126
Total profit from insurance operations	219

E. 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")

	March 31, 2007	
	Shareholders' Equity	Primary Capital
	Unaudited	
	NIS in Millions, Reported	
Existing sum according to regulations (1)	1,681	1,207
Minimal sum required according to regulations (2)	1,363	74
	318	1,133

(1) Including deferred liability notes considered as secondary capital, according to the regulations in the amount of NIS 473 million.

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

	As at March 31, 2007
	Unaudited
	NIS in Millions, Reported
Deferred purchasing expenses in life and health insurance	663
Pension fund management company	8
On account of sum at risk in self residual upon death (4)	193
Unrecognized assets, as defined by the regulations (principally loans)	99
	963

(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.

(4) The sum pertaining to the capital requirement as at March 31, 2007, includes a supplemental capital requirement in the sum of NIS 16 million, representing 0.17% of the insurance sum at risk upon accidental death, not included in the reserve for extraordinary risks as at December 31, 2006.

Note 10:- Consolidated Proforma Financial Statements

A. General

As stated in Note 39 to the annual financial statements, in November 2006, the 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 held 61.5% of the issued and outstanding share capital of Phoenix (before a decrease in the holding percentage as a result of an issue of shares by 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 statements of income for the three months ended March 31, 2006 and for the year ended December 31, 2006.

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 61.5% of the issued and outstanding share capital of Phoenix as at January 1, 2006 (hereinafter: "The Acquisition Date"), rather than on the dates when the shares were actually acquired.

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 consolidated 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 to the annual 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 1,873 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. Excess of cost of investment over the book value created by this acquisition amounted to NIS 962 million. This excess cost was attributed to the Phoenix assets and liabilities and to goodwill, as described in Note 9j(g)(2) to the annual financial statements.

   The proforma consolidated statements of income include the amortization of excess costs allocated to the insurance assets and liabilities starting with the acquisition date (in accordance with the rates outlined in Note 9j(g)(2) to the annual financial statements). Goodwill created in the said acquisition was not amortized.

3. The financial statements of an investee company over which the Group acquired control following the Phoenix acquisition, were consolidated in the proforma consolidated financial statements.

C. Proforma Consolidated Statements of Income

	For the 3 months ended March 31 2006	For the year ended December 31 2006
	Unaudited	Audited
	NIS in Millions, Reported	
General Operations		
Revenues	5,468	24,119
Cost of Revenues	4,831	21,217
Gross Profit	637	2,902
Selling, Marketing and Gas Station Operating Expenses	224	930
General & Administrative Expenses	100	442
Operating Income	313	1,530
Financial Expenses, net	160	600
	153	930
Gains from realization of investments in investee and other companies, net	183	702
Other Income (Expenses), Net	4	2
Income before taxes on income	340	1,634
Taxes on Income	71	404
Income after taxes on income, from general operations	269	1,230
Group's share in profits of affiliates and partnerships, net	57	497
Minority Interest in Subsidiary Earnings, Net	(60)	(355)
Net income from general operations	266	1,372
Insurance Operations		
Profit from insurance operations	140	500
Income from investment and others, not included in insurance operations	23	85
General and administrative expenses not included in insurance operations	(6)	(42)
Interest expenses on long-term liabilities	(11)	(39)
Group's Share in profits of associated companies	14	23
Income before taxes on income	160	527
Taxes on Income	60	182
Income after taxes on income, from insurance operations	100	345
Minority interest in earnings of consolidated subsidiaries, net	(43)	(150)
Net income from insurance operations	57	195
Overall net income	323	1,567

D. Summarized insurance operations statements

	For the 3 months ended March 31 2006	For the year ended December 31 2006
	Unaudited	Audited
	NIS in Millions, Reported	
Life insurance		
Premiums net of reinsurance	625	2,469
Revenues from investments	449	1,580
Premiums and revenues from investments	1,074	4,049
Claims settled and contingent, net of reinsurance	318	1,226
Excess of revenues over claims	756	2,823
Increase in insurance reserves, net	(531)	(1,948)
Increase in reserve for extraordinary risks	(2)	(12)
	223	863
Net commissions and G&A expenses, net	117	482
Decrease in deferred acquisition costs	12	28
	94	353
Amortization of insurance portfolio purchasing expenses	2	9
Reinsurance results	-	(8)
Earnings	92	336
General insurance		
Insurance fees net of reinsurance	590	1,733
Decrease (increase) in reserve for unexpired risks, net	(153)	38
Insurance fees earned in residual	437	1,771
Revenues from investments	62	167
Total revenues	499	1,938
Claims settled and contingent, net of reinsurance	321	1,232
Excess of revenues over claims	178	706
Net commissions and G&A expenses, net	159	537
Decrease (increase) in deferred acquisition costs	(29)	5
Income (loss)	48	164
Total profit from insurance operations	140	500

E. Information Regarding Business Sectors - Proforma

1. Revenues

	For the 3 months ended March 31 2006	For the year ended December 31 2006
	Unaudited	Audited
	NIS in Millions, Reported	
Israeli Fuel Sector Operations	1,066	4,455
Gas stations and convenience stores in the USA	1,390	6,181
Refinery operations in the USA	1,692	8,072
Automotive sector	1,009	4,060
Real Estate Sector	112	439
Biochemicals sector	100	366
Oil and gas exploration and production	58	268
Israel insurance sector *)	1,062	4,240
Other sectors	41	278
	6,530	28,359

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

2. Sector results *):

	For the 3 months ended March 31 2006	For the year ended December 31 2006
Israeli Fuel Sector Operations	16	94
Gas stations and convenience stores in the USA	21	143
Refinery operations in the USA	112	632
Automotive sector	107	440
Real Estate Sector	26	81
Biochemicals sector	18	55
Oil and gas exploration and production	34	154
Israel insurance sector ***)	157	543
Other sectors	3	35
Adjustments **)	(24)	(104)
Total in statements of income	470	2,073

*) Represents segment operating income.

**) Including expenses not attributed to sectors.

***) Including profit from insurance operations and general and administrative expenses and other expenses and other income of Phoenix, not included in the insurance operations.

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