Delek Group

FINANCIAL STATEMENTS

UNAUDITED

AS OF JUNE 30, 2007





IMPORTANT

This document is an unofficial translation from the Hebrew original of the June 30, 2007 financial report of Delek Group Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on August 29, 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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August 29, 2007

DELEK GROUP LTD.

Board of Directors Report on the State of the Company Affairs
For the period January-June 2007

The board of directors of the Delek Group Ltd. (hereinafter: "The Group" or "The Company") is hereby honored to present the Company's Board of Directors' Report for the six-month period ended June 30, 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 Delek the Israel Fuel Company, Ltd. (hereinafter: "Delek Israel") and in the USA via Delek US Holdings, Inc. (Hereinafter: "Delek USA").
The Company also operates Motorway Service Areas (hereinafter: "MSA") in the UK, under the RoadChef brand (hereinafter: "RoadChef"). These include filling stations operated by the acquired company, hotels, restaurants and stores.
Moreover, in August 2007, the Group completed the acquisition of the Chevron marketing operations in BENELUX (Belgium, Netherlands, Luxembourg), consisting of 803 filling stations under the Texaco brand and 66 stations under private brands (hereinafter: "The Benelux Marketing Operations"). The Benelux Marketing Operations also include convenience stores, food chain stores and carwash facilities, as detailed in Chapter 2, below.

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

C. Delek Real Estate Ltd. (hereinafter: "Delek Real Estate") – Most of the Group's operations in the real-estate sector overseas are conducted by the Group's subsidiaries, Delek Belron International Ltd. (hereinafter: "Delek Belron"), and recently also through its subsidiary 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 its Dankner Investments Ltd. subsidiary.

As at June 30, 2007, the Group holds 100% of Delek Petroleum and Delek Investments and 67.9% of Delek Real Estate.

2. Principal Operations

The Group's revenues for the reported period amounted to approximately NIS 14 billion, as compared with approximately NIS 11.8 billion in the corresponding period last year, representing an increase of approximately 19%. The Group's revenues for second quarter of 2007 amounted to approximately NIS 8.1 billion, as compared with approximately NIS 6.3 billion in the corresponding period last year, representing an increase of approximately 29%. The growth is primarily attributed to the expansion of operations at Delek USA and from the consolidation for the first time of a British company holding 29 Motorway Service Areas in the UK, under the RoadChef brand.

The operating income during the reported period amounted to approximately NIS 1,231 million, as compared with approximately NIS 839 million during the corresponding period last year, representing growth of 47%. The Group's operating income during the second quarter of 2007 amounted to approximately NIS 900 million, as compared with approximately NIS 525 million in the corresponding period last year, representing growth of 71%. The growth in the operating income is primarily attributed to the refinery and marketing operations in the United States, the expansion in the income-generating real estate sector and the consolidation for the first time of several asset companies at Delek Real Estate and a rise in the number of cars sold by Delek Automotive Systems.

The Group's net income in the reported period amounted to NIS 758 million, as compared with NIS 1,020 million in the corresponding period last year. The net income for all of 2006 amounted to approximately NIS 1,513 million.

It should be noted that the Group's net income, net of the influence of capital gains originating from the Initial Public Offerings (IPOs) of Group companies, amounted to NIS 705 million, as compared with NIS 577 million in the corresponding period last year, representing growth of 22%. In the preceding year, the Group enjoyed non-recurring capital gains of NIS 443 million from the Delek US IPO. During the reported period, the capital gains from the IPO of DGRE in London amounted to NIS 53 million.

Moreover, the Group's net income in the second quarter of 2007, net of its share in the capital gains originating from the IPOs of investee companies, amounted to NIS 380 million, as compared with net income excluding capital gains from IPOs of investee companies of NIS 267 million in the corresponding quarter last year, representing growth of 42%.

The positive working capital from general business, that amounted to NIS 890 million as at June 30, 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 insurance and finance operations. This operation contributed NIS 173 million to the Company in the first half of 2007, as compared with NIS 26 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) and from the Company's share in the capital

gains created for Delek Real Estate as a result of the DGRE public offering in the amount of NIS 53 million. On the other hand, an expenditure of NIS 58 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. Moreover, in May 2007, the Company completed an issue of Series V debentures at a volume of NIS 500 million. The said debentures were registered for trade on the Tel Aviv Stock Exchange. See also Chapter 5, below.

In March 2007, an agreement was finalized for the acquisition of the share capital of a British company that holds 29 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.

On July 31, 2007, Delek Israel completed the acquisition of the three Pi-Glilot terminals in consideration of NIS 806 million (NIS 820 million including related costs).

In August 2007, a transaction was completed whereby Delek Benelux B.V. (hereinafter: "Delek Benelux") acquired 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 (Belgium, Netherlands, Luxembourg), which includes 803 filling stations under the Texaco brand and 66 stations under private brands (hereinafter: "Benelux Marketing Operations"). The Benelux Marketing Operations also include convenience stores, food chain stores and carwash facilities. The consideration for the acquisition amounted to €342 million, before working capital adjustments. The working capital adjustments are estimated at €50 million, with the cash balance included in the working capital estimated at €38 million. At the transaction closing date, an additional sum of €34 million was paid (in addition to the €342 million) on account of the working capital adjustments, while the outstanding balance will be paid after a period of time agreed upon between the parties (approx. 4 months), so as to examine the working capital balance at the closing date. The company has guaranteed the liabilities of Delek Benelux in the sales agreement. For additional details and extensive information regarding the acquired sector of operations, see Update to Chapter A (Description of the Company's Business) in the Periodical Report.

In August 2007, Delek Israel completed an initial public offering of securities (debentures, shares and stock options). Following the offering, the Group's holdings in Delek Israel have decreased to approximately 89%. The total proceeds of the IPO to Delek Israel (prior to issuing expenses) amounted to NIS 940 million, while the gains recorded by the Group as a result of the issue of shares is currently estimated at NIS 70 million.

On July 31, 2007, subsidiaries controlled by Delek Real Estate signed an agreement whereby they would acquire, together with foreign companies, the real estate portfolio of Swiss company, Jelmoli Holding AG (hereinafter: "Jelmoli"). Jelmoli is among the leading real estate and retail companies in Switzerland. The company is traded on the Swiss stock exchange at a market cap of nearly CHF 2.9 billion. Delek Real Estate will hold 50% of the rights in the transaction. The portfolio was acquired in exchange for CHF 3.4 billion (approx. NIS 12.2 billion). The transaction is expected to close within two months. The transaction is subject to obtaining certain technical approvals and consent by third parties which have rights of refusal for several

of the properties, which if not obtained would not materially impact the scope of the transaction. Delek Real Estate is reviewing options to include other partners in the transaction.

The Board of Directors of the Company decided on August 29, 2007, to distribute dividend in the sum of approximately NIS 200 million on account of the profits in the second quarter of 2007. This sum is in addition to dividend of NIS 230 million that was already distributed this year.

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

3. Results of Operations

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

	1-3/07	4-6/07	1-6/07		4-6/06	1-6/06	2006
Fuel operations in the USA	57	212	269		156	221	337
Israeli Fuel Sector Operations	1	34	35		4	8	25
Oil and Gas Exploration and Gas Production	26	8	34		16	27	108
Oil exploration expenses(1)	(43)	(15)	(58)		-	-	-
Automotive Operations	56	71	127		42	72	151
Real Estate Operations(2)	20	62	82		101	129	235
Biochemical Operations	5	2	7		7	14	21
Insurance and Finance Operations(3)	90	83	173		1	26	109
Telecommunications Operations	2	-	2		(10)	(29)	(43)
Capital Gains and Others (4)	111	(24)	87		393	552	570
Net Income	**325**	**433**	**758**		**710**	**1,020**	**1,513**

(1) The petroleum and gas exploration operations during the reported period include an expenditure of NIS 58 million on account of the cost of petroleum exploration drillings in Guinea Bissau that were discovered to be dry – see also Chapter 6c, below.

(2) During the reported period, the real estate operations include capital gains from the IPO of the DGRE subsidiary on a London stock exchange. The Group's share in these gains amounted to NIS 53 million.

(3) The insurance and finance operations include the Phoenix results at a rate of 55.5% and Republic at a rate of 100%, as compared with the corresponding period last year, when the Phoenix results alone were included at a rate of 25%.

(4) In the reported period, 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 625 million in capital gains originating from the public offering of Delek USA, private placements of Delek Real Estate and the private placement of Delek Automotive.

(5) 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 Company's consolidated statements of income, in NIS millions:

	1-6/07	1-6/06	4-6/07	4-6/06	2006
General Operations:					
Revenues	14,076	11,796	8,106	6,328	24,118
Cost of Revenues	12,044	10,278	6,799	5,448	21,217
Gross Profit	**2,032**	**1,518**	**1,307**	**880**	**2,901**
Selling, Marketing and Gas Station Operating Expenses	505	461	280	237	930
General & Administrative Expenses	296	218	127	118	441
Operating Income	**1,231**	**839**	**900**	**525**	**1,530**
Financial Expenses, net	492	314	345	177	554
	739	**525**	**555**	**348**	**976**
Gains from realization of investments in investee and other companies, net	220	625	77	443	702
Other income, net	47	9	12	5	3
Income before taxes on income	**1,006**	**1,159**	**644**	**796**	**1,681**
Taxes on Income	270	233	162	162	404
Income after taxes on income	**736**	**926**	**482**	**634**	**1,277**
Group's share in profits of affiliates and partnerships, net	112	282	45	204	591
Minority Interest in Subsidiary Earnings, Net	(267)	(188)	(179)	(128)	(355)
Net income from general operations	**581**	**1,020**	**348**	**710**	**1,513**
Insurance Operations:					
Profit from insurance operations	494	-	275	-	-
Income from investment and others, not included in insurance operations	118	-	78	-	-
General and administrative expenses not included in insurance operations	(20)	-	(16)	-	-
Interest expenses on long-term liabilities	(118)	-	(71)	-	-
Group's Share in profits of associated companies	63	-	17	-	-
Income before taxes on income	**537**	**-**	**283**	**-**	**-**
Taxes on Income	203	-	111	-	-
Income after taxes on income, from insurance operations	**334**	**-**	**172**	**-**	**-**
Minority Interest in Subsidiary Earnings, Net	(157)	-	(87)	-	-
Net income from insurance operations	**177**	**-**	**85**	**-**	**-**
Net Income	**758**	**1,020**	**433**	**710**	**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:
The Group's results during the reported period were influenced, inter alia, by the fact that starting in April 2007, the Group has consolidated the results of operation of foreign asset companies consolidated within DGRE (hereinafter: "asset companies"), as well as the results of operation of a British company holding 29 Motorway Service Areas in the UK, under the RoadChef brand. For further details see Note 3.a to the financial statements.

Revenues
The Group's revenues during the reported period amounted to approximately NIS 14 billion, as compared with approximately NIS 11.8 billion in the corresponding period last year. The increase in revenues is primarily attributed to the first-time consolidation of RoadChef, whose revenues amounted to NIS 670 million in the second quarter, growth of NIS 800 million in revenues of the refinery and the marketing operations in the US, growth of NIS 350 million in the revenues of fuel stations in the US, resulting primarily from the expansion of operations in the US and the growth in the number of vehicles sold by Delek Automotive Systems.

The Group's revenues during the second quarter of 2007 amounted to approximately NIS 8.1 billion, as compared with approximately NIS 6.3 billion in the corresponding period last year. The growth in revenues is primarily attributed to the consolidation of RoadChef for the first time, as mentioned above, the refinery and marketing operations in the USA, the operation of fuel 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 2,032 million, as compared with approximately NIS 1,518 million during the corresponding period last year. The gross profit during the second quarter of 2007 amounted to approximately NIS 1,307 million, as compared with approximately NIS 880 million in the corresponding quarter 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.

Selling, General and Administrative Expenses
The increase in selling, general and administrative expenses during the reported period, as compared with the corresponding period last year, originates primarily from the fuel operations, on account of the expansion of operations in the gas station, convenience stores and marketing sectors in the US and in Israel, coupled with the recording of expenses on account of options granted to the managers of subsidiaries during the reported period.

Financial Expenses, net
The Group's net financial expenses for the reported period amounted to approximately NIS 492 million, as compared with approximately NIS 314 million in the corresponding period last year, representing a net increase of approximately NIS 178 million. The Group's net financial expenses for the second quarter of 2007 amounted to approximately NIS 345 million, as compared with approximately NIS 177 million in the corresponding period last year, representing a net increase of approximately NIS 168 million. Most of the growth in

financial expenses during the reported period and in the second quarter of 2007 originates from the financial results of the newly-consolidated operations, as of the second quarter (RoadChef and DGRE), amounting to NIS 150 million, coupled with growth in the average volume of the Group's liabilities in relation to the corresponding period last year.

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 for the Group (before taxes). This item also includes NIS 77 million in capital gains created at Delek Real Estate in the second quarter of 2007, as a result of the DGRE offering (the Group's share in these gains amounted to NIS 53 million). The gains of NIS 625 million that were recorded in the corresponding period last year, originated from capital gains of NIS 443 million from the Delek USA IPO on the NYSE (May 2006), earnings of NIS 124 million on the allocation of Delek Real Estate shares to Tarshish Hapoalim Holdings and Investments Ltd. and earnings of NIS 59 million from the allocation of Delek Automotive Systems shares to the CEO.

Other income, net

The growth in this item during the reported period in relation to the corresponding period last year, amounted to approximately NIS 38 million. Most of the growth is attributed to the assessment of the outstanding investment in Menora in the sum of NIS 25 million.

Group's share in profits of affiliates and partnerships, net

The Group's share in the profits of affiliates and partnerships during the reported period amounted to the sum of approximately NIS 112 million, as compared with approximately NIS 282 million in the corresponding period last year.

The Group's share in the profits of affiliates and partnerships during the second quarter of 2007 amounted to the sum of approximately NIS 45 million, as compared with approximately NIS 204 million in the corresponding period last year.

The decrease during the reported period and in the second quarter, as compared with the corresponding periods last year originates primarily from the fact that a foreign subsidiary of Delek Real Estate has gained control over associated companies, whose results have therefore been consolidated as of the second quarter of 2007. Moreover, during the reported period and in the second quarter, Phoenix was consolidated, whereas during corresponding periods last year, the Group's share in the Phoenix results were included according to the equity method as part of this item.

Minority Interest in Subsidiary Earnings, Net

The minority interest in the profits of consolidated subsidiaries during the reported period amounted to the sum of approximately NIS 267 million, as compared with approximately NIS 188 million in the corresponding period last year.

The minority interest in the profits of consolidated subsidiaries during the second quarter of 2007 amounted to the sum of approximately NIS 179 million, as compared with approximately NIS 128 million in the corresponding period last year.

The increase during the reported period and in the second quarter in relation to the corresponding periods last year is primarily attributed to the minority interest in the results of foreign companies consolidated for the first time during the reported period and during the second quarter, as mentioned above, coupled with growth in 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 net income from insurance operations during the reported period amounted to NIS 177 million. During the corresponding period last year, the Group recorded gains of approximately NIS 26 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 June 30, 2007, amounted to approximately NIS 75 billion, as compared with approximately NIS 52.4 billion as at December 31, 2006. The total assets from general operations as at June 30, 2007, amounted to approximately NIS 37.1 billion, as compared with approximately NIS 18.3 billion as at December 31, 2006. Most of the growth, in the sum of NIS 10.7 billion, originates from the consolidation for the first time of the DGRE subsidiary that is held by Delek Real Estate, that holds foreign asset companies, over which Delek Global obtained control as of April 1, 2007. These companies were therefore consolidated in the Group's financial statements as at June 30, 2007. A sum of approximately NIS 4.2 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 June 30, 2007, amounted to approximately NIS 37.8 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 June 30, 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 3,923 million, representing an increase of some NIS 2,227 million.
Most of the growth originates from cash balances of NIS 850 million and NIS 750 million at Delek Group and DGRE, respectively, originating primarily from the issue of debentures and the proceeds of the IPO at DGRE. These balances were raised in proximity to the balance sheet date and partially served for new investments by the Group, subsequent to the balance sheet date. Moreover, an increase of NIS 430 million was recorded in the cash balance and in short-term investments at Delek USA.

Accounts Receivable - Trade

An increase of NIS 695 million originates primarily from growth of NIS 250 million in accounts receivable in the automotive sector, following the growth in sales, a NIS 100 million increase from the expansion of the operations of the US refinery and marketing operations, an increase of NIS 200 million in the Israeli fuel operations, coupled with NIS 100 million from the consolidation for the first time of operations in the real estate sector.

Inventories

A decrease of NIS 125 million primarily originating from a NIS 241 million decrease in the inventories of the automotive sector, coupled with a NIS 45 million increase in the inventories of the US refinery and an increase of NIS 56 million in the inventories of Delek Real Estate, as a result of the consolidation for the first time of RoadChef.

Investments in investee and other companies

Total net investments in investee companies and others decreased by NIS 162 million.
Most of the decrease originates from a decrease of NIS 590 million in the balance of investments in foreign associated companies of Delek Real Estate, as a result of obtaining control over these companies, the sale of 12.2% of Menora shares at a cost of NIS 247

million and the classification of the outstanding investment in Menora, in the sum of NIS 44 million, as a current investment. On the other hand, an increase was recorded as a result of the acquisition of the ORL shares in the sum of NIS 235 million and the completion of the Marriott Hotel transaction by Delek Real Estate in the sum of NIS 317 million. Moreover, an increase was recorded as a result of equity gains during the reported period.

Real Estate for Rent

The balance of real estate for rent increased by approximately NIS 10,481 million. The increase originates primarily from the consolidation for the first time of foreign asset companies that as at December 31, 2006 were presented according to the equity method, as mentioned above, in the sum of NIS 9,850 million, coupled with the acquisition of an asset in Germany in the sum of NIS 576 million, coupled with the impact of exchange rate differentials.

Loans, Deposits and Long-Term Receivables

The balance of loans, deposits and long-term receivables grew by some NIS 556 million. This increase is primarily attributed to the initial consolidation of foreign asset companies, as mentioned above.

Investments in Oil and Gas Exploration

The outstanding investments in oil and gas exploration and production grew by NIS 52 million. This growth is primarily attributed to investments of NIS 45 million in the Vietnam project, in addition to investments on account of the Group's share in investments in the permanent natural gas reception facility in Ashdod, that were offset by depreciation and amortization of gas and oil assets at the Yam Tethys project.

Fixed Assets

Fixed assets increased by approximately NIS 4.3 billion, net. This growth is primarily attributed to the first-time consolidation of RoadChef, as mentioned above, in the sum of NIS 4 billion, coupled with the acquisition of fuel stations in the USA in the sum of NIS 0.3 billion.

Other assets

Other assets increased by approximately NIS 803 million, net. The growth is primarily attributed to goodwill of NIS 600 million that was attributed to companies that were consolidated for the first time at Delek Real Estate as mentioned above, coupled with growth in deferred tax balances in the sum of NIS 150 million.

Short-Term Credit from Banks and Others

An increase of NIS 875 million was recorded, primarily from the initial consolidation of RoadChef, as mentioned above.

Accounts Payable to Suppliers and Service Providers

An increase of NIS 793 million, primarily as a result of growth of NIS 386 million in the accounts payable balance at Delek Automotive and NIS 159 million in the accounts payable balance at Delek Israel, growth of NIS 121 million originating from the initial consolidation of RoadChef as mentioned above, and growth of NIS 87 million in the accounts payable balance of fuel stations in the USA.

Other Accounts Payable
An increase of NIS 826 million was recorded, approximately NIS 400 million originating from the initial consolidation of the companies at Delek Real Estate as mentioned above, and additional growth of NIS 500 million at Delek Real Estate.

Long-Term Loans
Net growth of NIS 9.7 billion was recorded, originating primarily from long-term loans in the sum of NIS 8 billion due to the initial consolidation of companies at DGRE, as mentioned above (primarily non-recourse loans that served for the acquisition of the income-generating assets), coupled with additional growth in loans from Delek Belron, on account of the acquisition of the Motorway Service Areas operation, in the sum of NIS 1.3 billion. An increase was also recorded in the loan balance at Delek USA in the sum of NIS 360 million.

Other Debentures
An increase of NIS 3,326 million was recorded, originating primarily from the initial consolidation of RoadChef, as mentioned above, in the sum of NIS 1,630 million, coupled with the issue of debentures at the Company and by Delek Real Estate in the sum of NIS 850 million and NIS 1,110 million, respectively.

Accrued Severance Pay, Net
An increase of NIS 57 million was recorded, primarily from the initial consolidation of RoadChef.

Deferred Taxes
An increase of NIS 1,128 million was recorded, primarily from the initial consolidation of DGRE and RoadChef.

Other Liabilities
An increase of NIS 279 million was recorded, originating primarily from the initial consolidation of RoadChef, as mentioned above, in the sum of NIS 77 million, on account of deferred revenues, coupled with the benefit on account of options granted to the CEO of Delek Israel in the amount of NIS 38 million.

Minority Interest
An increase of NIS 1,704 million was recorded, originating primarily from the minority interest at DGRE and the minority at its asset companies. The growth is also attributed to the minority interest in the earnings of investee companies.

Shareholders' Equity
As at June 30, 2007, the Group's shareholders' equity totaled NIS 4,067 million, as compared with NIS 3,447 million at December 31, 2006.
The growth in shareholders' equity originates primarily from earnings during the reported period in the sum of NIS 758 million, net of dividend declared in the sum of NIS 230 million. An increase was also recorded in a reserve from translation differences in the sum of NIS 98 million.

Pending Claims
The Company's CPAs draw attention, in their Opinion, to lawsuits against investee companies. For details see Note 5 to the financial statements.

The following are the principal changes in the balance sheet items of assets and liabilities from insurance operations, as at June 30, 2007, as compared with December 31, 2006:

Insurance operations assets

The total assets of the insurance operations as at June 30, 2007, amounted to approximately NIS 37.8 billion, as compared with approximately NIS 34.1 billion as at December 31, 2006. Most of the growth originates from the investments item as a result of growth in assets included in the investment portfolios of profit-participating policies.

The total liabilities of the insurance operations as at June 30, 2007, amounted to approximately NIS 34.4 billion, up from approximately NIS 31.1 billion as at December 31, 2006. Most of the growth originates from the insurance reserves item in parallel to growth in assets included in the investment portfolios of profit-participating policies and from the issuing of debentures in the sum of NIS 600 million.

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 4 to the Financial Statements. In June 2007, the Company registered its Series M debentures for trade on the Tel Aviv Stock Exchange.

B. In June 2007, the Company held a public offering of Series V debentures in the sum of NIS 500 million. For additional details, see Note 4 to the Financial Statements.

C. 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 V debentures that were issued in June 2007.

D. The conversion of debentures and exercise of option warrants for shares in the Company - In the reported period, convertible debentures and option warrants were converted in the sum of approximately NIS 14 million for shares in the Company. For details see Note 6 to the financial statements.

E. Surplus financial liabilities of the Company (in the non-consolidated financial statements) as at June 30, 2007, totaled approximately NIS 146 million (including a total of approximately NIS 2,591 million in net loans to Group companies).

The surplus financial liabilities of Delek Investments (in the non-consolidated financial statements of Delek Investments) as at June 30, 2006, totaled approximately NIS 1,046 million (including a total of approximately NIS 551 million in net loans from Group companies). We emphasize that the investments of Delek Investments in the shares of Menora and ORL were not counted as financial assets in the calculation of the net surplus financial liabilities of Delek Investments.

The surplus financial liabilities (in the non-consolidated financial statements) of Delek Hungary (which is the direct parent company of Delek USA), as at June 30, 2007, amounted to NIS 123 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 June 30, 2007, amounted to NIS 2,103 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.

6. Analysis by Sectors of Operation

A. Delek USA

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

	1-6/07			1-6/06		
	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	4,528	3,393	7,921	3,738	3,037	6,775
Gross Profit	573	395	968	437	343	780
Selling and Station Operation Expenses	-	310	310	-	258	258
Attributed General & Administrative Expenses	33	31	64	26	23	49
Profit before mutual expenses	540	54	594	411	62	473
General & Administrative Expenses			56			29
Operating Income			538			445
Other Income			-			-
Financial Expenses			44			41
Income Before Taxes			494			404
Net Income			**347**			**266**

	4-6/07			4-6/06		
	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	2,528	1,997	4,525	2,047	1,647	3,694
Gross Profit	418	227	645	314	187	501
Selling and Station Operation Expenses	-	175	175	-	134	134
Attributed General & Administrative Expenses	18	16	34	16	12	28
Profit before mutual expenses	400	36	436	298	41	339
General & Administrative Expenses	-	-	26			16
Operating Income			410			323
Financial Expenses			20			18
Income Before Taxes			390			305
Net Income			**273**			**201**

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

	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**		

Delek USA operates a refinery with a maximum production capacity of 60,000 barrels per day, a pipeline for the transportation of crude oil and a network of terminals for the marketing of fuel, which are located in the State of Texas, USA, as well as gasoline stations and convenience centers in eight neighboring states in the southeastern United States. The Group's holding percentage in Delek USA amounts to approximately 77% as at the balance sheet date.

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 totaling approximately 114 miles in length, which connect between the Delek USA 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, in consideration of the sum of approximately $69.5 million. The gasoline and convenience stores are located in the area of eastern Tennessee and Georgia, and operate under the brand name Favorite Markets. In the second quarter of 2007, the acquisition of 103 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.

On July 16, 2007, Delek USA signed agreements with several Lion Oil shareholders for the acquisition of their minority shareholdings in the Company, pursuant to which Delek USA would acquire approximately 28.3% of the Lion Oil shares for an investment of $65.4 million in cash. In addition, pursuant to one of the agreements, Delek USA would issue 1,916,667 ordinary shares (3.7% of its issued shares) to TransMontaigne, a wholly-owned

subsidiary of Morgan Stanley Capital Group Inc. The transaction was completed in August 2007 and Delek US allocated the said shares. Subsequent to the offering, the Group holds 74% of the Delek US capital (concatenated) and estimates that the gains stemming for the group as a result of the said allocation are currently estimated at between NIS 110 and 125 million (based on the Delek US financial statements as at June 30, 2007 and other estimates).

Moreover, on August 23, 2007, Delek US announced having signed an additional agreement for the acquisition of 6.24% of the shares of Lion Oil. Subsequent to the closing of the transaction, the Delek US holdings in Lion Oil are expected to amount to 35%. In consideration of the acquisition of these shares, Delek US will pay approximately $23 million in cash. The closing of the transaction is contingent upon standard closing terms, including obtaining regulatory approval. The transaction is expected to be closed in the course of the third quarter of 2007.

Lion Oil is a privately-held company that operates a refinery with a capacity of 75 thousand barrels of oil a day, located in El Dorado, Arkansas. Lion Oil also owns three crude oil pipelines and two oil marketing terminals in Nashville and in Memphis (Tennessee), through which the company markets fuel to third parties, including to Delek USA, that operates 188 gas stations and convenience stores in these areas.

The contribution of Delek USA to the Group's net income in the reported period amounted to approximately NIS 269 million, as compared with approximately NIS 221 million in the corresponding period last year. The contribution of Delek USA to the Group's net income in the second quarter of 2007 amounted to approximately NIS 212 million, as compared with approximately NIS 156 million in the corresponding quarter last year.

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

Sales

The sales of Delek USA amounted to NIS 7,921 million during the reported period , as compared with NIS 6,775 million during the corresponding period last year. The increase is primarily attributed to the following factors:

- Sales of Delek Refining, including Delek Marketing and Supply, amounted to approximately NIS 4,528 million in the reported period, as compared with approximately NIS 3,738 million in 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 756 million.**

- Sales by fuel stations and convenience stores amounted to approximately NIS 3,393 million during the reported period , as compared with approximately NIS 3,037 million in the corresponding period last year. Most of the growth is attributed to the additional sales of 150 stations that were acquired subsequent to July 2006, coupled with average growth of approximately 3.6% in fuel prices.

Gross Profit

The gross profit in the reported period amounted to NIS 968 million, as compared with NIS 780 million in the corresponding period last year. This growth is primarily attributed to the growth in the refining margins during the reported period in relation to the corresponding period last year, from the acquisition of the marketing operations and from the rise in the volume of operations and gross margins of the convenience stores and fuel stations - primarily on account of the acquisition of new stations.

Operating Income

The operating income in the reported period amounted to NIS 538 million, as compared with NIS 445 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 relation to the corresponding period last year, coupled with the profitability of the marketing operations that began in the second half of 2006, as mentioned above, and the additional profitability on account of the operations of the fuel stations and convenience centers that were added subsequent to June 2006.

Net Income

The net income in the reported period amounted to NIS 347 million, as compared with NIS 266 million in the corresponding period last year.

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:

	1-6/07	1-6/06	4-6/07	4-6/06	2006
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	2,182	2,259	1,183	1,194	4,449
Gross Profit	290	267	152	148	519
Operating Income	62	51	51	35	89
EBITDA	127	80	70	48	153
Financial Expenses	24	37	10	23	59
Net income before share in Delek USA results	33	7	34	3	22
Delek Israel's portion of Delek USA's results	9	23(*)	7	21(*)	26(*)
Net Income	**42**	**30**	**40**	**24**	**48**

(*) Including capital gains of NIS 15 million from the offering of Delek USA.

The Group's operations in the Israeli fuel sector are performed by Delek Israel.
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 sells its products to 230 public gasoline stations in Israel.

On July 31, 2007, Delek Israel completed the acquisition of the fuel distribution and storage operations of Pi Glilot Oil Terminals and Pipes Ltd. (hereinafter: "Pi Glilot"), having submitted the highest proposal in the tender for the acquisition of Pi Glilot, on June 5, 2007. The proceeds of the acquisition amounted to NIS 820 million (including related expenses).

In August 2007, the transaction of the Benelux Marketing Operations from Chevron was completed (see Chapter 2, above). Delek Israel's share in the transaction is 20% and the volume of its investments amounted to NIS 170 million.

In August 2007, Delek Israel - whose shares were wholly-owned by the Group - completed an initial public offering of securities and debentures on the Tel Aviv Stock Exchange. The proceeds of the IPO on account of shares and debentures amounted to NIS 918 million (net of issuing expenses). Pursuant to the offering, the Group's holding rate in Delek Israel has decreased to approximately 89%, while the gains expected to be recorded by the Group are currently estimated at NIS 70 million.

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

Revenues

Fuel sales amounted to approximately NIS 2,182 million during the reported period , as compared with approximately NIS 2,259 million in the corresponding period last year (down 3.4%). Net sales in the second quarter of 2007 amounted to NIS 1,183 million, as compared with NIS 1,194 million in the corresponding quarter last year, representing a decrease of NIS 11 million, or 0.9% in relation to the sales in the corresponding quarter last year.

The decrease in net sales is primarily attributed to the decrease in fuel prices, as compared with the corresponding periods last year, as a result of the decrease in fuel prices in the global market, that was partially offset by a quantitative increase during the reported period.

Gross Profit

The gross profit in the reported period amounted to NIS 290 million, as compared with NIS 267 million in the corresponding period last year. The increase is primarily attributed to the improved margins and was somewhat offset by a decrease in inventory earnings during the reported period, as compared with the corresponding period last year.

The gross profit in the second quarter of 2007 amounted to NIS 152 million, as compared with NIS 148 million in the corresponding quarter last year. This increase is primarily attributed to improved margins as a result, inter alia, of improved trading conditions opposite suppliers (primarily imports) that was somewhat offset by a decrease in inventory earnings in the second quarter, as compared with the corresponding quarter last year.

It should be noted that the gross margin is determined as a sum denominated in NIS in relation to a measuring unit, rather than as a percentage of selling prices or the cost of fuel. Consequently, when prices rise, the accounting margin remains unchanged. It should also be noted that the gross margin is also influenced by a rise or drop in global fuel prices. When fuel prices rise, the value of inventories upon realization also rises and the gross profit consequently increases. When prices drop, inventory values are reduced to market prices, thereby creating an immediate loss for the company as a result of the price decrease.

Operating Income

The operating income in the reported period amounted to NIS 62 million, as compared with NIS 51 million in the corresponding period last year. Net of the provision on account of stock options to the CEO, the operating income amounts to NIS 100 million, representing an increase of NIS 49 million, in relation to the corresponding period last year. This increase is attributed primarily to an improvement in gross margins, lower doubtful debts and improved operational efficiency.

The operating income in the second quarter of 2007 amounted to NIS 51 million, as compared with NIS 35 million in the corresponding quarter last year. Net of the provision on account of stock options to the CEO this quarter, the operating income amounts to NIS 57 million, representing an increase of NIS 22 million, in relation to the corresponding quarter last year. Most of this increase is attributed to higher profit margins, lower doubtful debts and improved operational efficiency.

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

Additional Information

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

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:

	1-6/07	1-6/06	4-6/07	4-6/06	2006
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	150	109	72	51	268
Operating Income	16	63	17	29	154
EBITDA	55	90	37	41	223
Financial Expenses	45	32	30	11	43
The Group's share in results of Avner	19	16	8	9	43
Net Income (loss)	**(26)**	**27**	**(9)**	**16**	**108**
Gas sales in BCM (*)	1.2	0.9	0.6	0.4	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 loss incurred by the Group from this sector in the reported period, amounting to NIS 26 million, originates primarily from the abandoning of the two drills in Guinea Bissau. The Group recorded a loss of NIS 58 million from the Guinea Bissau project during the reported period, as stated above. The Group's profit, net of the cost of abandoned drills in Guinea Bissau, totals NIS 32 million, as compared with profit of NIS 27 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.

During the reported period, Delek International established a subsidiary that participates in exploration is block f21/20 in the British North Sea.
Delek International also participated in exploration activities at an offshore project in Guinea Bissau in West Africa.
Subsequent to the reported period, Delek International has entered into a set of agreements whereby it would invest $14 million in VOGIL, a company active in the purchase of oil tankers and their conversion into floating oil production platforms, in exchange for the allocation of 24.2% of the VOGIL shares.

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

D. The Group's holding percentage in DES is approximately 89%.

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 130 million, as compared with NIS 109 million in the corresponding period last year, representing growth of 19%. This growth is after offsetting the impact of the 9% 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 reported period 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, as of the third quarter of 2006. Moreover, the increase in revenues during the reported period 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 to the national natural gas transmission system.
During the reported period, the revenues from the sale of natural gas were presented net of NIS 6 million (identical to the corresponding period last year), 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.

B. During the reported period, revenues of NIS 20 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 61 million, originate primarily from expenses on account of the two drills that were abandoned in Guinea Bissau, in the amount of NIS 58 million, representing $14 million. Expenses of $8.6 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 $5.4 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 in the second quarter of 2007, primarily on account of the second drill, amounted to $3.7 million, while the remaining expenses were allocated in the first quarter of 2007. We further note that growth of NIS 2 million originates from expenses associated with the purchase of seismic surveys in the marine areas for which the Alon and Ruth preliminary permits were obtained, adjacent to the licenses of Delek Drilling Partnership. These licenses have yet to be transferred from the general partners to the partnerships.

Operating Income

The operating income in the reported period amounted to NIS 16 million, as compared with NIS 63 million in the corresponding period last year. The decrease in operating income is primarily attributed to expenses related to the drills abandoned in Guinea Bissau, in the amount of NIS 58 million, as mentioned above.

The operating income, net of the cost of the abandoned drills in Guinea Bissau, totals NIS 74 million in the reported period, as compared with operating income of NIS 63 million in the corresponding period last year.

Financial Expenses

The financial expenses for the reported period amounted to approximately NIS 45 million, as compared with approximately NIS 32 million in the corresponding period last year, representing an increase of approximately NIS 13 million. Most of the growth in financial expenses originates from expenses associated with future transactions that were performed in the past by the Aries One partnership, in the sum of NIS 9 million. Moreover, an increase was recorded in the financial expenses in the reported period as compared with the corresponding period last year, originating from dollar-denominated loans that were assumed, coupled with the fact that during the reported period, the NIS was devaluated by 0.57%, as compared with a revaluation of approximately 3.54% in the corresponding period last year. The devaluation of the NIS during the reported period led to expenses from exchange rate differentials of NIS 5 million, as compared with revenues from exchange rate differentials of NIS 6 million last year.

Furthermore, a decrease was recorded in financial expenses during the reported period due to a 0.27% increase in the Known CPI during the reported period, as compared with a CPI increase of 1.26% in the corresponding period last year, that led the Company to record expenses in the reported period on account of linkage

differentials in the sum of NIS 3 million, as compared with NIS 7 million in linkage differential expenses in the corresponding period last year.

2) Additional Information

For additional information regarding investments in oil and gas exploration and production, see Note 3g to the financial statements.

D. Automotive Operations

The following are the results of operation of Delek Automotive Systems (hereinafter: "Delek Automotive"):

	1-6/07	1-6/06	4-6/07	4-6/06	2006
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	2,335	2,143	1,160	1,134	4,060
Gross Profit	359	248	189	126	496
Selling, Marketing, General and Administrative Expenses	32	28	17	13	59
Operating Income	326	220	172	113	438
EBITDA	332	224	174	115	447
Financial Revenues (Expenses)	(12)	(25)	0.3	(15)	(38)
Net Income	**221**	**137**	**121**	**70**	**273**

The Group holds 55.4% of Delek Automotive as at the balance sheet date. Delek Automotive is a company whose shares are publicly traded and whose financial statements are made public.

The contribution of the automotive sector to the Group's net income in the reported period amounted to approximately NIS 127 million, as compared with approximately NIS 72 million in the corresponding period last year. The contribution of the automotive sector to the Group's net income in the second quarter of 2007 amounted to approximately NIS 71 million, as compared with approximately NIS 42 million in the corresponding quarter last year.

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

The following is the distribution of vehicle sales, by units:

	1-6/07	4-6/07	1-6/06	4-6/06	2006
Mazda vehicles	14,042	7,578	12,441	6,530	22,883
Ford vehicles	7,765	3,444	6,873	3,749	13,220
Total vehicle sales	**21,807**	**11,022**	**19,314**	**10,279**	**36,103**
Delek Automotive's market share out of total vehicle sales in Israel (Ministry of Transport Licensing Bureau figures)	23%	22%	25%	29%	23%

Delek Automotive is currently launching several new models, some of which will constitute a penetration into new market segments for the company. These include Mazda 2 and the S-MAX minivan for example, that was selected as Car of the Year in Europe for 2007.

Revenues

The turnover of Delek Automotive amounted to NIS 2,335 million during the reported period , as compared with NIS 2,143 million during the corresponding period last year. The sales turnover amounted to NIS 1,160 million in the second quarter, as compared with NIS 1,134 million in the corresponding quarter last year.

The increased turnover originates primarily from the rise in the number of vehicles sold, while the average selling price per vehicle decreased during the reported period as a result of a decrease in car prices due to changes in the exchange rate and the lowering of the sales tax.

Selling, Marketing, General and Administrative Expenses

The selling and marketing expenses increased in the reported period and in the second quarter of 2007, as a result of an increase in advertising expenses and agent commissions paid, in relation to the corresponding periods last year.

General and administrative expenses rose during the reported period and during the second quarter of 2007, primarily as a result of the recording of the economic benefit inherent in the granting of options to the employees, that was recorded only in part of the corresponding period last year.

Financial Expenses, net

Net financial revenues of NIS 0.3 million were recorded by Delek Automotive in the second quarter, as compared with expenses of NIS 15 million in the corresponding quarter last year. Financial expenses of NIS 21 million for Delek Automotive in the current quarter were offset by revenues created as a result of customer interest charges of NIS 5 million, coupled with the recording of an increase in the value of investments in shares of Ford Motor Co. in the sum of NIS 16 million.

E. Real Estate Operations

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

	1-6/07	1-6/06	4-6/07	4-6/06	2006
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues from rental, sale of apartments, sales and provision of services	1,142	205	999	92	439
Cost of Revenues	825	120	737	55	270
Selling, General and Administrative Expenses	48	49	26	27	97
Financial Expenses	317	124	257	77	234
Gains from offerings and other gains	98	4	86	4	28
Share in earnings of affiliates	93	325	31	246	536
Net Income	**125**	**181**	**91**	**142**	**330**
Total Assets	23,126	5,259	23,126	5,259	6,629

Total assets as at June 30, 2007, amounted to approximately NIS 23,126 million, as compared with approximately NIS 6,629 million as at December 31, 2006. A sum of NIS 4.2 billion originates from 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 (hereinafter: "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.

Additional growth in assets of NIS 10.1 billion originates from the first-time consolidation of companies that were previously presented according to the equity method of accounting and whose assets were not consolidated in the Delek Real Estate financial statements. The acquisition of control over these companies was made simultaneously with the completion of the DGRE IPO on the London Aim exchange.

Results of Operations

The contribution of the real estate sector to the Group's net income in the reported period amounts to approximately NIS 81 million, as compared with approximately NIS 129 million in the corresponding period last year. The contribution of the real estate sector to the Group's net income in the second quarter of 2007 amounted to approximately NIS 62 million, as compared with approximately NIS 101 million in the corresponding quarter last year.

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

Delek Real Estate's net income during the second quarter of 2007 amounted to approximately NIS 91 million, as compared with approximately NIS 142 million in the corresponding period last year. The main influences on the quarterly statement of income, as compared with the corresponding period last year:

- No net revenues were recorded this quarter on account of the valuation of assets, as compared with NIS 232 million in the corresponding quarter last year.
- The impact of depreciation and amortization amounts to NIS 66 million, as compared with NIS 9 million in the corresponding quarter last year and originates, inter alia, from the introduction of associated companies into consolidation. These companies were previously reported under IFRS, so no depreciation is necessary.

Moreover, revenues of NIS 77 million were recorded in the quarter from the offering of the Delek Global sub-subsidiary.

The results of operation of Delek Real Estate reflect operations in several sectors, including income-generating real estate overseas, development of residential construction and the development of office and commercial buildings.

The following are details of the principal changes in the results of operation for the six-month and three-month periods of 2007, as compared with the corresponding period last year.

Rental revenues overseas

The following is a detailed breakdown of rental revenues, by geographic location of the assets:

	First half		Q2	
	2007	2006	2007	2006
	NIS millions		NIS millions	
UK	148	22	137	11
Canada	109	107	58	50
Finland	34		19	
Germany	42		38	
Switzerland	11		11	
Sweden	2		2	
Total	347	129	266	61

The rental revenues in the first six months of 2007 amounted to NIS 347 million, representing 30% of total revenues, as compared with NIS 129 million in the first six months of 2006, representing 27.6% of total revenues at the time.

The increase is primarily attributed to the acquisition of assets in Germany (Anchor Falls) and in Finland (Neste Oil) in the last quarter of 2006, that contributed to the rise in rental revenues of NIS 40 million and the rise in the holding rates in associated companies that were consolidated for the first time in the second quarter of 2007, in the sum of NIS 173 million.

Operations in Motorway Service Areas

As mentioned above, starting April 2007, Delek Real Estate is including the results of these operations in its financial statements.

		For the 3 and 6-month period ended June 30, 2007
		Unaudited
		NIS millions, reported
Revenues from MSA operations		**673**
Cost of Revenues		(627)
Financial Expenses		(56)
Tax benefit		5
Loss		(4)

Residential Development and Construction in Israel

During the six-month period in 2007, sales contracts were signed in projects in which Delek Real Estate is partner to, for 226 apartments, in consideration of a total of NIS 226 million, as compared with 110 apartments, in consideration of NIS 101 million, in the corresponding period last year.

Income-generating and commercial real-estate development in Israel

	First half			**Q2**		
	2007		**2006**	**2007**		**2006**
	NIS millions					
Rental Revenues	32		23	17		12

The increase in the volume of rental revenues, in the sum of NIS 9 million in the six-month period of 2007, as compared with the corresponding period last year, originates primarily from revenues from new income-generating assets, acquired at the end of 2006 and in the first half of 2007, in the sum of NIS 5 million, and from an income-generating asset that was acquired in the first quarter of 2006 and whose contribution to revenues in 2007 was recorded throughout the entire period.

Gains from issue of shares at a consolidated subsidiary and other income, net

Gains from issue of shares at a consolidated subsidiary and other income, net, during the reported period, amounted to NIS 98 million, consisting primarily of capital gains from the offering of the Delek Global subsidiary, in the sum of NIS 77 million, coupled with dividends of NIS 7 million, from an investment in Industrial Buildings.

Company's share in earnings of associated companies, net

Delek Real Estate's share in the profits of associated companies during the six-month period in 2007 amounted to NIS 93 million, as compared with NIS 326 million in the corresponding period last year.

The following is a breakdown of earnings from associated companies, by the country where the asset is held:

	First half			Q2		
	2007		2006	2007		2006
	NIS millions					
UK	46		143	2		78
Linchfield	12		27			11
Germany	2		119	0		116
Scandinavia	1		5			4
Switzerland	2		40	1		38
Canada	5		3	3		2
Israel	25		(12)	26		(2)
Total	**93**		**326**	**31**		**246**

In light of the introduction into consolidation of most of the associated companies starting in the second quarter of 2007, the relative weight of this item in the statement of income has decreased significantly. Moreover, the decrease in the volume of revenues from associated companies originates from profit from the valuation of assets, net, in the sum of NIS 43 million in the first six months of 2007, as compared with NIS 291 million (including valuation on account of an asset sold in the second half of 2006) in the corresponding period last year.

Financial Expenses

The financial expenses in the first half of 2007 amounted to approximately NIS 317 million, as compared with an expense of approximately NIS 124 million for the corresponding period last year. The NIS 193 million increase in financial expenses is primarily attributed to the entry into consolidation of asset companies in the UK (primarily Linchfield and RoadChef), in Germany and in Finland in the fourth quarter of 2006 and in the first quarter of 2007, coupled with the issuing of debenture series.

Additional Information

For additional details regarding the real estate operations, see Note 3A to the financial statements.

F. Biochemical Operations

Following below are the results of operations of Gadot Biochemical Industries Ltd. (hereinafter: "Gadot"):

	1-6/07	1-6/06	4-6/07	4-6/06	2006
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	187	199	88	99	366
Gross Profit	40	66	18	34	111
Operating Income	17	37	6	19	55
EBITDA	25	44	10	22	73
Financial Expenses (Revenues)	1	5	(0.3)	3	9
Tax Expenses	5	9	3	4	14
Net Income	11	23	3	11	32

Gadot is a manufacturer of food additives and chemicals for the food, health additives, detergents and toiletries industries. Gadot is a company whose shares are publicly traded and in which the Group holds 64.11% as at the balance sheet date.
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.

On May 4, 2007, a wholly-owned foreign subsidiary of Gadot (Gadot BioChem USA, Inc.) signed an agreement to acquire 85% of the issued and outstanding capital of Pharmline Holding Inc., 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"). The transaction was concluded in June 2007. In consideration for the acquisition of the acquired company's shares, the Gadot subsidiary has undertaken to pay the acquired company's shareholders, upon conclusion of the transaction, $11.3 million in cash (the total cost of the acquisition amounts to $12.2 million). The acquisition was financed primarily by external bank financing.

The contribution of the biochemical sector to the Group's net income in the reported period amounted to approximately NIS 7 million, as compared with approximately NIS 14 million in the corresponding period last year. The contribution of the biochemical sector to the Group's net income in the second quarter of 2007 amounted to approximately NIS 2 million, as compared with approximately NIS 7 million in the corresponding quarter last year.

Results of Operations

Revenues

Gadot's revenues during the reported period amounted to NIS 187 million, as compared with approximately NIS 199 million in the corresponding period last year, representing a decrease of approximately 6%. The revenues in the reported period include deferred revenues of NIS 15 million that were recognized in the first quarter as a result of the non-exercise of an option to extend the agreement with Roquette for an additional five years. The decrease in revenues originates from a non-recurring decrease in sales due to a manufacturing limitation, coupled with the impact of the change in the exchange rate of the US dollar vis-à-vis the NIS.

Gross Profit

The gross profit during the reported period amounted to approximately NIS 40 million, as compared with approximately NIS 66 million during the corresponding period last year, representing a decrease of approximately 39%. The decrease in the gross profit originated inter alia from an increase in costs (primarily sugar and energy), from the loss of fructose output capacity as a result of special maintenance work that is conducted once every few years, a change in the product mix and the impact of changes in the US dollar exchange rate vis-à-vis the NIS. Gadot consumed approximately 25,000 tons of sugar in the reported period, at an average cost that is $143 per ton higher than during the corresponding period last year. The gross profit, net of the impact of deferred revenues that were recognized during the first quarter amounts to NIS 25 million.

Selling and Marketing Expenses

Selling and marketing expenses during the reported period amounted to NIS 18 million, as compared with NIS 23 million in the corresponding period last year. The decrease in expenses 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 17 million, as compared with NIS 37 million in the corresponding period last year. The operating income during the reported period, net of the impact of deferred revenues that were recognized in the first quarter, amounts to approximately NIS 1 million. As mentioned above, the decrease in the operating margin 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.

Financial Expenses

Financial expenses for the reported period amounted to NIS 1 million, as compared with approximately NIS 5 million in the corresponding period last year. The decrease in financial expenses originated primarily from financial revenues created from the assessment of customers whose balance is denominated in euros, as a result of the rise in the euro exchange rate in relation to the corresponding period last year. Moreover, the rise in the CPI during the reported period, that was lower in relation to the corresponding period last year, served to decrease Gadot's financial expenses on account of convertible debentures.

Net Income

The operating income in the reported period amounted to NIS 11 million, as compared with NIS 23 million in the corresponding period last year. Net of the impact of the deferred revenues that were recognized in the first quarter, Gadot recorded a loss of approximately NIS 1 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 and finance sector are concentrated under Delek Capital Ltd., in which the Delek Group holds 94%, other than the direct holding of Delek Investments in Phoenix Holdings Ltd., at a rate of 29.7%.

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

On the basis of publications by the Association of Israeli Insurance Companies – based on the December 2006 data, the Phoenix Insurance subsidiary commands an 11.8% 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%:

	1-6/07	**1-6/06**	**4-6/07**	**4-6/06**	**2006**
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit from life insurance	302	125	198	22	374
Profit from general insurance	167	60	74	8	190
Revenues from investments and other income, net	90	54	62	33	67
Interest expenses on long-term liabilities	(35)	(31)	(29)	(20)	(39)
Net income from other companies and insurance agencies	5	15	5	12	19
General & administrative expenses not allocated to the insurance business statements	(20)	(26)	(15)	(19)	(44)
Income Before Taxes on Income	**509**	**198**	**296**	**36**	**567**
Taxes on income	202	71	116	6	206
Phoenix's share in net results of investee companies and minority interest in net results of consolidated subsidiaries	50	14	12	2	21
Net income before extraordinary item	**356**	**141**	**193**	**33**	**382**
Extraordinary item	178	-	-	-	-
Net Income	**534**	**141**	**193**	**33**	**382**

The profit from insurance operations (general and life insurance) during the reported period amounted to NIS 469 million in the reported period, as compared with NIS 185 million in the corresponding period last year, representing an increase of 153%. Most of the increase in income originates from growth in investment revenues during the current period, in relation to last year. See the analysis of the general and life insurance statements, below.

The net income in the reported period amounted to NIS 533.9 million, as compared with NIS 141.1 million in the corresponding period last year. The net income in the reported period includes earnings of NIS 177.5 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 reserve for special life insurance risks, that was fully amortized in parallel to the liberation of the reserve. The net income from current operations in the reported period amounted to NIS 356.4 million, as compared with NIS 141.1 million in the corresponding period last year, representing an increase of 152.6%.

Analysis of the Life Insurance and Long-Term Savings Sector

The profit from life insurance in the reported period amounted to NIS 301 million, as compared with NIS 125 million in the corresponding period last year, representing an increase of 141%.

The premiums in the reported period amounted to NIS 1,315 million, as compared with NIS 1,260 million in the corresponding period last year, representing an increase of 4.4%.

The payouts in the reported period amounted to NIS 351 million, as compared with NIS 355 million in the corresponding period last year, representing a decrease of 1%. The proportion of payouts to the gross life insurance reserves as at June 30, 2007 and June 30, 2006, is approximately 1.61% and 1.84%, respectively.

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 (NIS millions):

	1-6/2007	**1-6/2006**
	NIS millions	NIS millions
Profit of investments attributed to policy holders, after management fees	1,149	231
Management fees	233	53

Analysis of the General Insurance Sector

The profit from general insurance in the reported period amounted to NIS 167 million, as compared with NIS 60 million in the corresponding period last year, representing an increase of 177%.

The revenues from premiums and fees in the reported period amounted to NIS 1,180 million, as compared with NIS 1,199 million in the corresponding period last year, representing a decrease of 1.6%.

The investment revenues in the reported period amounted to NIS 164 million, as compared with NIS 86 million in the corresponding period last year, representing an increase of 91%. 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 six-month period ended June 30, 2007, in general insurance, by sector:

	Gross %	**Self Residual %**
Compulsory vehicle insurance	12.2	14.7
Property vehicle insurance	27.9	35.2
Other property insurance	24.6	14.4
Other insurance liabilities	11.4	11.8
Health and hospitalization insurance	21.5	22.1
Other insurance sectors	2.4	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) On August 27, 2007, the Phoenix board of directors decided to distribute dividend to the shareholders in the sum of NIS 210 million, subject to the approval of the general meeting of Phoenix shareholders, that is expected to be distributed in October 2007.

(C) Significant declines were recorded in the capital markets in Israel and worldwide at the end of July and in August 2007. Fluctuations in the capital markets possess an influence on the profitability of Phoenix.

(D) In light of the fact that it is impossible to predict the expected developments on the capital market, it is still too early to estimate the consequences of these declines on the Phoenix business results.

(E) On August 28, 2007, Phoenix received authorization from the Securities Authority for the publication of a prospectus for the registration for trade of debentures (Series 1) and the publication of shelf registration. Moreover, authorization was obtained from the Stock Exchange, to register for trade on the Tel Aviv Stock Exchange, debentures (Series 1) in the sum of approximately NIS 600 million, as of September 5, 2007.

(F) 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 9 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 494 million in the reported period, as compared with NIS 153 million last year, representing an increase of 222%. Most of the growth is attributed to general insurance operations.

The net income from insurance operations, before minority interest, in the reported period amounted to NIS 334 million, as compared with NIS 123 million.

The earnings from life insurance in the reported period amounted to 281 million, as compared with NIS 106 million in the corresponding period last year.

The earnings from general insurance in the reported period amounted to 213 million, as compared with NIS 47 million in the corresponding period last year.

2) Delek Finance US Inc. (hereinafter: "Delek Finance")

Delek Finance is a US holding company that holds Republic Companies Inc. (hereinafter: "Republic"), a company that holds insurance companies and agencies and deals primarily in property and casualty insurance, primarily in the states of Texas, Louisiana, Oklahoma and New Mexico.

The following are the results of the operations 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):

	1-3/2007	**4-6/2007**	**1-6/2007**
	NIS millions	NIS millions	NIS millions
Profit from general insurance operations	41	19	60
Revenues from investments and other income, net	3	1	4
Interest expenses on long-term liabilities	(23)	(22)	(45)
Income (Expenses), net, from other companies and insurance agencies	10	9	19
General & administrative expenses (revenues) not allocated to the insurance business statements	(2)	1	(1)
Income Before Taxes on Income	**33**	**6**	**39**
Taxes on income	12	1	13
Delek Finance's share in net results of investee companies and minority interest in net results of consolidated subsidiaries	7	1	8
Net Income	**28**	**6**	**34**

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

Revenues from gross written premiums in the six-month period ended June 30, 2007, amounted to $362.9 million, as compared with $265.5 million in the corresponding period last year, representing growth of approximately 36.7%. Gross written premiums in the second quarter of 2007, amounted to $194.5 million, as compared with $139.2 million in the corresponding quarter last year, representing growth of approximately 39.7%. The growth in gross written premiums 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).

Net written premiums amounted to $182 million in the first half of 2007, as compared with $138 million in the corresponding period last year, representing growth of 31.8%. The net written premiums amounted to $99.4 million in the second quarter, as compared with $74.6 million in the corresponding period last year, representing growth of 33.2%.

The net earned premiums in the first half of the year amounted to $145.9 million ($164.7 million without influence of PGAAP Accounting that was implemented following the Republic acquisition by Delek Finance), as compared with $130.2 million in the corresponding period last year. The net earned premiums in the second quarter of 2007 amounted to $75.7 million ($85.1 million without influence of PGAAP Accounting that was implemented following the Republic acquisition by Delek Finance), as compared with $66.9 million in the corresponding quarter last year.

Republic's shareholders' equity as at June 30, 2007 amounted to $257.6 million, while the net income during the reported period amounted to $4.1 million.

The following is the distribution of premiums and fees for the six months ended June 30, 2007, in general insurance, by the various distribution channels:

		Gross %		**Self Residual %**
Individual insurance		25		46
Commercial insurance		16		27
MGAs		33		27
Insurance Services		26		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 (before taxes) amounted to approximately NIS 143 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 in the sum of NIS 30 million, 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 HOT is reported in the Group's financial statements by the equity method of accounting. The contribution of the telecommunications sector to the Group's net income in the reported period amounted to approximately NIS 2 million, as compared with approximately NIS 29 million in the corresponding period last year. The contribution of the telecommunications sector to the Group's net income in the second quarter of 2007 amounted to immaterial sums, as compared with a loss of approximately NIS 10 million in the corresponding quarter last year.

The balance of the investment in Matav, as at June 30, 2007, amounted to NIS 285 million.

I. Additional Activities

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 the production and sale 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 on behalf of other operators. Among other projects, IDE has established a partnership that operates a seawater desalination plant in Cyprus that has had an output of 18 million m3 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 m^3 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 m^3 per annum. According to the agreement that forms the base of this tender (to be signed by the State), the party securing the tender shall undertake to build the plant, operate it and maintain it for a franchise period of 25 years (2.5 years of construction plus 22.5 years of operation and maintenance). Upon the termination of the franchise period, the plant will be transferred to the State free of charge.

On June 8, 2007, IDE signed an agreement for the construction of a seawater desalination plant in China on behalf of a local energy company, at a volume of $119 million.

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

(B) Electricity Generation Plant

The Company holds whole ownership (indirectly) in a company named 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, as mentioned above) 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). Subsequent to 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 with Bank Leumi LeIsrael Ltd. (hereinafter: Bank Leumi"), for the construction of 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 Station 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, the original financing agreement with Bank Leumi was amended so as to provide additional loans of up to NIS 40 million, of which NIS 23 million will be guaranteed by Delek Investments, Delek Infrastructure and Delek Ecology, for the duration of 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 3h(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"). Gas Routes informed Delek Ashkelon on June 6, 2007, that it was prepared to supply gas to the Power Plant. Subsequently, in the course of June 2007, Delek Ashkelon informed the construction contractor that the preservation period would end on June 29, 2007 and that starting on that date, it will have natural gas available for the running in of the Power Plant and for its ongoing operation. Starting on that date, the construction contractor began the process of operating the turbines and running in the Power Plant. According to the agreement with the contractor, this process is scheduled to be completed within 20 weeks of the date of availability of the gas.

(C) Power Plant in Brazil

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.

(2) **Acquisition of fuel stations and convenience stores in Benelux (Europe)**

For details and additional information regarding the acquisition of the Chevron marketing operations in Benelux, that was completed in August 2007 and for a description of the acquired sector of operations, see Update to Chapter A (Description of the Company's Business) in the Periodical Report.

7. Details Concerning Exposure to and Management of Market Risks

Since the Company's annual report for 2006, changes have occurred in the market risks to which the Group is exposed, originating from new operations that the company has entered into, such as the operation of Motorway Service Areas in the UK and the operation of fuel stations and convenience stores in the Benelux countries in Europe. The risks associated with these sectors were reviewed in the Update to the Description of the Company's Business, that is attached to this report.

Linkage Base Report for General Business

As at June 30, 2007 (NIS Millions), Reported Amounts											
	NIS		FX							Non-Monetary	Total
	Non-linked	Linked	US dollar	CAD	Sterling	Yen	Euro	Swiss Franc	Other Curr		
Assets											
Cash and cash equivalents	1,063		370	45	740		94	8	3		2,323
Short-Term Investments	223	120	1,241		16						1,600
Accounts Receivable - Trade	2,258	1	633	30	87		34	1	3		3,047
Other Accounts Receivable	118	35	186	63	51		18	15	5	51	542
Inventories		1			56	52	19			1,114	1,242
Buildings and Land for Sale										151	151
Investments in investee and other companies	6	4	20	49	369		102	72		2,031	2,653
Real Estate for Rent										13,711	13,711
Land for Construction										432	432
Loans, Deposits and Long-Term Receivables	32	213	472	33	451		181	76		1	1,459
Investments in oil & gas exploration & production										1,021	1,021
Fixed assets, net										7,400	7,400
Other Assets and Deferred Charges, Net										1,544	1,544
Total General Business Assets	**3,700**	**374**	**2,922**	**220**	**1,770**	**52**	**448**	**172**	**11**	**27,456**	**37,125**
Short Term Credit from Banking Corporations and Others	1,706	816	635		881		10	12			4,060
Accounts Payable to Suppliers and Service	307		1,193		138	420	29		4		2,091
Other Accounts Payable	730	76	320	43	471		62	16	5	11	1,734
Dividend to pay	130										130
Debentures convertible into Company shares		1									1
Debentures convertible into shares of consolidated companies		257									257
Other Debentures		7,163	384								7,547
Long-term loans from banks and others	414	664	1,893	1,224	6,271		2,889	1,091	93	(2)	14,537
Employee severance liabilities	4				55					14	73
Deferred Taxes										1,527	1,527
Other Liabilities	35	153	193		161	29	40			5	616
Total General Business Liabilities	**3,326**	**9,130**	**4,618**	**1,267**	**7,977**	**449**	**3,030**	**1,119**	**102**	**1,555**	**32,573**
Net balance	**374**	**(8,756)**	**(1,696)**	**(1,047)**	**(6,207)**	**(397)**	**(2,582)**	**(947)**	**(91)**	**25,901**	**4,552**

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 first quarter profits in 2007, at a rate of 1,113% of the paid-up share capital. The dividend amounts to NIS 130 million, and was paid on July 10, 2007.

C) The board of directors of the Company resolved, on August 29, 2007, to distribute a dividend out of the second quarter profits in 2007, at a rate of 1,713% of the paid-up share capital. The divided amounts to approximately NIS 200 million.

9. Critical Accounting Estimates

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

10. Process of approval of the financial statements

The Company's Board of Directors is the body entrusted with overall supervision at the Company.

As part of the approval process of the Company's financial statements by the Board of Directors, a draft of the financial statements, draft Directors' Report and draft of the Update to Chapter A (Description of the Corporation's Business) to the Periodical Report - are all submitted to the members of the Board of Directors for review, several days before the scheduled meeting for the approval of the financial statements. In the course of the board meeting during which the financial statements are reviewed, the Company's General Manager reviews the key points of the financial statements in detail, the financial results, the financial situation and the cash flows of the company, while data is presented regarding the operations of the company, along with a comparison with preceding periods.

Two out of the seven board members possess accounting and financial expertise and their experience and know-how contributes greatly to the discussion held during the board meeting.

The Company's auditing CPAs are invited to and are present in the board of directors meeting during which the financial statements are discussed and approved, during which they provide a review of the financial statements and are at the service of the board of directors regarding any question and clarification pertaining to the financial statements prior to their approval. Also present are the Company's CFO, Treasurer, Internal Auditor and Legal Counsel. Following the said discussion, a vote is held for the approval of the financial statements.

In its meeting held August 29, 2007, the board of directors of the Company decided to create a Financial Statement Committee that shall be responsible for the overall supervision regarding the preparation of the Company's financial statements and their approval, starting

with the September 30, 2007 financial statements. The appointed Committee includes Mr. Ben-Zion Zilberfarb (external director), Mr. Avi Harel and Mr. Moshe Amit, all of whom possess financial and accounting qualifications. The Company's auditing CPAs will be invited to attend the meetings of the Committee, as well as to the board of directors meetings during which the financial statements are discussed and approved.

The Committee will review the material issues in the financial reporting, including transactions outside the normal course of affairs, if any, the material assessments and critical estimates implemented in the financial statements, the reasonability of the data, the accounting policy implemented and the changes therein, the implementation of the proper disclosure principle in the financial statements and in the accompanying information and the influence of the transition to international financial reporting standards and the accounting policy implemented thereupon. As necessary and by demand, the Committee will receive comprehensive reviews of matters of especially significant influence. As mentioned above, the Committee will discuss the financial statements prior to their presentation and approval by the board of directors and will review to the board of directors its principal findings and comments regarding the financial statements, while recommending their approval.

11. Adoption of international financial reporting standards

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" (hereinafter - the Standard). Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 5728-1968, and that are required to report according to the regulations published thereunder, are to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008.

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.

In November 2006, the Securities Authority (hereinafter: "The Authority") published a directive regarding the disclosure required for the adoption of international financial reporting standards (hereinafter: "The Directive"). The directive stipulates, inter alia, that a public company shall include in the Board of Directors' report for the interim period ended on June 30, 2007, existing information of estimates on the quantitative impact of the transition to IFRS on the financial statements.

In June 2007, the Authority published a clarification (FAQ), which sets forth the required scope and format regarding the quantitative information to be provided in the Board of Directors' report for the period ended on June 30, 2007. In accordance with the FAQ, the company is required to identify the items in the financial statements, which would be affected by the transition to IFRS, and where the impact thereon may be material.

The following are the stages of the process as determined by management of the Group:

The actions carried out until the date of publication of the financial statements as of December 31, 2006:

1. Review of all IFRS standards.
2. Mapping out of the IFRS standards that are relevant to the Group and whose implications on the financial statements require an in-depth examination.
3. Qualitative examination of the main implications likely to be experienced by the Group as a result of the adoption of IFRS standards.

Acts required to be performed prior to publication of the financial statements for the second quarter of 2007:

1. Quantitative examination of the principal implications likely to be experienced by the Group as a result of adoption of the IFRS standards, as at January 1, 2007.
2. Identification of substantial contracts or agreements which might be affected by adoption of the IFRS standards, whether there is a change in the conditions thereof in light of the transition, or whether they are based on data or indices which are expected to change as a result of implementation of the IFRS standards.

Acts required to be performed prior to publication of the annual financial statements for December 31, 2007:

1. Completion of qualitative and quantitative examination of additional consequences expected as a result of adoption of IFRS standards.
2. Drafting of a balance sheet for December 31, 2007, and statements of income for the year then ended, in accordance with the IFRS standards.

Set forth below is an estimate of the material financial effects on items in the Group's financial statements, as a result of the transition to IFRS, including changes that may occur in the accounting policy of the Group as a result of said transition:

Based on the state of preparedness as of the reporting date and subject to changes that may derive from the continued process of collecting the information and reconciliation to IFRS and changes that may derive from developments relating to the interpretation of IFRS, the Group hereunder presents an estimate of the material financial effects of the transition from reporting under Israeli GAAP to reporting under IFRS, on the balance sheet items as of January 1, 2007 (the date of transition to IFRS) (hereinafter: "the opening balance sheet") and on the balance sheet items as of June 30, 2007, where the impact of the transition thereon is materially different from the impact on these items in the opening balance sheet. As aforesaid, since the approval of the first financial statements in which information shall be applied or provided under IFRS in the primary financial statement, will be in the future, the Board of Directors may deem fit to amend the accounting policy on which said information is based. Additionally, the Group presents below, the items that are materially affected by the transition in the statement of changes in shareholders' equity as of June 30, 2007, and in the statement of income for the six-month period then ended. As mentioned above, until the publication of the annual financial statements, the company intends to continue and analyze the qualitative and quantitative implications that are expected to ensue as a result of the adoption of IFRS and changes may consequently occur to the information presented below. It should be emphasized that the information set forth below has been neither reviewed nor audited by the Group's auditor.

IFRS 1, which deals with the first-time adoption of IFRS stipulates, in principle, that the implementation of IFRS in the opening balance sheet as of the date of transition to IFRS, is to be carried out retroactively.

Relief from retroactive implementation of IFRS adopted by the Group

IFRS 1 specifies several issues for which a retroactive implementation is not required upon the transition to reporting under IFRS. Listed below are the principal reliefs chosen by the Group on the date of transition:

Goodwill and cost surpluses

The Group has implemented the provisions of IFRS 3, "Business Combinations", on goodwill and cost surpluses created in business combinations, which took place only as of January 1, 2007, regarding the acquisition of subsidiaries, associated companies and proportionately-consolidated companies. Business combinations that occurred prior to January 1, 2007, were not treated in accordance with IFRS 3, but instead were treated in accordance with generally accepted accounting principles in Israel.

Translation differences

The Group has not recognized the accrued translation differences as at January 1, 2007, regarding all the foreign operations. The capital surplus from adjustments deriving from the translation of financial statements of foreign operations as at January 1, 2007, was cancelled out against the retained earnings at the same date.

The table below presents an estimate of the items in the financial statements that would be affected by the transition to IFRS, and where the impact of the transition is material:

A. Balance sheet items

	Note	January 1, 2007			June 30, 2007		
		Israeli GAAP (*)	Impact of transition to IFRS	IFRS	Israeli GAAP	Impact of transition to IFRS	IFRS
		NIS millions			NIS millions		
Non-current assets							
Investments in investee and other companies	1	2,815	745	3,560	2,653	439	3,092
Real Estate for Rent	2	3,230	719	3,949	13,711	1,752	15,463
Embedded derivatives	3	-	165	165	-	194	194
Investments in Oil and Gas Exploration	4	969	(37)	932	1,021	(32)	989
Fixed assets, net	5,6	3,077	(102)	2,975	7,400	(101)	7,299
Other Assets and Deferred Charges, Net	6,7	741	76	817	1,544	448	1,992
Insurance Operations Assets							
Cash and cash equivalents	8	1,115	156	1,271	1,038	77	1,115
Investments	8,14	26,018	(87)	25,931	29,387	(93)	29,294
Fixed Assets	8	580	(165)	415	344	(112)	232
Sums to collect	8	3,880	88	3,968	4,273	278	4,551
Deferred acquisition costs and other assets	8	2,547	572	3,119	2,805	461	3,266
Assets of a dedicated consolidated subsidiary	8	-	4,578	4,578	-	5,486	5,486
Long-Term Liabilities							
Option convertible into shares of consolidated subsidiary	9	-	32	32	-	26	26
Other Debentures		4,221	-	4,221	7,547	(105)	7,442
Option warrants convertible into company shares	10	-	28	28	-	43	43
Other Liabilities	11	337	32	369	616	42	658
Deferred Taxes	12	399	324	723	1,527	1,128	2,655
Insurance Operations Liabilities							
Insurance reserves and pending claims	8	27,841	90	27,751	30,381	16	30,365
Long-Term Liabilities	8	2,253	226	2,479	2,925	215	3,140
Other Liabilities	8	1,022	463	1,485			
Liabilities of a dedicated consolidated subsidiary		-	4,539	4,539	-	5,431	5,431
Minority Interest	13	2,232	(2,232)	-	3,936	(3,936)	-
Shareholders' Equity							
Adjustment to capital reserves:							
Capital Reserves		14	(14)**	-	115	(45)**	70
Capital surplus in respect of financial assets available for sales, net of taxes	1	-	210	210	-	139	139
Treasury shares	14	-	(87)	(87)	-	(93)	(93)
Minority Interest	13	-	2,697	2,697	-	(4,394)	(4,394)
Adjustments to retained earnings:							
Option warrants convertible into company shares	10	-	(28)	(28)	-	(43)	(43)
Transfer of capital surplus from translation differences on account		-	(82)	(82)	-	-	-

of foreign operations to retained earnings									
Financial assets measured at fair value through profit or loss, net of taxes	1	-	130	130	-	130	130
Real estate for rent, net of taxes	2	-	572	572	-	719	719
Embedded derivatives, net of taxes	3	-	136	136	-	144	144
Measurement of hedging transactions according to fair value	11	-	(27)	(27)	-	(25)	(25)
Presentation of fixed asset items according to fair value at deemed cost	1	-	(23)	(23)	(23)	-	(23)
Dividend declared subsequent to balance sheet date	15	(100)	100	-	(200)	200	-
Total impact on shareholders' equity of material influences		**3,447**	**3,484**	**6,931**	**4,067**	**5,320**	**9,387**

(*) Balances as included in the 2006 financial statements.

(**) On account of capital surplus from translation differences on account of foreign operations.

B. Statement of income items

		For the six-month period ended June 30, 2007		
	Note	**Israeli GAAP**	**Impact of transition to IFRS**	**IFRS**
General Operations		**NIS millions**		
Revenues from sales	16	14,076	(60)	14,016
Cost of Revenues	2,16	12,044	(110)	11,934
Gross Profit		2,032	50	2,082
Selling, Marketing, General and Administrative Expenses	3	394	14	408
Financial expenses (revenues), net	11	492	(300)	192
Gains from realization of investments in investee and other companies, net	1,2	220	(287)	(67)
Other Income (Expenses), Net		47	(60)	(13)
Taxes on Income		270	108	378
Minority Interest in Subsidiary Earnings, Net	13	(267)	267	-
Insurance Operations	8			
Profit from insurance operations		494	(31)	463
Income from investment and others, not included in insurance operations		118	77	195
Group's Share in profits of associated companies	8(a)	63	(55)	8
Minority Interest in Subsidiary Earnings, Net	13	(157)	157	-
Total of said influences on income before minority interest		**1,182**	**(128)**	**1,054**
Attributed to holders of ordinary shares		**758**	**(88)**	**670**
Attributed to holders of minority shares		**424**	**(40)**	**384**

D. Notes to items that were materially affected by the transition to reporting under IFRS in the balance sheets as of January 1, 2007 and June 30, 2007 and in the statement of changes in shareholders' equity and the statement of income for the six-month period ended on June 30, 2007

1. Investments in investee and other companies

- In accordance with Israeli GAAP, investments in other companies, in which the Group has no control or material impact, are presented in the balance sheet at cost, net of provision for impairment which is not of a temporary nature or according to fair value. According to IFRS, certain investments are designated as financial instruments measured at fair value through profit or loss, and the changes in fair value are therefore carried to the statement of income, while some investments are classified as available-for-sale financial assets where the changes in fair value are carried directly to a capital surplus. Therefore, as of January 1, 2007, investments in other companies increased by NIS 393 million and as of June 30, 2007, by NIS 237 million. In addition, as of January 1, 2007 and June 30, 2007, the capital surplus net of the tax effect increased by NIS 210 million and NIS 139 million, respectively. The retained earnings as at January 1, 2007, increased by NIS 130 million (net of taxes). As to the influence on associated companies, see Section 2, below.
  In light of the above, the capital gains recognized during the six-month period ended June 30, 2007, according to Israeli GAAP, as a result of the exercise of Menora shares, in the sum of NIS 143 million, were cancelled in accordance with IFRS.

- As of January 1, 2007, an associated company presented fixed asset items at fair value as the deemed cost. As a result, at the date of transition, the balance of investments in the associated company decreased by NIS 23 million, while a corresponding decrease was recorded in retained earnings in the amount of NIS 23 million.

  This impact was reflected in the adoption of Accounting Standard No. 27, *Fixed Assets*, of the Israeli Accounting Standards Board, as of January 1, 2007.

- Information has yet to be obtained from an associated company, in which the investment balance amounts to NIS 145 million, as a result of not obtaining the adjustments regarding the transition to IFRS.

2. Real estate for investment

In accordance with generally accepted accounting principles in Israel, real estate for investment was presented as an item at cost, less accumulated depreciation. Pursuant to IFRS, as of the transition date, real estate for investment was presented by the Group at its fair value (in accordance with appraisers' assessments) with changes in the fair value carried to the statement of income. Consequently, investments in real estate for rent grew by NIS 719 million at the transition date, while the Group allocated a sum of NIS 572 million to the retained earnings, net of

taxes. During the six-month period ended June 30, 2007, the depreciation expenses of NIS 46 million, recorded according to Israeli GAAP, were cancelled.

Associated companies overseas, held by Delek Real Estate, presented the real estate for investment at fair value as at the transition date to IFRS. The investments in these companies consequently grew by a sum of NIS 371 million, net of taxes.

As a result of the transition to IFRS at June 30, 2007, investments in real estate for rent grew by NIS 1,752 million, while the Group allocated a sum of NIS 719 million to retained earnings (net of taxes).

According to Israeli GAAP, the Group recognized NIS 77 million in capital gains, originating from the offering of DGRE shares on the stock exchange in London. According to IFRS, a loss of NIS 67 million was created as a result of the DGRE offering and was recorded in the statement of income for the six-month period ended June 30, 2007.

3. Embedded derivatives

In accordance with Israeli GAAP, embedded derivatives are not required to be separated from commercial contracts. Under IFRS, separation as aforesaid is to be made. Since the Group has engagements for the payment of rent in US dollars, which is not the Group's currency of operation, the Group has separated the embedded derivatives (NIS-dollar swap transactions) from compound instruments and presented these derivatives at fair value at each balance sheet date, while changes in the fair value were carried to the statement of income for each reporting period. Consequently, at the transition date, non-current assets grew by NIS 165 million, while retained earnings grew by NIS 136 million, net of tax. As of June 30, 2007, non-current assets grew by NIS 194 million and retained earnings grew by NIS 144 million (net of tax). In addition, in the six-month period ended June 30, 2007, administrative, general and selling expenses increased by NIS 14 million, financing expenses decreased by NIS 43 million and tax expenses grew by NIS 7 million.

4. Investments in Oil and Gas Exploration

In accordance with Israeli GAPP, the measurement currency of the partnerships is New Israeli Shekel. Under IFRS, the currency of operation is the US dollar. The partnerships have therefore translated from the currency of operation which is US$ to the presentation currency which is NIS. The investments in oil and gas exploration and production have consequently decreased by NIS 37 million and NIS 32 million, as at January 1, 2007 and June 30, 2007, respectively.

5. Fixed Assets

For some of the buildings located on land of the Israel Land Administration, the Group is analyzing the possibility of presenting these according to their fair value on the transition date, as deemed cost on the date of transition. See also Section 6, below.

According to IFRS, each company in the Group is required to determine its currency of operation, according to IFRS. The Gadot management believes that its currency of operation is the US dollar, and it consequently made a translation from the US dollar currency of operation to the presentation currency which is NIS. Most of the influence of the transition to the US dollar currency of operation at Gadot is a decrease of NIS 26 million in the fixed asset balance as at the transition date, coupled with a decrease in shareholders' equity. As of June 30, 2007, the

impact of transition to reporting under IFRS is not expected to be materially different than that on January 1, 2007, as stated above.

6. Leases from the Israel Land Administration

According to common practice in Israel, land leased from the Israel Land Administration is presented under fixed assets. The amount paid in respect of this land is not amortized. Under IFRS, payment in respect of lease agreements or for the purchase of a leased asset, which is treated as an operating lease, represents pre-paid lease payments that are amortized over the lease period in accordance with the benefit plan, including taking into account an extension option. As a result, as of January 1, 2007, pre-paid expenses in respect of lease increased by NIS 73 million against a reduction in fixed assets of NIS 77 million, an increase in deferred taxes of NIS 1 million and a reduction in retained earnings of NIS 3 million. As of June 30, 2007, the effect of the transition to IFRS is not expected to be materially different than the effect on January 1, 2007, as aforesaid.

7. Businesses Combinations

According to Israeli GAAP, the cost of acquisition was attributed to assets, intangible assets and liabilities of the subsidiary, based on their fair value at the acquisition date and in accordance with the acquired rate of holding, while the non-attributed balance was allocated to goodwill. Minority interest was calculated according to the minority interest of the book value of the assets and liabilities of the subsidiary at the acquisition date. In accordance with IFRS, the assets and liabilities of the subsidiary will be presented in the consolidated balance sheets at their full fair value upon acquisition of the assets and liabilities of the subsidiary, while the goodwill will be identical to the goodwill calculated according to Israeli GAAP. Minority interest upon acquisition will be calculated according to the minority interest at the full fair value of the assets and liabilities of the subsidiary. The Group has implemented the directives of IFRS 3, *Business Combinations*, regarding business combinations that occurred subsequent to January 1, 2007. According to Israeli GAAP, for business combinations that occurred prior to January 1, 2005, excess cost was not attributed to the tax reserve on account of land, since according to IFRS, it is necessary to create a reserve for taxes at the date of acquisition for excess cost on account of land. On January 1, 2007, the investee company was presented as an associated company and there was consequently no impact on the balance sheet as at the transition date to IFRS. Since as at June 30, 2007, control was obtained over the said company, the financial data were consolidated for the first time in the Group's financial statements, the goodwill balance grew by NIS 357 million, while recording an increase in the reserve for taxes.

8. Insurance Business

A. Investments in jointly-controlled companies

In accordance with Israeli GAAP, companies in which the Company possesses a joint control agreement with another party, but in which there is also a minority shareholder (which is not party to the joint control agreement), are presented in the Company's books by the equity method. Under IFRS, the existence of such a minority shareholder does not preclude a proportionate consolidation, and the company includes these investments according to the proportionate consolidation method. True to December 31, 2006, the Group holds (directly and indirectly through the Phoenix subsidiary), 40% of the share capital of Excellence Investments Ltd. and 41.42% of the share

capital of Mehadrin Ltd., that were presented in accordance with Israeli GAAP as investments in associated companies. Phoenix possesses joint control agreements in the said companies.

Consequently, the consolidated financial statements include the pro-rata share in the assets and liabilities of the said companies, which was previously presented on the basis of the equity method. The Company has yet to analyze the impact of the consolidation of dedicated companies owned by Excellence.

B. Fixed Assets

Computer software and capitalized software development costs, which do not constitute part of the relating hardware, were presented under fixed assets. Under IFRS, such expenses in the amount of NIS 238 million were classified as deferred acquisition expenses and other assets.

This impact was reflected in the adoption of Accounting Standard No. 30, *Intangible Assets*, of the Israeli Accounting Standards Board, as of January 1, 2007.

C. Financial instruments

In contrast to Israeli GAAP, under IFRS, the accounting treatment of financial instruments is based on their classification into one of four groups:

- Financial asset or liability measured at fair value through profit or loss.
- Investments held to redemption.
- Loans and receivables.
- Available-for-sale financial assets measured at fair value, carried to a capital surplus.

In addition, all derivative financial instruments are recognized as assets or liabilities according to their fair value and the liabilities are split into two groups:

- Financial liabilities measured at fair value.
- Other liabilities measured at depreciated cost.

The Phoenix Group has made decisions on earmarking assets as follows:

Assets included in the investment portfolios of profit-participating policies – which include marketable financial instruments and non-marketable financial instruments.
Pursuant to the provisions of the Supervisor of Insurance – included in the balance sheet at their fair value, calculated on the basis of market value and in case of non-marketable bonds at fair value calculated in accordance with a discounted cash flow model, while the discount interest rate are determined by a company which provides interest rate quotes in relation to the various risk ratings.
Under IFRS, these financial instruments are classified as fair value through profit or loss for the following reasons: These are managed portfolios that are separate and identified, the presentation of which at fair value significantly reduces an accounting distortion of presenting financial assets and liabilities in accordance with different

measurement bases (mismatch). In addition, management is carried out at fair value while the portfolio's performance is measured at fair value in accordance with a documented risk management strategy, and the information regarding these financial instruments is reported to management (the relevant investment committee) internally on the basis of fair value.

Non-marketable proprietary assets - include earmarked bonds, Hetz bonds, other non-marketable bonds, commercial documents and non-marketable shares.
Except for shares, these assets meet the definition of loans and accounts receivables, which are presented in the balance sheet at depreciated cost. The effective interest rate, linkage and translation differentials and provision for impairment (if necessary as a result of a change in the estimated projected cash flows from the asset and not due to a change in market interest rates) will be carried to the statement of income. There is no substantial change in the accounting treatment between the current situation and IFRS requirements. Non-marketable shares are classified as available-for-sale investments and presented at fair value, while changes in fair value as aforesaid, are carried to a capital surplus net of the tax effect.

Marketable proprietary assets - which do not include embedded derivatives or which do not constitute derivatives – the present situation – are presented at market value, with the changes therein carried to the statement of income. Except for venture capital funds and other investment funds, which are presented at adjusted cost. Under IFRS, most of them were classified as available-for-sale assets.

Derivatives and marketable financial instruments, including embedded derivatives – Designated as fair value through profit or loss as of the transition date.

Derivatives and non-marketable financial instruments, including embedded derivatives – Phoenix has separated between the derivative component and the liability component.

- The liability was classified as loans and receivables and presented at depreciated cost.
- The derivative was classified as fair value through profit or loss.

Financial instruments classified as available-for-sale assets – The effects on the capital surplus, the retained earnings, the deferred tax and the profit and loss are based on an estimated calculation and it is therefore possible that upon completion of their computerized calculation there will be changes in estimates, i.e., in respect of decrease in premium/discount, amount of cumulative interest on acquisition, changes in market value due to dividend distribution, etc.

D. Pending claims in general insurance

Pursuant to the directives of the Supervisor of Insurance as of January 1, 2006, provisions for pending claims in general insurance also include indirect expenses for the settlement of claims relating to policies issued in respect of the 2006 underwriting year and thereafter.

Under IFRS, expenses for the settlement of pending claims should be allocated in respect of all the underwriting years. The effect of allocation as aforesaid on the shareholders' equity and the earnings is

after the amount of savings accrual in the compulsory motor vehicle and liability branches has been reduced.

Accordingly, Phoenix increased the pending claims in the amount of NIS 59 million and NIS 53 million as of January 1, 2007 and June 30, 2007, respectively.

Under Israeli GAAP and Insurance Supervision Regulations, the amount of savings accrual in the pending claims in the compulsory motor vehicle and liability branches, had included all the revenues from investments, which were attributed in the general insurance business report to these branches (gains realized and gains not yet realized from marketable securities).

Under IFRS, the general insurance business report includes only revenues from investments in respect of realized gains on marketable securities; gains not yet realized are carried to a capital surplus – see 3(a) above.
The amount of savings accrual in the compulsory motor vehicle and liability branches under IFRS as of January 1, 2007 and June 30, 2007 has not been revised accordingly, since the Supervisor of Insurance has not issued guidelines on the matter.

There are ongoing discussions between the representatives of insurance companies and the Supervisor of Insurance.

E. Cancellation of reserve for extraordinary risks

Pursuant to the circular issued by the Supervisor of Insurance in February 2007, under Israeli GAAP, the reserve for extraordinary risks in the amount of NIS 178 million, has been cancelled in the financial statements as of December 31, 2006, subsequent to minority interest and is presented as an extraordinary item in the statement of income. In accordance with the Supervisor's circular under which this reserve is not consistent with the provision of IFRS 4 *Insurance Contracts*, the cancellation of the reserve has been presented as adjustment of opening balances of retained earnings on the transition date. The Delek Group did not have a material impact on the retained earnings in the transition date as a result of the amortization of excess costs which, upon the Phoenix acquisition, had been allocated to the reserve for extraordinary risks.

F. Presentation of data on the insurance business

According to the accepted practice in Israel, the financial data of the insurance business are presented separately. The Group is examining whether the said mode of presentation is in accordance with IFRS, or whether it is necessary to integrate the insurance business with the financial results of the other operations.

9. Debentures Convertible into Shares of Subsidiaries, Linked to the Consumer Price Index

In accordance with generally accepted accounting principles in Israel (Israeli GAAP), an equity component of convertible debentures whose conversion rate is linked to the Consumer Price Index (CPI) is presented

under shareholders' equity. According to IFRS, these instruments are classified as liabilities, which are measured in accordance with their fair value at each balance sheet date, while the changes in the fair value are carried to the statement of income under financing. During the conversion of these debentures, the balance on the exercise date is carried to shareholders' equity. As at January 1, 2007 and June 30, 2007, the balance of convertible debentures presented in the balance sheet has grown by NIS 32 million and NIS 26 million (on account of a conversion option), respectively. In the six-month period ended June 30, 2007, the influence on the financial statements was immaterial.

10. Option warrants with an exercise price linked to the Consumer Price Index

In accordance with Israeli GAAP, option warrants whose exercise price is linked to the CPI were presented under shareholders' equity. According to IFRS, these instruments are classified as liabilities, which are measured in accordance with their fair value at each balance sheet date, while the changes in the fair value are carried to the statement of income under financing. During the exercise of these options, the balance on the exercise date is carried to shareholders' equity.

In addition, under IFRS, during the issuance of a block of securities, the proceeds from the issue was first attributed to financial instruments which are measured at fair value through profit or loss. Subsequently, the fair value of the remaining financial liabilities was determined, while the balance was attributed to capital instruments. As a result of a different split of the proceeds of the issuance of blocks issued in the past, a sum of NIS 20 million was attributed to option warrants. As at January 1, 2007, the option warrants presented under long-term liabilities were presented in the sum of NIS 28 million, while the retained earnings decreased by NIS 28 million. As at June 30, 2007, the balance of option warrants was presented at a sum of NIS 43 million, while the financial expenses for the six-month period then ended grew by NIS 15 million.

11. Derivative financial instruments

In accordance with Israeli GAAP, the results of a hedge transaction on gas prices under an agreement with the Israel Electric Company (IEC) has been carried to the statement of income against items in respect of which the hedge was carried out. According to IFRS, since this transaction was not intended to be a hedging transaction as at the transition date, the said hedging transaction should be measured at fair value, with the changes in fair value being carried to the statement of income. Consequently, on January 1, 2007 and June 30, 2007, the other liabilities balance grew by NIS 32 million and NIS 30 million, respectively, against a decrease in retained earnings.

Furthermore, net financial expenses for the six-month period ended June 30, 2007, decreased primarily on account of the measurement of SWAP transactions that do not constitute accounting hedging according to fair value, with changes in fair value being carried to the statement of income.

In the six-month period ended June 30, 2007, the financial income from these transactions amounted to NIS 244 million.

12. Deferred Taxes

The impact on deferred taxes as at January 1, 2007 and June 30, 2007 originates primarily from the allocation of taxes made by the Group to adjustments made in light of the implementation of IFRS (primarily reserve for taxes on account of assessments of real estate for investment and the creation of a tax reserve on account of land acquired in business combination prior to January 1, 2005).

13. Minority Interest

In accordance with Israeli GAAP, minority interest is presented in the balance sheet not as part of the shareholders' equity, while under IFRS it is presented in the balance sheet as part of the shareholders' equity. As a result, on January 1, 2007 and June 30, 2007, minority interest of NIS 2,697 million and NIS 4,394 million, respectively, were classified (minority interest presented under Israeli GAAP, including adjustments made to minority interest in light of the transition to IFRS) and presented as a separate item in the shareholders' equity.

Accordingly, in the statement of income the minority interest in results of consolidated subsidiaries was included as part of the operating results in accordance with Israeli GAAP, while under IFRS the minority interest, as aforesaid, is not part of the statement of income, but is presented as part of the distribution of income among shareholders. Consequently, the income before minority interest decreased by NIS 128 million and the minority interest in the net income according to IFRS amounted to NIS 384 million.

14. Treasury shares

In accordance to Israeli GAAP, the shares of the Delek Group that were held by Phoenix in the investment portfolios of profit-participating policies have not been treated as treasury shares. Under IFRS, the shares of the Delek Group held by Phoenix through the investment portfolios of profit-participating policies are treated as treasury shares. Consequently, the Group's shareholders' equity as at January 1, 2007 and June 30, 2007, decreased by NIS 87 million and NIS 93 million, respectively.

15. Declared dividend

In accordance with Israeli GAAP, dividend declared subsequent to the balance sheet date and before the date of approval of the financial statements has been reported as a separate item in the shareholders' equity under – "Dividend declared subsequent to balance sheet date". In addition, information relating thereto was provided in the notes to the financial statements.

Under IFRS, dividend declared subsequent to the balance sheet date shall only be reported in the notes to the financial statements.

16. Buildings for sale

According to Israeli GAAP, a contractor would recognize revenues from a project when the completion rate totals 25% or more and the accrued proceeds from sale amounts to 50% or more of the project's total revenues. According to IFRS, it is necessary to implement the completed works method, meaning that a contractor can recognize revenues, only once immaterial operations remain in order to complete a project. Subsequent to the transition to IFRS, revenues from the sale of apartments in the sum of NIS 65 million were cancelled, along with costs from the sale of apartments in the sum of NIS 56 million.

17. Guarantees

The Group is analyzing the possible implications, if any, in light of the measurement of the guarantees granted at the Group.

12. 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.

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

To Section 1.4 (Section 6.1.4 of the Prospectus) -

Pursuant to the public offering of bonds (Series 22) under shelf registration published by the Company on June 26, 2007, the Company has issued debentures amounting to NIS 500 million. The debentures are redeemable in eight equal semi-annual installments on June 30 and December 31 of each of the years 2012, 2019, 2020 and 2021 (inclusive), with principal and interest being linked to the Consumer Price Index, based on the index for May 2007, and bearing annual interest at 4.5%, payable semi-annually on June 30 and December 31, starting on December 31, 2007 and through their final repayment on December 31, 2021 (inclusive). "Maalot" has granted the debentures an AA/Stable rating.

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

To Section 3 (Section 6.3 of the Prospectus) -

In the period June-August 2007, debentures with a carrying amount of NIS 1 million were converted.

3. Dividend Distribution

To Section 4 (Section 6.4 of the Prospectus) -

On May 29, 2007, the Company decided on a dividend distribution amounting to NIS 130 million, to be paid on July 10, 2007.

4. The Oil Refinery Segment

To Section 7.1 (Section 6.7.1 of the prospectus) -

On July 16, 2007, Delek USA signed agreements with several Lion Oil shareholders for the acquisition of their minority shareholdings in the Company, pursuant to which Delek USA would acquire approximately 28.3% of the Lion Oil shares for an investment of $65.4 million in cash. In addition, pursuant to one of the agreements, Delek USA would issue 1,916,667 ordinary shares to TransMontaigne, a wholly-owned subsidiary of Morgan Stanley Capital Group Inc. Delek US announced the completion of the transaction on August 22, 2007. Subsequent to said allotment, the company holds 74% of the share capital of Delek US and in its opinion, the profit expected to be generated for the company from said allotment is estimated at this stage (based on the financial statements of Delek US as of June 30, 2007 and other estimates) at between NIS 110 million and NIS 125 million.

In addition, on August 22, 2007, Delek US announced having signed an agreement for the acquisition of an additional 6.24% of the shares of Lion Oil. Upon the completion of the transaction, the Delek US holdings in Lion Oil are expected to amount to 35%. In consideration of the acquisition of these shares, Delek US will pay approximately $23 million in cash. The closing of the transaction is contingent upon standard closing terms, including obtaining regulatory approval. The transaction is expected to be closed in the course of the third quarter of 2007.

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[1]The update includes material changes or innovations that occurred in the Company's business in the course of the second quarter and nearly to date, in respect of any matter that needs to be described in the periodical report, and which was not updated in the Company report for the first quarter of 2007. The update refers to the section numbers appearing in Chapter A (Description of the Company's Business) in the Periodic Report for 2006. For convenience, the applicable section numbers in the chapter "Description of Company Business" published May 30, 2007, also appear in brackets.

Lion Oil is a privately-held company that operates a refinery with a capacity of 75 thousand barrels of oil a day, located in El Dorado, Arkansas. Lion Oil also owns three crude oil pipelines and two oil marketing terminals in Nashville and in Memphis (Tennessee), through which the company markets fuel to third parties, including to Delek USA, that operates 188 gas stations and convenience stores in these areas.

5. The Fuel Products Segment in Israel

To Section 9.1 (Section 6.9 of the Prospectus) -

On August 6, 2007, Delek Israel completed an IPO of securities. Following this IPO, the Company's holdings in Delek Israel decreased to 88.89%. The total proceeds of the IPO to Delek Israel (before IPO expenses) amounted to NIS 940 million, while the gains recorded by the Company as a result of the issue of shares is currently estimated at NIS 70 million.

To Section 9.13.3 (Section 6.9.13.c of the Prospectus) -

On June 5, 2007, Delek Israel was selected as a "preferred bidder" in the acquisition of the three Pi-Glilot terminals offered by tender (Ashdod, Jerusalem and Be'er-Sheva) as one entity, based on the price proposal submitted by Delek Israel in the tender process, amounting to NIS 800 million. Completion of the transaction to acquire the terminals is subject to provisions of Pi-Glilot's tender process, including obtaining approval from the Antitrust Supervisor. Late on July 31, 2007, the agreement to acquire the terminals was signed and the transaction closed, with Delek Israel acquiring the three Pi-Glilot terminals in consideration of NIS 806 million, upon complying with provisions of the tender process and obtaining approval from the Antitrust Supervisor. The agreement for the acquisition of the terminals was formulated in line with principles set forth in the aforementioned privatization agreement, which include, inter alia, a provision whereby Delek Israel and interested parties therein have committed that, with the exception of claims against Pi-Glilot for breach of the said agreement, they do waive any and all claims and demands of any kind against the State of Israel and/or the Joint Committee and/or any of its members and/or Pi-Glilot and/or the officers, managers and employees of Pi-Glilot and/or anyone acting on behalf of any of the above in conjunction with the sale which is the subject of this agreement. Should any such claim be made, despite the above, having a cause pre-dating the agreement whereby Delek Israel or interested parties therein shall be compensated, Delek Israel shall be obliged to indemnify the aforementioned parties to the extent of any compensatory amount charged to any of them. The aforementioned waiver shall also apply to any action by the State of Israel or by Pi-Glilot pursuant to the Government-Held Companies Act, including any act of privatization or pursuant to a privatization decision. Highlights of the approval of the merger by the Antitrust Supervisor are set forth in section 6.7.2 of Delek Israel's prospectus dated August 5, 2007.

Delek Israel intends to develop a facility for the import of fuel products and the sale thereof to fuel companies in Israel, in cooperation with a leading international player in the fuel trade, by making use of the Pi-Glilot terminals. Delek Israel has entered into negotiations with an international corporation specializing in petroleum product trading with regard to the aforementioned cooperation.

Financial data with regard to Pi-Glilot

The depreciated fixed asset balance (book value) of the acquired operations amounted to NIS 170 million and NIS 180 million, as at December 31, 2006 and December 31, 2005, respectively. The revenues of the acquired Pi-Glilot operations in 2006, 2005 and 2004 amounted to NIS 68 million, NIS 68 million and NIS 69 million, respectively. The gross profit of the acquired Pi-Glilot operations in 2006, 2005 and 2004 amounted to NIS 17 million, NIS 18 million and NIS 16 million, respectively. The operating income of the acquired Pi-Glilot operations in 2006, 2005 and 2004 amounted to NIS 5 million, NIS 6 million and NIS 6 million, respectively. The above financial data originate from financial data supplied by Pi-Glilot. For details of pro-forma data in conjunction with the acquisition of Pi-Glilot, see section 6.7.2 of the Delek Israel prospectus dated August 5, 2007. As well as the financial statements of Delek Israel as at June 30, 2007.

To Section 9.18 (Section 6.9.18 of the Prospectus) -

On June 4, 2007, the Company issued an immediate report (reference 2007-01-415469) with regard to a lawsuit including application for class action status, claiming unlawful charging of "service fees", in the absence of appropriate price display. The information included in the aforementioned report is hereby provided by way of reference.

To Section 9.18 (Section 6.9.18 of the Prospectus) -

On July 1, 2007, the Company issued an immediate report (reference 2007-01-309577) with regard to a lawsuit including application for class action status, filed against Delek Israel and four other fuel companies, claiming false advertising of the discount granted for self-service fueling. The information included in the aforementioned report is hereby provided by way of reference.

6. The Energy Segment

To section 10.5.2 (section 6.10.5b of the prospectus) –

The merger of the two blocks 12E and 12W into the new block 12W has been completed. In June 2007, a 3D seismic survey was conducted on an area of 1,600 km^2 in block 12W. The survey was primarily designed to provide an accurate definition of the structure of the Blackbird oil field as well as identify prospects in its vicinity. In August, the operator (Premier Vietnam) completed processing and analyzing the seismic data in the Blackbird field and has almost finished analyzing the seismic data in the Dua field. In the operator's opinion, preliminary results from this survey tend to confirm its initial estimate that 80 million oil barrels can be produced from the Blackbird and Dua oil fields. The operator is moving ahead with the study of oilfield data and the study of possible development plans, for the purpose of recommending, by the end of 2007, a preferred development plan (which would probably include an FPSO offshore production facility). The operator believes that a decision regarding commencement of the development plan will be made in the first half of 2008, in order to allow production to start in 2010.

The operator plans to begin several oil drills in the second quarter of 2008, which will also include exploration drills. The operator has identified several possible prospects for such exploration drills: Peacock, Falcon and Chim Dua, which is located just south of and adjacent to the Dua oil field.

To Section 10.2 (Section 6.10.2 of the prospectus) -

On June 14, 2007, the partners in the Yam Tethys project received a preliminary permit number 197/Ruth from the Supervisor of Petroleum Affairs (hereinafter: "**Ruth preliminary permit**"). The rights in the Ruth preliminary permit are according to the holding percentage in the Yam Tethys project. The Ruth preliminary permit refers to areas located from the Haifa shore and up to 90 km from the city shore, covering an area of 3,945 km^2. The Ruth preliminary permit was issued through to December 31, 2008.

The Ruth preliminary permit sets forth several special terms, including acquisition of seismic lines from Spectrum company within two months from the granting of the permit, which has been done.

Delek Investments and Properties Ltd. has announced that it waives its share of rights in the Ruth preliminary permit (4.441%), and that its rights shall be divided between the partnerships, so that after transfer of said rights, the permit holdings would be as follows: Noble Energy Mediterranean Ltd. (Hereinafter: "**Noble**") – 47.059%; each of the partnerships – 26.4705%. The rights transfer notes have yet to be signed.

To section 10.3 (Section 6.10.3 of the prospectus) -

The general partners, Delek Drilling Management (1993), Ltd., and Avner Oil and Gas Ltd., have received on June 10, 2007, from the Supervisor of Petroleum Affairs, in equal parts, two new marine oil licenses named 337/Aviah and 338/Keren, in areas located 60 km from the shores of Tel Aviv and Ashdod, respectively.

The Aviah and Keren licenses were granted for a 3-year term and cover an area of 400 million m^2 each. Avner Oil and Gas Ltd. was designated as operator of these licenses.

The license terms for the Aviah and Keren licenses set forth, inter alia, the following special terms for each of the licenses: Re-processing of existing seismic material and its incorporation in overall information by November 1, 2007; presentation of one or more final prospects for drilling by January 1, 2008; signed agreement with drilling contractor by July 1, 2008; report on progress of drilling plan execution - once every two months thereafter; drilling start by July 1, 2009, or as per contract with drilling contractor, approved by the Supervisor for Petroleum Affairs.

The general partners intend to have their rights in the aforementioned licenses transferred to the limited partnerships.

Furthermore, the general partners received a preliminary permit number - 198/Alon - on June 14, 2007, from the Supervisor for Petroleum Affairs, in equal shares (hereinafter: "**Alon preliminary permit**").

The Alon preliminary permit refers to areas located between 30 and 140 km north west of the Haifa shore, covering an area of 3,864 km^2. The Alon preliminary permit was issued through to December 31, 2008.

The Alon preliminary permit sets forth several special terms, including acquisition of seismic lines from Spectrum within two months of the permit grant, which has been done.

Pursuant to the agreement dated April 30, 2007, Noble possesses an option to acquire up to 47.059% of the rights associated with the Alon preliminary permit. As of the report date, Noble has yet to announce its intention to exercise the option, although it does share in the project expenses pro rate to its share in the option (47.059%).

The general partners of the Alon preliminary permit are acting to transfer the rights in the said permit to the limited partnerships.

To section 10.3.1 (section 6.10.3a of the prospectus) –

Pursuant to the partner meeting which took place on May 27, 2007, which discussed the demand by the Supervisor of Petroleum Affairs to return the Med Ashdod lease and following review of the different aspects associated with the said requirement of the Supervisor of Petroleum Affairs, the lease operator recommended that the lease partners return the lease. The operator also recommended that the partners apply for a new license, to overlap the area returned. The partners were asked to approve return of the lease and to consent to participate in a new license, including their share of the rights therein, no later than by August 15, 2007. The operator of the Med Ashdod Lease announced to the partners that on August 22, 2007, it received from the Minister of National Infrastructures "a notification of request to commence oil production in commercial quantities". In accordance with said notification, the lease was granted on January 15, 2002. So far oil in commercial quantities has not been produced in its site and therefore, within the Minister's power under the Oil Law, the Minister announces that the production of oil in commercial quantities is to commence in the leased area by October 25, 2007 and if said production fails to start the lease will expire. It should be noted that the Minister's request cannot be complied with. The majority of the partners to the lease asked the operator to submit, on their behalf, a request for a new license to the Supervisor of Petroleum Affairs, for an area that will include the site of the Med Ashdod Lease.

To section 10.3.2 (section 6.10.3b of the prospectus) –

The licenses operator, Noble, informed the partners of a delay in the arrival of the drilling ship to the Tamar drilling site. In view of this delay, the Tamar drilling is expected to start during the first quarter of 2008. Said delay is not expected to cause a significant change in the drilling budget.

To section 10.3.3 (section 6.10.3c of the prospectus) –

In response to a request by the project operator at the Tzuk Tamrur enclave, to obtain approval by the Israel Nature and Parks Authority to conduct the "Tzuk Tamrur 4" drilling - the Nature and Parks Authority decided to reject the application to conduct the drilling. The Nature and Parks Authority claims that the "Tzuk Tamrur 4" drilling, planned within the area of the Judea Desert Nature Reserve, does not constitute an authorized use under the Natural Parks and Nature Reserves Act, nor under zoning plans applicable to the area, and that the drilling would severely damage the nature and landscape. The project partners are reviewing, with counsel, the aforementioned decision and its implications, as well as the options available to them. At the request of the Tzuk Tamrur enclave operator, the Supervisor of Petroleum Affairs has approved postponement of drilling start at "Tzuk Tamrur 4" through December 31, 2007.

To section 10.3.5 (section 6.10.3e of the prospectus) –

In order to comply with the terms set forth in the Ohad and Shimshon licenses, prior to obtaining the Antitrust Supervisor's decision, in August 2007, Isramco Inc., Delek Drilling Management (1993), Ltd., and Avner Oil and Gas Ltd. agreed that the license rights would be segregated, such that Delek Drilling Management (1993), Ltd., and Avner Oil and Gas Ltd. would transfer their rights to Isramco Inc. while Isramco Inc. would transfer its rights in the Ohad license to Delek Drilling Management (1993) Ltd., and to Avner Oil and Gas Ltd. The rights transfer notes have yet to be signed. As operations in the license areas progress, the parties would decide whether or not to continue acting to implement the aforementioned segregation, or to re-apply to the Antitrust Supervisor requesting joint operations in both licenses.

The following section is to appear following Section 10.7 (following Section 6.10.9 of the prospectus):

Vanguard Oil and Gas International Ltd. (Hereinafter: "**VOGIL**")

Delek International has entered into a set of agreements whereby it would invest $14 million in VOGIL, in exchange for allocation of 24.2% of the VOGIL shares (22.2% fully diluted). VOGIL is a privately-held company engaged in the acquisition of oil tankers and their conversion into floating oil-production platforms - Floating Production Storage and Offloading (hereinafter: "**FPSO**") - used in oil field development. The company's management possesses vast experience in the planning, conversion and operation of FPSO facilities. Furthermore, VOGIL engages in strategic acquisition of E&P companies (companies engaged in exploration and production of oil and natural gas) having growth potential and which are expected to include FPSO facilities in the development of their projects.

To Section 10.17 (Section 6.10.19 of the prospectus) -

The joint CEO of Delek Energy, Mr. Kobi Katz, ended his term of office on June 30, 2007. The board of directors of Delek Energy has approved an engagement with the CEO, Mr. Gideon Tadmor, under an employment contract pursuant to which he will be employed as a full-time employee starting August 1, 2007. It was further decided that he would be allocated 258,265 options (representing approximately 5.3% of the shares of Delek Energy assuming they are exercised), in 7 equal annual tranches, with the vesting period of each tranche being shortened in the event that Delek Energy reaches the market value targets that were set in advance in the agreement. The options can be exercised into ordinary shares of Delek Energy, subject to the payment of an exercise price stipulated in the agreement, which is based on a company value of NIS 1,614 million, while the price in each tranche bears a 5% interest, and subject to the vesting periods stipulated in the agreement, provided that the CEO is an employee of Delek Energy. For the purpose of exercising the options the CEO will be entitled to a non-recourse loan, to be secured by a first-ranking fixed charge on the exercise shares. The loan bears 4% interest per annum and is linked to the known consumer price index on the date of granting of the loan. The CEO will incur all the tax liabilities in respect of the granting and exercise of the options under the income-from-labor track. In accordance with a valuation received by Delek Energy, the value of the options is NIS 32 million.

On August 20, 2007, the board of directors of Delek Energy decided upon an allocation of 55,343 options to Mr. Gabi Last, Chairman of the Board of Directors of Delek Energy (representing approximately 1.2% of the shares of Delek Energy, pre-allocation), in 5 equal annual tranches, and a new employment agreement with him was approved, pursuant to which he would be employed in a full-time capacity [update]. It was also decided that he would be allotted 258,265 options (which represent 5.3% of the shares of Delek Energy prior to the allotment) in seven equal annual tranches, with the vesting period of each tranche being shortened in the event that the company reaches the market value targets that were set in advance in the agreement. The options can be exercised into ordinary shares of Delek Energy, subject to the payment of an exercise price stipulated in the agreement, which is based on a company value of NIS 1,614 million, while the price in each tranche bears 5% interest, and subject to the vesting periods stipulated in the agreement, provided that he serves as chairman of the board of directors. For the purpose of exercising the options the chairman of the board of directors will be entitled to a non-recourse loan, to be secured by a first-ranking fixed charge on the exercise shares. The loan bears 4% interest per annum and is linked to the known consumer price index on the date of granting of the loan. The chairman of the board of directors will incur all the tax liabilities in respect of the granting and exercise of the options

under the income-from-labor track. In accordance with a valuation received by the Company from Giza Singer Even, the value of the options is NIS 5.7 million. The transaction is subject to the approval of the general meeting of shareholders of Delek Energy and to the approval of the organs of the company in which Gabi Last serves as chairman of the board of directors.

To Section 10.26 (Section 6.10.28 of the prospectus) -

On June 24, 2007, some of the Yam Tethys project partners, including the limited partnerships, filed a petition with the Israeli Supreme Court against the State of Israel and others. The petition opposes the Government's conduct aimed at approving the purchase of natural gas from the gas reservoir located in the coastal ledge adjacent to the Gaza Strip shore and known as "Gaza Marine" - a strategic asset that the State had previously abandoned, unlawfully and for no consideration, at an enormous cost estimated at $4 billion.

The petition requests various remedies, including rescinding of Government Resolution No. 1604 dated April 29, 2007, as well as any administrative acts, if any were made, to implement it which are aimed at approving a pending transaction whereby the Government would acquire natural gas from the Gaza Marine reservoir under false exemption, thereby unlawfully becoming a major supplier of natural gas in the local market, while trespassing against the principles of freedom of occupation and the right to property, free competition in the natural gas market, equity and efficiency which are established by fundamental laws and specific laws which regulate the natural gas market - as described in the petition.

The petition also seeks a declaration that any negotiation or other contact taking place at any date between Government representatives and British Gas International Ltd. ("**BG**") with regard to such natural gas acquisition was conducted without authority, unlawfully and in contradiction to Government resolutions in effect - and are null and void. The Court, in its decision dated July 25, 2007, determined that evidence shows that negotiations with BG have been conducted since January 2006, or according to BG since November 2006. It has not been clarified why it was not until June 12, 2007, that the Tender Committee decided on an exemption from tender for negotiations. On the other hand, delay claims were hear against the plaintiffs, claiming that they have known about the negotiations for many months prior to filing their petition. These claims were beyond the essential issues at hand. The Court deemed there was no reason to grant an injunction against continued negotiations up to the hearing scheduled for August 9, 2007; however, as a temporary injunction, it was determined that no documents shall be signed with BG prior to the hearing. The Court also deemed that since the Tender Committee's decision of June 12, 2007, has yet to be brought for approval before the Exemption Committee and the Minister of Finance - there is no apparent urgency in doing so prior to the hearing. The Court noted that its decision does not constitute an opinion with regard to the issue at the heart of the petition. A hearing was held in this matter on August 9, 2007, but no decision was handed down by the Court as yet.

7. The Automotive Sector

To section 11.2.1 (section 6.11.2a of the prospectus) –

Delek Automotive is currently launching the following new models: MAZDA 2 (a super-mini category vehicle that was not previously represented by Delek Automotive), Ford S-Max (sports minivan with 7 seats), Ford Galaxy (the largest in the minivan series) and Ford Mondeo.

8. The Real Estate Sector

To Section 12.3.6 (Section 6.12.4 of the Prospectus) -

A. On June 15, 2007, a foreign subsidiary of DGRE concluded the acquisition of 100% of the shares of a foreign company that holds a modern office complex in the city of Lausanne, Switzerland. The office complex covers a total area of 34,000 m^2 and consists of five buildings and underground parking. The complex is leased to various tenants for long terms, but 75% of the rental fees are obtained from 10 major tenants, the largest being cellular operator Orange and the others including hotel chain Hyatt, software company SAP, Burotel, AGIP, Mutuel and others. The property was acquired at a cost of CHF 108.5 million (NIS 364 million). The net annual rental fees amount to CHF 5.7 million (NIS 19.1 million). The acquisition of the property was financed by a long-term non-recourse loan bearing fixed interest in the amount of CHF 97 million (NIS 325.5 million). Total shareholders' equity required to be invested by the foreign subsidiary (including expenses) is CHF 21.74 million (NIS 73 million). Delek Real Estate estimates that the property has improvement potential. The foreign subsidiary is in negotiations for inclusion of a partner with a share of up to 20%.

B. On August 16, 2007, DGRE concluded a transaction to acquire 50% of shares of a foreign company holding a complex known as Berlin University. The rental property is a complex of two buildings with total area of 42,000 m^2 which include classrooms, offices and executive rooms. The complex includes 173 parking spots. The plot area is 16,000 m^2 and has development potential. The buildings are leased to the Berlin Technical University, owned by the City of Berlin. Annual rent amounts to €8.5 million (NIS 48.5 million) and net annual rental fees amount to €8.2 million (NIS 46.8 million). The lease term is through December 2012. The acquisition price (for 100% of the transaction) is €96 million (NIS 548.4 million). Acquisition of the property was financed by a long-term, non-recourse loan bearing fixed interest, in the amount of €96 million (NIS 548.4 million) (the loan is for financing 100% of the transaction, with DGRE's share of the financing being 50%). The loan is a non-recourse loan, but it was agreed that the bank may seek repayment by the company of up to €1.5 million (NIS 8.6 million) out of its share, upon certain conditions associated with the end of the lease term. Total shareholders' equity required to be invested by the foreign subsidiary (including expenses) for its share is €5 million (NIS 28.56 million). The shareholders are to sign a cooperation agreement.

C. On July 31, 2007, a foreign subsidiary of Delek Real Estate and of DGRE concluded the acquisition of 95.5% of the shares of a foreign company holding 17 properties with a total area of 106,000 m^2 leased to Puukeskes, a leading timber distributor in Finland, under a 15-year agreement (with the tenant having the option for an additional 5 years). The properties are located around Finland, in large and medium cities. The properties serve as sales, office and logistics centers. The foreign subsidiary estimates that the properties have potential un-utilized construction rights amounting to 76,000 m^2. The property was acquired at a cost of €54.7 million (NIS 323 million). The net annual rental fees (after all expenses) amount to €3.734 million (NIS 22 million). For financing of the property, the foreign subsidiary was granted a long-term, non-recourse loan bearing fixed interest amounting to €48.7 million (or 89%) (NIS 287.4 million). Total shareholders' equity required to be invested by the foreign subsidiary (including expenses) amounts to €8.21 million (NIS 48.4 million). The foreign subsidiary is in negotiations for inclusion of another partner in the transaction with a share of up to 10%.

D. On July 15, 2007, a foreign subsidiary of Delek Real Estate entered into an agreement to sell all its rights in projects in Hungary and in Bratislava to Ambassador Overseas Real Estate Ltd. (hereinafter: **"Ambassador"**), controlled by Shmuel Levy, subject to the registration of Ambassador shares for trade on the Tel Aviv Stock Exchange, and subject to other terms set forth in the agreement. In exchange for the rights to be sold as per the above, Ambassador would allocate to the foreign subsidiary shares comprising, as of the allocation date, 37.5% of Ambassador's issued capital (prior to listing). According to information available to Delek Real Estate, Ambassador is engaged in the development of residential and commercial projects in Hungary and in Bratislava, and is currently involved (with partners) in the development of 11 projects encompassing a total of 3,200 residential units and 37,000 m^2 of commercial space.

E. On July 31, 2007, subsidiaries controlled by Delek Real Estate signed an agreement whereby they would acquire, together with foreign subsidiaries owned by Yigal Ahuvi, the real estate portfolio of Swiss company, Jelmoli Holding AG (hereinafter: **"Jelmoli"**). Jelmoli is among the leading real estate and retail companies in Switzerland. The company is traded on the Swiss stock exchange at a market cap of nearly CHF 2.9 billion. Delek Real Estate would hold 50% of the rights in this transaction (33.3% of the transaction via foreign companies owned and controlled by DGRE, 16.7% via foreign companies owned by Delek Belron), while the companies owned by Ahuvi will hold the remaining 50%. The portfolio was acquired in exchange for CHF 3.4 billion (approx. NIS 12.243 billion). The transaction is subject to obtaining certain technical approvals and consent by third parties which have rights of refusal for several of the properties, which if not obtained would not materially impact the scope of the transaction. Delek Real Estate is reviewing options to include other partners in the transaction.

<u>Details regarding the acquired property portfolio:</u>
The portfolio includes 88 rental properties in the downtown areas of Swiss cities, including centrally-located properties in Zurich, Geneva and Lausanne. The portfolio is composed, inter alia, of rental revenues, of 60% commercial space and department stores in city centers (including the Jelmoli department store in Zurich, Grand Passage and Place du Molard in Geneva) and of 19% office space. The acquisition covers a total area equal to 532 m^2 rental space. Below are further details with regard to the breakdown of designation and use of the acquired properties:

	Area	Proportion of total area	Percentage of free area	Total revenues	Revenue %
Retail	208,071	39.1%	2.7%	87,487	56.6%
Offices	86,151	16.2%	9%	29,030	18.8%
Logistics & warehousing (stores)	160,579	30.2%	7.1%	14,530	9.4%
Residential	15,981	3%	3.8%	2,619	1.7%
Industry	11,808	2.2%	1.7%	1,182	0.8%
Stores	29,569	5.5%		15,331	9.9%
Others	19,517	3.7%	3.5%	4,471	2.9%
Total	**531,676**	**100%**	**5.3%**	**154,650**	**100%**

By rental revenues, 35% of properties are in Geneva, 28% in Zurich, 26% in German-speaking Switzerland (Basel, Bern, etc.) and 8% in French-speaking Switzerland. 3% of the properties are in Italian-speaking Switzerland.

The lease term average is 13.5 years. For select prime properties, such as the Jelmoli flagship store in Zurich, the remaining lease term is 25 years, with up to two optional extensions, in general. Over 80% of gross rental revenues from retail leases is associated with unlimited trade-volume-related contracts with a fixed minimum rent. Only 6% of the gross revenues are on account of turnover revenues.

52% of the rental fees are payable by the companies: Jelmoli (20%), Globus (13.7%), Fast (12.1%), Zara (3.9%) and Cable Com (2.1%). The annual rental fees for 2007 amount to CHF 155 million (NIS 558 million). Upon completion of construction of two properties under development, the rent is expected to increase by early 2009 to CHF 183 million (NIS 659 million).

In addition to the aforementioned 88 properties, there are two development projects which also form part of the proposed transaction: (1) A large-scale commercial center at Saint Galen (to be opened April 2008; total rental area of 40,000 m^2); and (2) A medium-sized shopping center at Thonex, near Geneva (to be opened October 2008; total rental area of 11,000 m^2). Most of the areas in the projects under development have been leased in advance.

Transaction financing:
Delek Real Estate has a commitment by investment bank Merrill Lynch, to provide financing for 85% of the transaction, via a long-term, non-recourse loan bearing fixed interest (CHF 2,850 million + CHF 100 million financing for development), amounting in total to CHF 2,950 million (approx. NIS 10.620 million). We note that the Company has the option to sign a financing agreement with another party, however Merrill Lynch has a right of refusal in case of the financing contract being under terms as set forth above.
Total shareholders' equity, including expenses, for Belron's and DGRE's share will amount to CHF 320 million (NIS 1,147 million).

The buyers have the option to acquire Jelmoli's retail operations in Zurich by the end of 2007. At this stage, Delek Real Estate has no intention to enter into the retail sector and in the event that it exercises the option, it will do so with the purpose of transferring the retail operations to a third party, with the parallel intention of increasing the rental fees paid on account of the assets that are leased to the operators of the said retailing activities.
The acquired assets constitute the bulk of the Jelmoli real estate portfolio. Delek Real Estate is also examining introducing partners into this transaction. The transaction is expected to be completed in early October 2007.

To Section 12.13 (Section 6.12.13 of the Prospectus) -
On July 16, 2007, a wholly-owned subsidiary of Delek Real Estate concluded a transaction to acquire all the shares of Sahar Development and Investments Ltd. (hereinafter: **"Sahar"**) which are held by Paz Oil Company Ltd. (hereinafter: **"Paz"**). Sahar holds subsidiaries which own rental properties in office buildings, primarily in Tel Aviv as well as in Netanya and Haifa, with a total area of 44,000 m^2. Sahar also owns other investments in Germany as well as investments in venture capital funds. The cost of acquisition of said shares is NIS 251.5 million. In conjunction with the contract, Paz has committed to indemnify the buyer in the amount of NIS 30.5 million (net), linked to the CPI and bearing interest, should Sahar not record gains from the sale of assets, pursuant to terms set forth in the acquisition agreement. Furthermore, Paz committed to indemnify the buyer in the amount of NIS 8.5 million for tax payments which may be charged to Sahar, pursuant to terms set forth in the acquisition agreement. According to an examination conducted by Delek Real Estate, Sahar's total annual revenues currently amount to NIS 18-19 million. Sahar has additional potential for development of a real estate property in Netanya. At this stage the acquisition would be financed using shareholders' equity. Delek Real Estate is currently in negotiations with institutional investors and banks to obtain financing of 50%-100% of the acquisition price, and is also in negotiations to include partners in the transaction.

To Section 12.9 (Section 6.12.9 of the Prospectus) -
Blenheim corporation announced on July 8, 2007, the exercise of the option granted to it by Delek Belron. As a result of the exercise of the option, Delek Belron will acquire 12,731,210 DGRE shares at a price of GBP 1.95 per share.

To Page F-183 of the prospectus -

A typo occurred in the table "Detailed earnings from income-generating areas overseas and the Company's NOI from areas overseas, divided by use (in NIS thousands)" in the NOI - Net Operating Income item, which should be NIS 538,041 thousands and not as it appears.

To section 12.23 (Section 6.12.23 of the Prospectus) -

Delek Real Estate reported on August 27, 2007 that the negotiations for the acquisition of Dankner Investments Ltd. were discontinued.

9. The Biochemical Sector

To section 13 to the periodic report (section 6.13 to the prospectus) –

Gadot published a shelf registration on May 30, 2007. As of the date of the report, Gadot has not offered securities under said shelf registration.

The acquisition of Pharmline Holding Corp.:

Pursuant to the agreement dated May 4, 2007 between Gadot BioChem USA Inc., a foreign wholly-owned subsidiary of Gadot (hereinafter in section 13.2.5: "**the subsidiary**") and Pharmline Holding Corp. (a private US company) (hereinafter: ""**Pharmline**"), and the shareholders of Pharmline, on June 8, 2007, the subsidiary acquired 85% of the issued and paid-up share capital of Pharmline in consideration for a cash payment of US$ 11.3 million. The acquisition was financed through a loan granted by a US bank to the subsidiary, bearing an annual interest at the rate of Libor plus 1.4% per annum, and which is to be repaid in 17 quarterly installments starting one year from the date of provision of the loan and until June 2012, subject to its right for early repayment, as stipulated in the financing agreement. Under the financing agreement, the subsidiary has undertaken toward the bank, inter alia, not to place a lien on its shares (which were pledged in favor of the bank under the financing agreement) and not to guarantee the debt payment of another, not to make significant changes in its controlling structure, not to sell assets, not to distribute dividends, not to use the amount of the loan for purposes other than the acquisition of Pharmline shares, etc. Furthermore, the subsidiary has undertaken to place a lien on the Pharmline shares in favor of the bank, and it shall not make any change and/or any decision and/or vote in its meetings on a matter that may affect their value. Gadot has provided the bank with a guarantee to secure the liabilities of the subsidiary, and to that end it has placed a lien on several assets in favor of the bank.

Pharmline is engaged, through Pharmline Inc., a wholly-owned subsidiary, in the manufacture, marketing and sale of ingredients for nutritional additives as well as in the processing of food ingredients for the nutraceuticals industry, primarily in North America. Approximately 20% of the Pharmline revenues stem from the marketing of products manufactured by other manufacturers, about 5% of its revenues stem from processing services provided to others and the remaining revenues stem from the manufacture of and marketing of products.

The bulk of Pharmline's sales (95%) are made to the nutraceuticals market in North America. The nutraceuticals market primarily includes nutritional additives that are sold "over the counter" in drugstores and pharmacies.

Pharmline has several lines of products and services as detailed below:

Minerals – products that constitute a source of minerals such as calcium, magnesium, iron and others.

Vitamins – this group includes various vitamins which are manufactured both synthetically and by using natural extracts such as vitamin C, vitamin B, vitamin E, vitamin D and others.
Joint products – ingredients that help to improve the health of joints and bones.
Natural extract products – health-promoting ingredients that stem from plant extracts, which are rich in nutritional ingredients (such as cranberry extract, etc.) or medicinal herbs (such as ginseng, Echinacea, etc.).
Oils – divided into two groups: (a) EPAX fish oil, which is rich in Omega 3; (b) Various vegetable oils that are rich in nutritional values.
Food supplements: Products such as healthy sweeteners (fructose, aspartame, etc.), food acids (such as ascorbic acid) and more.
Processing services – Pharmline provides various processing services for food ingredients in line with customer requests. These services include grinding, granulation, coating, mixing, sterilization, etc.

Pharmline products are sold to hundreds of customers, which are food additives manufacturers, some under annual agreements, and some by specific orders. The engagement with the customers is on a quantitative or periodic basis (usually annual) and the price is set in negotiation. As of the period of the report, Pharmline is not dependent upon any of its customers.
Pharmline markets its products primarily through a marketing team, which it employs, while a small, insignificant portion of its sales is carried out through distributors.
The North American nutraceuticals market has two major competitors: Pharmline and Pharmachem, and a relatively large number of small companies, which entered the market due to a lack of regulation. Only recently has regulation in this industry began to tighten. Gadot estimates that stricter regulation will reduce the number of competitors in the market.

Pharmline's plant is located in Orange County, in the State of New York, and comprises, among others, offices and labs, a production site, pharmacy, storage area and a reception/shipment area. As of the date of the report, Pharmline numbers 78 employees. In 2006 and in the first half of 2007, no material changes were made in Pharmline's manpower and in the terms of employment of its employees**.**

Pharmline buys hundreds of raw materials from different suppliers in 18 countries worldwide (mainly China and India) for the manufacture of 1,500-2,000 products. In addition, Pharmline has franchises from 3 suppliers from Norway, France and Mexico, for the distribution of their products and a distribution agreement with EPAX AS, which is material to Pharmline, under which Pharmline markets the Omega 3 products manufactured by EPAX. As of the date of the report, Pharmline is not dependent upon any of its suppliers.

Pharmline has incorporated and operates in the State of New York in the US, and as such is subject to the tax laws of the State of New York and the federal tax laws that govern the operation of US-based companies. Pharmline's activity is subject to environmental regulations and is supervised by the New York State Department of Environmental Conservation ("**the DEC**"). Pharmline has registered with the FDA on July 11, 2003, as a food-manufacturing business. Pharmline holds licenses from the US Department of Agriculture ("USDA") and the Bureau for Supervision of Alcohol, Tobacco and Firearms, which are required for the operation of its business.
For additional details on the activity of Pharmline, see an update by Gadot under the financial statements for the second quarter, which were published on August 22, 2007.

To section 13.8 (Section 6.13.8 to the prospectus) -

On July 3, 2007, the Board of Directors of Gadot approved an investment in the amount of US$6 million to finance the expansion of the fructose production facility, for the manufacture of an estimated additional 5,000 tons of fructose a year. As of the date of the report, the manner of financing of this investment has not been determined.

To section 13.16 (Section 6.13.6 to the prospectus) -

On August 15, 2007 Gadot was sent a copy of a letter by the Ministry of the Environment to the Securities Authority stating, inter alia, that the Ministry of the Environment made a strategic decision where industrial plants, which had discharged effluents to the Kishon River, would be required to establish a marine outfall for treated industrial effluents and, as of 2009, using a pipeline, dispose of them at the Mediterranean Sea. The cost of establishing the marine pipeline is estimated, according to preliminary assessments, at dozens of millions of dollars. The letter also stated that the Kishon River Authority conducted a survey as to the quantity of processed waste at the river bed, as well as appointed an expert committee, to examine whether the industrial processes carried out in the plants, which discharged their effluents into the river can be linked to the amount of sludge, and that after the completion of the professional groundwork, a process to estimate the sludge treatment and disposal costs will be conducted and the relative share of each polluting plant in the total costs will be determined. It was further stated that the Kishon River Authority had requested or may request that Gadot (and the other plants in the vicinity of Kishon River) participate in the financing of various projects, which are necessary for the restoration of the Kishon River, including the establishment of a marine outfall pipeline and the discontinued discharge of effluents into the river, the disposal and treatment of sludge, restoration of the river bed, etc. The said letter contained preliminary financial estimates of the necessary costs for performing part of the rehabilitation activities, amounting to dozens of millions of dollars (pertaining to all the plants).

Gadot has received no formal correspondence in this matter from the Ministry of the Environment and/or Kishon River Authority (these issues and others were raised in the meetings of the Kishon River Authority, of which Gadot is a member). The company is currently unable to estimate the degree of its responsibility and liability - if any - in relation to this demand, nor the sums its may be required to pay, if any.

10. The Insurance and Finance Sector in Israel

To Section 14.12 (Section 6.14.12 of the Prospectus) -

On June 17, 2007, the Board of Directors of Phoenix passed a resolution adopting a plan to allocate non-negotiable option warrants to employees of Phoenix, including its CEO. Under the plan, Phoenix will allocate, for no consideration, up to 8,875,000 non-negotiable option warrants exercisable into 8,875,000 ordinary Phoenix shares of NIS 1 par value, based on the benefit value inherent in the option warrants as of the exercise date. The approved plan includes the allocation of 2,218,750 non-negotiable option warrants, for no consideration, to the Phoenix CEO. The value of the benefit, according to the B&S model and based on the share closing price on June 17, 2007, is NIS 55.5 million. On July 23, 2007, the Board of Directors of Phoenix decided to extend the plan by a further 250,000 option warrants, not listed for trade on the stock exchange, which may be exercised into ordinary Phoenix shares of NIS 1 par value, based on the benefit value inherent in the option warrants as of the exercise date.

To Section 14.19 (Section 6.14.19 of the prospectus) -

On August 20, 2007, a lawsuit and request for approval as a class action lawsuit was filed against a Phoenix subsidiary, Phoenix Insurance Company Ltd. (hereinafter: **"Phoenix Insurance"**) and against additional insurance companies. The lawsuit concerns a demand for a full refund of the total sum of the first 3 monthly premiums paid by all insured parties in health insurance and/or health-surgery insurance, on account of an eligibility period of 3 months, from the initial validity of the insurance policies. The plaintiffs claim that since according to the terms of the policies, an insurance event that occurs during the eligibility period is not covered by the insurance, then the insured individual is actually paying insurance fees for a product and/or service that is not being provided to him during the eligibility period and consequently - the charging of the insurance fees during this period is unlawful. The remedy sought by the plaintiffs is a full refund of the insurance fees paid by the insured parties. The personal damage of the plaintiff, who is insured by Phoenix Insurance, amounts to NIS 234, whereas the total sum of the lawsuit against all defendants (including on account of policies cancelled in the past), was calculated by the plaintiffs as totaling NIS 730.8 million. Phoenix has reported that it is impossible to assess the chances that this lawsuit will be approved as a class action lawsuit and if approved - it is impossible to estimate the chances of its success.

11. Additional Operations

To Section 16.1 (Section 6.16.1 of the Prospectus) -

On June 10, 2007, the company issued an immediate report (reference 2007-01-421073) concerning an agreement to construct a seawater desalination plant in China, signed by IDE. The information included in the aforementioned report is hereby provided by way of reference.

To Section 6.16 (Section 24 of the prospectus) -

The transaction for the acquisition of the fuel marketing operations in the Benelux countries was completed on August 8, 2007. For details regarding this segment of operations, see the appendix attached to this report, that constitutes an inseparable part thereof.

DELEK GROUP LTD.

Date: August 29, 2007

Name and Position of Signatories:

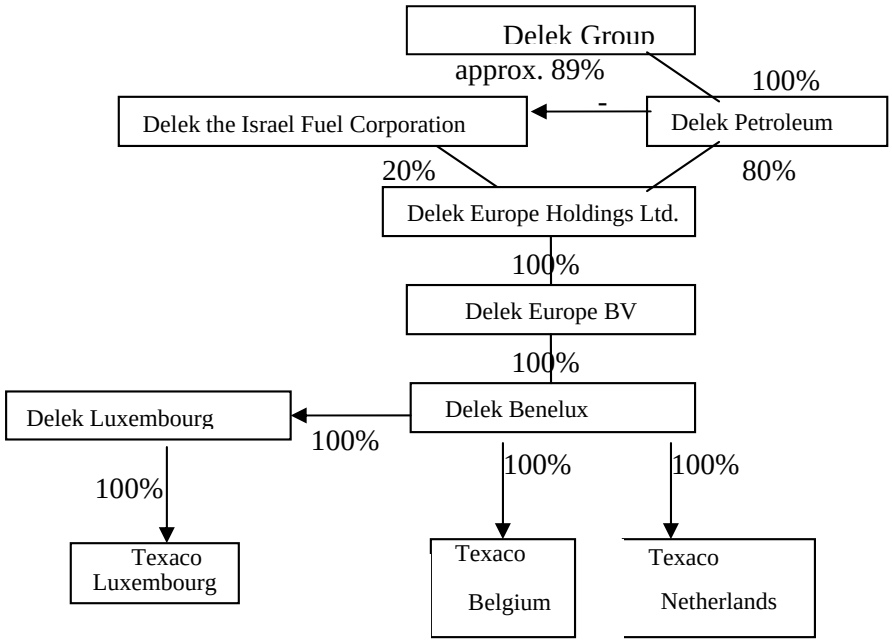
Gabi Last, Chairman of the Board of Directors

Asi Bartfeld, Managing Director

The Fuel Products Segment in Europe

1. General

On May 24, 2007, Delek Benelux BV (hereinafter: "**Delek Benelux**"), a foreign company incorporated in Holland, and a subsidiary of Chevron Global Energy Inc. (hereinafter: "**Chevron**") entered into an agreement to acquire Chevron's marketing operations in BENELUX (Belgium, Netherlands & Luxembourg), consisting of 803 fuel stations under the Texaco brand and 66 stations under private brands (hereinafter: "**The Benelux Marketing Operations**"). The Benelux Marketing Operations also include convenience stores, food chain stores and carwash facilities, as detailed below. The marketing operations are incorporated as three distinct companies in each of the aforementioned countries. Delek Benelux is a wholly-owned subsidiary of Delek Europe BV, which is wholly-owned by Delek Europe Holdings Ltd. (hereinafter: "**Delek Europe**"), a company incorporated in Israel and held by Delek Petroleum Ltd. (80%) and by Delek - The Israel Fuel Corporation Ltd. (20%). Delek Group holds 100% of Delek Petroleum, which holds 89% of Delek - The Israel Fuel Corporation Ltd. In an amendment to the acquisition agreement signed upon closing, a wholly-owned subsidiary of Delek Benelux, incorporated in Luxembourg, joined the agreement as a buyer.



The transaction to acquire the Benelux marketing operations was completed on August 8, 2007, with the parties' rights and obligations pursuant to the agreement being effective starting June 30, 2007. The proceeds of the acquisition, determined by negotiations between the parties following a tender process attended by other parties, amounted to €342 million, before

working capital adjustments, that include cash in the acquired companies. Pursuant to the agreement, €10 million were paid upon signing, while the balance of the proceeds - €332 million - was paid upon closing the transaction. The working capital adjustments are estimated at €50 million, with the cash balance included in the working capital estimated at €38 million. At the transaction closing date, a sum of €34 million was paid on account of the working capital adjustments, while the outstanding balance will be paid after a period of time agreed upon between the parties (approx. 4 months), so as to examine the working capital balance at the closing date.

The acquisition was financed by foreign bank financing, raised by Delek Benelux and its subsidiaries, as well as by an equity investment in Delek Benelux, the proportion being 63% bank financing and 37% shareholders' equity, that was invested in Delek Benelux upon closing the transaction.

The three acquired companies encompassed other operations in the past, which Chevron removed from the companies' operations prior to their acquisition. In view of the above, past data provided to Delek Benelux with regard to the three acquired companies included other operations, while the data appearing below, referring only to the Benelux marketing operations are unaudited, proforma data, based on the data submitted to Delek Benelux.

2. Financial information regarding the Benelux marketing operations

Below are data regarding the sector of operations prior to its acquisition by Delek Benelux, as provided by Chevron (€ in millions):

	2005	**2006**	**For the 6 months ended June 30, 2007**
Revenues	1,457	1,536	715
Cost of Revenues	1,289	1,366	627
Gross Profit	168	170	88
Operating Income	13	18	9
Operating Margin	0.89%	1.17%	1.26%

3. Structure of Sector of Operations and Changes Therein

As of the report date, the operations of Delek Benelux include 803 Texaco branded fuel stations - 510 in the Netherlands, 278 in Belgium and 15 in Luxembourg. Operations also include 66 non-Texaco branded fuel stations.

The marketing operations are carried out via several channels:

a. Fuel stations owned or leased for the long-term by Delek Benelux and operated by it (Company-Owned, Company-Operated, or in short: COCO).

b. Fuel stations owned or leased for the long-term by Delek Benelux and operated by third parties (Company-Owned, Retailer-Operated, or in short: CORO).

c. Fuel stations owned or leased by third parties and operated by them, to which Delek Benelux supplies fuel on an exclusive basis (Retailer-Owned, Retailer-Operated, or in short: RORO).

d. Holdings ranging between 40%-55% in joint ventures - six independently-operated companies that market fuel (both retail and commercial marketing) - Equity Distributors.

e. Authorized Distributors - providing Delek Benelux fuel to 19 stations in Belgium which independently sell fuel to small-medium enterprises, to residential customers and to service stations.

In addition, the European fuel operations include 406 convenience stores; 72 fast-food restaurants under the Baker Street brand; and 95 car-wash facilities. For further details, see sections 11 and 16 below.

4. Restrictions, Legislation, Standards, and Special Limitations

The Delek Benelux operations are subject to various regulatory restrictions and requirements including, inter alia, environmental protection requirements, labor laws, regulations with regard to the sale of alcohol and tobacco products, minimum wage, labor conditions, public access roads and other legislation. For further details, see sections 24 and 25 below.

5. Changes to volume of operations in sector and its profitability

5.1 The fuel station and convenience store market in Benelux is relatively concentrated and stable. Each of the countries (Netherlands, Belgium and Luxembourg) has 5-6 major players, including Delek Benelux.

5.2 To the best of Delek Benelux management's knowledge, fuel consumption in Benelux countries trended slightly upwards in recent years, growing from 18.8 billion liters in 2004 to 19 billion liters in 2006. Fuel sales in this market in 2006 consisted of 57% diesel and 43% gasoline. Demand for diesel is on the rise in recent years, while demand for gasoline is declining, due to a decline in the number of gasoline-powered vehicles in the market. Fuel consumption depends on such factors as: Growth rates, fuel taxation policy, growth in the number of cars and their use in Benelux countries.

5.3 Fuel prices are materially impacted by crude oil prices, which are subject to significant fluctuations on global markets. The gross margin per liter of fuel in the acquired operations has remained relatively stable over recent years, due to the market structure and the competitive environment.

5.4 The convenience store market in Benelux countries has grown in recent years at an annual rate of 4%-5% due, among other factors, to the easing of permitted business hours of these stores during the 1990s and due to a liberal regulatory regime with regard to the range of products that may be sold.

6. Developments in the sector of operation's markets or changes to its customer profile

6.1 The Netherlands: Demand for fuel in this country has grown steadily in the period 2000-2006 at a 2% rate, due to higher GDP and increase in demand for transportation. We note that the demand for diesel has grown at a higher pace, and may continue to grow, while demand for gasoline may decline, in line with the decline in the number of vehicles powered by gasoline.

6.2 Belgium: The demand for fuel increased in recent years by 2% annually, except for the period 2001-2002, which saw an economic slow-down and implementation of a policy to increase fuel taxation.

6.3 Luxembourg: The fuel market in this country is characterized by high demand, primarily due to low fuel tax as compared with its neighbors (which leads to fuel consumption in Luxembourg by customers from neighboring countries - "fuel tourism") and due to Luxembourg's geographic location.

7. Critical success factors in the sector of operations and changes therein

Delek Benelux estimates that the critical success factors in the sector include the following:

A. Widespread deployment and good locations of fuel stations.

B. A network operating under an international brand - Texaco - which is well-known in Benelux for over 100 years.
C. Transfer of more profitable fuel stations to ownership or long-term leasing and operation by Delek Benelux (COCO) and reducing holdings in less profitable fuel stations.
D. Financial stability that allows, inter alia, investing in setting up new company-owned stations and in the renovation and expansion of existing stations.
E. Advanced retail strategy management, including development of convenience stores in fuel stations.
F. Ownership rights to the real estate upon which the filling stations are built.
G. Contracting terms with station operators.
H. Availability of fuel and other products and the means to store them.
I. Advanced marketing and logistics systems.

8. Changes to suppliers and raw materials

8.1 Fuel product suppliers:

In the Netherlands and Belgium there are relatively many refineries centered around Rotterdam and Antwerp, that are able to supply fuel products. Delek Benelux acquires fuel products from the Nerefco refinery, owned by BP, and from other companies, using SWAP and other agreements. Nerefco supplies most of the fuel consumed in the Netherlands, and 30% of the consumption in Belgium. Prior to the acquisition of the Benelux marketing operations there was no formal supply agreement in place, since 31% of Nerefco was held by Chevron. In conjunction with the Benelux operation acquisition agreement, a supply agreement was signed between Nerefco (which is, as of the acquisition date, wholly-owned by BP) and Delek Benelux. For details see section 19 below.

8.2 Convenience store product suppliers:

In the Benelux region there is a wide variety of convenience store product suppliers, and Delek Benelux has contracts with various suppliers for the purchase of tobacco products, soft drinks and alcoholic beverages.

9. Entry and Exit Barriers

9.1 The following are material entry barriers typical of the Benelux market:

a. Size of current players - The various Benelux country markets have a small number of companies, each with a market share in excess of 10%. New competitors therefore find it difficult to enter the market other than by means of acquiring an existing player.
b. Significant investments requiring considerable capital - Investment in fuel stations requires considerable capital, for different reasons including the price of land (due, inter alia, to limited availability of relevant free land) and the cost of acquisition or construction of fuel stations.
c. Environmental protection and planning regulation - Strict standards by environmental protection and planning authorities limit the entry into the market, or else increase the costs associated therewith.
d. Limited availability of free suitable land for the operating sector (primarily on motorways) - leads to higher land prices and inhibits the entry of competitors interested in expanding fuel station compounds into major shopping areas (hypermarkets).

e. Furthermore, the Netherlands and Belgium require a tender process for the operation of fuel stations on motorway sites, which increases prices at such locations to levels only affordable by the major players.

9.2 The major exit barriers consist of the existence of rent/lease/operating contracts with land/station owners.

10. Structure of competition in the market:

10.1 Delek Benelux operates in markets in Benelux countries alongside other major companies. The fuel market in these countries is relatively concentrated, with five or six major fuel companies holding 80%-90% of the market.

10.2 It is estimated that the five major fuel marketing companies in the Netherlands comprise 80% of the market. The three companies with the largest market share include Shell (25%), Delek Benelux [Texaco] (15%) and BP (15%).

10.3 It is estimated that the six major fuel marketing companies in Belgium comprise 80% of the market. The three companies with the largest market share include Total (16%), Q8 (15%) and Shell. Delek Benelux (Texaco) enjoys the fifth largest market share in Belgium (approx. 12%).

10.4 It is estimated that the six major fuel marketing companies in Luxembourg comprise 90% of the market. The three companies with the largest market share include BP (23%), Shell (18%), Exxon and Total (13% each). Delek Benelux (Texaco) enjoys the sixth largest market share in Luxembourg (10%).

10.5 Competition in the fuel market is focused on gaining an advantage in the deployment of fuel stations, branding fuel stations to attract customers (as mentioned before, fuel stations of the Benelux marketing operation are branded Texaco, which is considered a well-known international brand for a century) and the expansion into additional services provided within fuel station compounds (convenience stores, car wash services etc.).

11. Products and Services

11.1 Fuel and oil products

Diesel – Used primarily for diesel-powered vehicles, as well as for heating and industrial use. Marketed both at fuel stations and to industrial customers by means of joint ventures and independent distributors. Diesel sales comprise 62% of total fuel sales.

Various types of gasoline – Uses by vehicles with gasoline engines and marketed mainly at fuel stations. Gasoline sales comprise 32% of total fuel sales.

11.2 Convenience store products

Delek Benelux sells in its convenience stores various retail products, such as food products (sandwiches, baked goods, snacks, etc.), various drinks, cigarettes, car maintenance products, basic hygiene products and other products. As at the report date, there are 406 branded convenience stores operating under the names Star Mart or Star Market.

11.3 Baker Street

Delek Benelux owns a franchise to operate outlets of the Baker Street food chain at fuel stations. Outlets of this restaurant chain operate in 72 of its fuel station compounds. The Baker Street chain specializes in fresh fast food, such as baked goods and salads which are often prepared on the spot. Other than the franchise awarded to Delek Benelux (via Texaco), the chain also operates in shopping centers and in downtown city

stores. The chain operates primarily in Belgium and the Netherlands. The franchise was acquired in 2001 and is valid in Belgium through July 2008. In the Netherlands, it was valid until 2006 and was extended without a termination date. Discussions are currently being held between the parties regarding the termination date and the terms of the engagement.

11.4 Car wash facilities

95 car wash facilities operate in the fuel station compounds.

Below is a breakdown of the convenience stores, car wash facilities and Baker Street outlets by country and site type:

Country	**Site Type**	**Convenience Stores**	**Car wash facilities**	**Baker Street**
Netherlands	COCO	65	22	39
	CORO/RORO	94	49	19
Belgium	COCO	19	0	3
	CORO/RORO	213	24	11
Luxembourg	COCO	8	0	0
	CORO/RORO	7	0	0

12. Segmentation of Revenues and Profitability - Products and Services

Below are the amounts and shares of revenues from fuel sales and from convenience stores, Baker Street outlets and car wash facilities (hereinafter: **"convenience stores and others"**) for the Benelux marketing operations over the past two years:

	First 6 months of 2007		**2006**		**2005**	
	€ in millions	**As % of Sector Revenues**	**€ in millions**	**As % of Sector Revenues**	**€ in millions**	**As % of Sector Revenues**
Fuel	631	88.3%	1380	89.8%	1313	90.1%
Convenience store and others	84	11.7%	156	10.2%	145	9.9%
Total	715	100%	1536	100%	1457	100%

Below are the amounts and gross margins from fuel sales and from convenience stores and others for the Benelux marketing operations over the past two years:

	First 6 months of 2007		2006		2005	
	€ in millions	**As % of Sector Revenues**	**€ in millions**	**As % of Sector Revenues**	**€ in millions**	**As % of Sector Revenues**
Fuel	62	9.8%	124	8.9%	127	9.7%
Convenience store and others	25	29.8%	46	29.5%	41	28.2%
Total	88	12.3%	170	11.1%	168	11.5%

The stations owned or leased by Delek Benelux and operated by it (COCO) accounted for 57% of the gross profit from fuel sales in 2006; fuel sales to stations owned or leased by Delek Benelux and operated by third parties (CORO), where Delek Benelux receives fixed rent for their operation with no profit sharing, accounted for 32% of gross profit from fuel sales in 2006; fuel sales to stations owned or leased by third parties to whom Delek Benelux supplies fuel on an exclusive basis (RORO) accounted for 11% of gross profit from fuel sales in 2006.

In recent years, the share of COCO stations has been relatively growing, at the expense of CORO and RORO stations. In the period 2004-2007, the number of COCO stations increased from 88 to 93, while the number of CORO and RORO stations decreased from 221 and 185 to 191 and 155, respectively.

We note that there are considerable differences in the sales of the different fuel stations. For example, Delek Benelux fuel stations include 41 motorway sites, which see a large volume of vehicle traffic using their services. The sales volume at such sites may reach dozens of millions of liters annually, as compared with 1-2 million liters annually at small, non-central stations. Notably, one of Delek Benelux' COCO stations is the CAPELLAN station, located in Luxembourg, which is one of Europe's top selling fuel stations, and accounts for most of the Delek Benelux fuel sales in Luxembourg.

13. Accounts Receivable - Trade

Delek Benelux customers in the fuel station sector in Europe are divided into two major groups:

Private customers: Private customers who buy fuel at Delek Benelux COCO stations and pay the set price for fuel products at each station. In addition, the private customers also purchase accessories, food or other products at the convenience stores operated by Delek Benelux, and also purchase food at Baker Street outlets and car wash services at facilities located within the fueling compound. Payment is usually made in cash or by credit card. At fuel stations operated by Delek Benelux, the sale prices of fuel products for the end customer are set by Delek Benelux.

Customers who are station operators: CORO and RORO station operators, whose contracting terms are set forth in individual agreements with each of them, make payments via wire transfer to Delek Benelux' account, with an average of 7 credit days.

Customers who are joint ventures: The joint ventures in which Delek Benelux holds 40%-55% are another class of customers who purchase fuel from Delek Benelux. The average credit days for such customers are approximately 20.

Customers from industrial/commercial sectors / authorized distributors: Delek Benelux provides fuel to customers from industrial/commercial sectors, not via the fuel stations, subject to contracts with such customers. The average credit days for such customers are approximately 40.

The gross profit from sales to private customers and station operators in the period 2005-2007 accounted for 95% of total gross profit of the fuel marketing operations.

14. Marketing and Distribution

Marketing in Gasoline stations – Delek Benelux promotes its products and services in a number of ways: Regional campaigns and discounts at specific gasoline stations and the use of sales promotions. In addition, Delek Benelux advertises from time to time in different media.

Agreements to purchase branded fuel - Fuel products sold in the fuel stations are marketed under the Texaco brand. For further details see section 17 below.

15. Seasonality

In general, Delek Benelux is not influenced by any significant seasonality in the operating sector.

16. Fixed Assets and Facilities

16.1 The table below shows the breakdown of fuel stations by type and Delek Benelux's ownership rights therein as of June 30, 2007:

Country	No. of Delek Benelux owned/leased and operated stations (COCO)	No. of Delek Benelux owned/leased and third-party-operated stations (CORO)	No. of third-party owned/leased stations, to which Delek Benelux provides fuel on an exclusive basis (RORO)	No. of joint venture stations (ED)*	No. of authorized distributor stations (AD)	Total stations
Netherlands	66	49	50	345	0	510
Belgium	19	137	103	0	19	278
Luxembourg	8	5	2	0	0	15
Total	93	191	155	345	19	803

* In addition to filling stations under the Texaco brand appearing in the table, the operations include 66 stations under private brands of the joint ventures. * See details below regarding the joint ventures.

COCO stations are owned or leased for the long term by Delek Benelux, and are operated by it. At these stations, Delek Benelux owns the inventories and has direct control over pricing, supply, management and maintenance. Therefore, Delek Benelux benefits fully from station profits, since it both owns and operates them.

CORO stations are owned or leased for the long term by Delek Benelux, and are operated by third parties. At these stations, the third-party operator conducts all the marketing operations of fuel products and retail / other operations. The operator enters into a lease contract with Delek Benelux to use the compound facilities, and pays for products provided and for use of brands.

RORO stations are owned or leased by third parties, and are operated by them. At these stations, the third-party conducts all the marketing operations of fuel products and retail / other operations. Delek Benelux enters into exclusive agreements with the stations for the provision of fuel. RORO stations are therefore less profitable for Delek Benelux.

The joint ventures, in which Delek Benelux owns 40%-55% of rights, are companies that operate independently in the fuel sector. The joint venture operations are not consolidated in the financial statements.

The authorized distributors mainly deliver Delek Benelux fuel to 19 stations in Belgium and for

independent sale of fuel to small-medium enterprises, to residential customers and to service stations.

16.2 Delek Benelux has buildings and equipment at most stations in which it has ownership rights. Such buildings and equipment form part of Delek Benelux's fixed assets. In addition, Delek Benelux owns equipment in all stations in which it has no ownership rights or in which it has short-term lease contracts. In some of these stations, Delek Benelux also has fixed assets in station buildings, which were constructed many years ago, when the seller had ownership rights (including long-term lease contracts) in these stations. Delek Benelux's equipment in its stations includes all required equipment for station operation, such as: Tanks, pipes, pumps, computer and communications systems, office equipment, power supply systems and power generators if required, fire extinguishing systems and public restrooms.

No material investments are expected in fixed assets, other than a planned investment in a fueling compound located on both sides of a motorway in Belgium, amounting to €10 million, to be made over the course of two years (2007-2008). This information concerning anticipated investment costs is to be considered as forward-looking information, and may change along with any changes in the investment plans, additional regulatory requirements including various authorizations, or in the event that a previously unknown need for upgrade of fixed assets emerge and so forth.

16.3 Texaco Netherlands has holdings of 40%-55% in 6 joint ventures operating independently in the marketing of fuel (both retail and commercial marketing) - Equity Distributors. The results of the joint ventures have not been consolidated in the Texaco Netherlands operating results, and the contribution from their fuel sales is not material for the operating sector. However, the joint ventures are important in Delek Benelux's view, since they expand the presence of its Texaco brand and provide a wide customer base for the fueling card program.

17. Intangible Assets

On August 8, 2007, Delek Benelux entered into a contract with companies of the Chevron Group (hereinafter: "the license holders") for obtaining a license to use the Texaco trademark and additional trademarks (primarily "Star Market" and "Star Mart") in Benelux countries. The Texaco trademark with the star ("Texaco star") is one of the better known trademarks in

the fuel world, and has been in use in Benelux countries for many years. Pursuant to the contract, Delek Benelux was granted a non-exclusive license to use the trademarks in Benelux countries with no royalty payments for a 7-year term starting August 8, 2007. The contract includes guidelines on how to use the trademark, terms to ensure proper use of the trademarks, as well as control and supervision mechanisms by the license holders. Delek Benelux has the right to sub-license during the first 6 years of the license term. Delek Benelux has committed to re-brand all stations no later than 3 months prior to the end of the license term, and should it fail to do so - it would be liable for fines set forth in the contract. The contract includes provisions whereby the licensors may terminate the contract upon short notice due to a material breach which Delek Benelux failed to remedy.

18. Human resources

18.1 Starting upon closing of the transaction, Delek Benelux is managed by 7 major divisions, whose managers are members of the Delek Benelux executive team and who report directly to the Delek Benelux Managing Director. These divisions are: Operations, COCO sales, general sales, marketing, finance, human resources and legal. There are also departments reporting to the Managing Director, which are in charge of the joint ventures and of IT.

18.2 Below are details of the Delek Benelux employee payroll as of the acquisition date:

Department	Number of Employees
Company HQ	189
COCO fuel stations	875
Total	1,064

According to information provided by Chevron, there were no material changes in the staffing of the various departments over the past two years.

18.3 In Benelux countries, labor relations are governed by extensive legislation, with which Delek Benelux complies. Most of the employees are subject to collective employment agreements, are represented by unions and benefit from medical insurance, including disability insurance, seniority and retirement bonuses.

18.4 Below are the employment terms for Mr. Hod Gibso, Managing Director of Delek Europe, pursuant to an agreement effective since February 1, 2006: Pursuant to the agreement, true to this date, Mr. Gibso is entitled to a monthly salary of NIS 55,000, linked to the CPI, which would be the base for payment of social benefits. In addition, Mr. Gibso is eligible for an annual bonus, at the discretion of Delek Europe's Board of Directors. The agreement stipulates that an option plan is to be formulated between the parties, consisting primarily of the granting of stock options to the employee at no cost; the options may be exercised into Delek Europe BV shares, such that assuming exercise of all the options, the employee would hold 2.5% of Delek Europe's capital, fully diluted, as of the grant date. Furthermore, principles were outlined regarding the setting of an exercise price for each option, exercise dates, a Put option that will be granted to Mr. Gibso for the sale of the exercised shares to the company and a Call option and right of first refusal that will be granted to Delek Europe for the purchase of the exercised shares. The agreement clarifies that the above-mentioned regarding the option plan

constitute principles of a plan subject to approval by Delek Europe's Board of Directors and to any other approval required by law. Beyond the said principles, the terms of the plan have yet to be set.

Mr. Gibso is eligible to benefits such as vacation pay, overtime compensation, paid vacation leave, sick days, convalescence and provisions for provident funds and severance pay. Since prior to the start of his employment, Mr. Gibso was employed by Delek Israel, his employment start date for social benefits shall be his employment start date with Delek Israel (October 15, 2000) and all rights accrued during his employment by Delek Israel shall be maintained to his benefit. Delek Europe has undertaken to provide Mr. Gibso with a company car, as customary, and to pay for its maintenance and operation.

Each party may terminate the agreement with three months' advance notice to the other party. Under severe circumstances, Delek Europe may terminate the agreement immediately with no severance pay. The agreement set forth various provisions regarding non-competition (during the agreement term and for a limited term thereafter) and for non-disclosure.

Upon completion of the transaction, Mr. Zion Ginat was appointed CEO of Delek Benelux and the parties are working on a contractual agreement.

19. Raw Materials and Suppliers

In general, the Benelux market has an excess refinery production capacity, which leads to fuel supply that is in excess of local demand. Thus, local refineries export to other EU countries. In the Netherlands, most of the fuel product consumption is supplied by the BP-owned Nerefco refinery, Most of this supply is delivered at the Pernis terminal, located adjacent to the Nerefco refinery. In addition, supply is received from four other terminals owned/operated by another storage company, and from seven other sites owned by a third party. In Belgium, 30% of fuel product consumption is supplied directly from Nerefco, with the balance supplied via seven terminals owned by third parties. In Luxembourg, 100% of fuel products are supplied by third parties. In conjunction with the agreement to acquire the Benelux marketing operations, a supply agreement was signed between Delek Benelux and BP-owned Nerefco, which may be terminated no earlier than at the end of 2007, with Delek Benelux having the option to extend it for an additional 1-year term by mutual consent of the parties, to be given no later than September 30 of each year. Payment terms under the agreement are 15 days on average.

The remaining fuel products not acquired from Nerefco, are acquired under SWAP agreements with other companies, which are renewed annually.

Secondary supply, from the terminal or storage facility to the fuel stations, is mostly carried out by tanker trucks which are operated by a third-party owned transportation company named Hoyer. The agreement with Hoyer is effective through 2008.

20. Working capital

(A) Finished Product Inventory Policy

Average inventory days for Delek Benelux is 5 days for fuel products. The book value of inventories for the acquired Benelux companies as of December 31, 2005, December 31, 2006 and June 30, 2007 was €28 million, €31 million and €25 million, respectively.

(B) Credit Policy -

Customer Credit: See section 13 above.

Supplier credit: The average credit period, including credit period pursuant to the new supply agreement with Nerefco, may range from 5-20 days, with some suppliers providing Delek Benelux with no credit at all.

21. Investments

For details of the Delek Benelux holdings in joint ventures, see section 16.3 above.

22. Financing

In proximity to the closing date of acquisition of the Benelux marketing operations, Delek Benelux signed a financing agreement to obtain loans of various types, to serve for the acquisition of these operations, and to establish future credit facilities, financial covenants and other conditions to which Delek Benelux is bound pursuant to the financing agreement. For the purpose of financing the share acquisition, Delek Benelux obtained loans amounting to €240 million (first and second lien facilities), a revolver credit facility of €50 million as well as a letter of credit facility.

The loan agreements set forth covenants which primarily refer to the ratio of outstanding loans to EBITDA (as defined in the agreement), ratios varying based on various terms throughout the lifespan of the loan, ratios of EBITDA to financing expenses throughout the loan terms and compliance with a maximum threshold of CAPEX investments.

-Credit at variable interest rates, if exceeds 5% of total assets:

Type of Loan	Variance Mechanism Euribor+	Principal repayment date / facility term	Interest payment	Interest rate as of the closing date	Loan / facility amount (€ in millions)
First Lien Facilities	2.75% – 3.25%	In one installment at the end of 8-9 year terms	Quarterly	7.05%-7.55%	200
Second Lien Facilities	5.125%	In one installment after 9.5 years	Quarterly	9.425%	40
Revolver Credit Facility	2.25%	7 years	Quarterly	6.55%	50

In addition, Delek Benelux received a letter of credit facility amounting to €60 million for an 8-year term. The interest for this facility is not impacted by facility utilization, and is fixed at 2.75%.

23. Taxation

The tax reports of Delek Benelux (a Dutch company) will be consolidated, for tax purposes, with those of its Dutch subsidiaries in which it holds 95% or more. The future tax liability will be determined based on the Delek Benelux assets, volume of operations and shareholders' equity. In general, the Dutch corporate tax rate as of 2007 is 25.5%. The companies operating in Belgium and Luxembourg would be affected by the applicable tax rates in those countries. As of 2007, the tax rate in Belgium was 33.99% and in Luxembourg - 29.63%. Tax rates on capital gains, interest and dividends are impacted by the Israel-Netherlands tax treaty. Under the Israel-Netherlands treaty for avoidance of double taxation, dividend distribution by a Dutch company to an Israeli company holding at least 25% of its share capital shall be subject to tax withholding at a 5% rate in the Netherlands.

24. Environment

Delek Benelux is subject to various environmental protection related provisions, concerning fuel handling, avoiding damage to soil and water, waste treatment, etc. In the 1990s, environmental protection requirements for fuel stations in Benelux countries were made more stringent. This raised the level of environmental protection in existing stations, and also created an entry barrier to the establishment of new fuel stations.

Environmental protection requirements vary by country:

In the Netherlands, fuel station operators must have a license under the Dutch Environmental Control Act, and must comply with terms of said license. Furthermore, station operators must comply with requirements stipulated by a multitude of ordinances, including: A duty to perform soil quality testing at specified intervals; to remedy any pollution caused in the period when the station was operated under license; and to obtain a special license if any activity other than fuel sales takes place in the fuel station, which has environmental protection implications (e.g. above-ground fuel tank storage). The Dutch Provincial Executive is authorized to instruct soil pollution testing to be carried out, as well as to take action. The duties may be imposed on owners as well as on the lease-holders of the compound, and may apply to Delek Benelux, primarily with regard to COCO or CORO stations.

In Belgium, the scope of environmental protection requirements vary based on the exact location of each station, since the country is divided into three regions having different regulatory requirements. Each region has a separate authority for environmental protection related issues, including licensing and issues concerning pollution. The state is still responsible for certain matters involving health and safety. Fuel station operators must obtain an environmental protection license which includes operating conditions, including quality-related conditions and conditions related to upgrading of station equipment. In addition, various requirements are imposed on the operator, concerning cleaning and testing of soil pollution, which apply to both the operator and any rights owners in the station.

In Luxembourg, operating a fuel station requires licensing by the Ministry of Labor and the Ministry of Environmental Protection. Licenses are granted to operators for a limited term (usually - 15 years). In general, a station operator is not required to handle any faults unless the license expires, is revoked, or if any environmental damage is caused during the license term.

It is estimated that total environmental costs and investments through 2007 are expected to amount to €2.3 million, and total environmental costs and investments after 2007 are expected to amount to €16 million (20% of this amount - in 2008).

This information regarding an assessment by Delek Benelux of the need for additional investments for environment related items, is to be considered forward looking information. It is possible that this will not materialize, inter alia, in the event that essential deviations are discovered in the Delek Benelux operations or that new regulations might take effect that will require additional significant expenditures.

25. Restrictions and Supervision of Company Operations

Delek Benelux operations are subject to laws and regulations including, among others, labor laws, regulations in connection with the sale of alcohol and tobacco products, minimum wages, working conditions, public access roads and additional laws, including:

A. Storage obligation - Each Benelux country is committed to comply with a Compulsory Storage Obligation (CSO) for fuel, based on the sales volume in the preceding year. In previous years, the storage obligation was significantly higher than required, due to the seller's ties with Nerefco. Historically, the obligation was for 90 days' storage in Belgium and in Luxembourg, and for 15 days' storage in the Netherlands. A proposal is being discussed for a government agency to manage obligations in Belgium, and it is uncertain how this may affect the storage obligations. We note that companies that do not meet storage obligation requirements may acquire "tickets" from other entities in the fuel industry which possess inventory balances. The annual cost associated with meeting the storage obligation is not material.

B. Provisions to Promote Competition - In June 2006 a law was enacted in the Netherlands which requires a tender process for obtaining fuel station franchises along Dutch motorways. This law is aimed at increasing the number of players in the market. This trend is also evident in agreements (unrelated to this law) signed between the Dutch government and the four largest fuel sector companies (including Texaco), whereby the number of these companies' motorway stations would decrease by 50. In Belgium, BOT (Build, Operate, Transfer) tenders are customary for the construction of motorway fuel stations, and legislation is in place to regulate full and fair information disclosure prior to entering into contracts. In addition, the three countries are subject to the 1999 European Regulation of Vertical Restraints, which limits the term of exclusive contracts (with suppliers, agents, etc.) to a maximum of 5 years, unless the exclusivity is purchased or paid for by a fixed payment.

C. Fuel station licensing and operations in the fuel sales sector - Delek Benelux is required to comply with a range of municipal, regional and national regulations in each country in which it operates, including periodic testing of soil quality, licensing of station buildings and fire fighting regulations. Detailed guidelines also apply to the construction and operation of motorway fuel stations.

D. Environmental protection requirements - See section 24 above.

E. Licensing related to the operation of convenience stores – The convenience stores are subject to directives of the different countries governing matters involving health and sanitation, safety, fire, and planning and construction.

F. Fuel taxation - Tax rates on fuel sales in the Netherlands and Belgium are currently among the highest in Europe. In Luxembourg, tax rates are lower than in neighboring countries.

G. Labor laws - Delek Benelux and its subsidiaries are subject to legislation regarding wage protection, overtime and labor conditions. Furthermore, labor laws in Benelux countries restrict employee termination, and require that different actions be taken in order to prematurely terminate employment (such as: applying for advance approval from a government agency, or a relatively long advanced notice period prior to actual

termination of employment). It should be noted that the employee unions in the Benelux countries enjoy relatively significant power, including the right to obtain information regarding material topics, to be consulted regarding various processes (such as the sale of an operation or liens) and they can even prevent certain company initiatives by turning to the courts.

H. Price Supervision - In the Netherlands there are no regulations prescribing maximum prices for fuel. In Belgium, there exists a system pursuant to a law for prescribing maximum prices and there exists an arrangement based on this law, between the Belgian Ministry of Economics and the country's fuel association, regarding the supervision of prices. The Ministry determines maximum fuel prices. In Luxembourg, there exists a mechanism similar to the Belgian mechanism for setting maximum prices, although it is based on other laws. Furthermore, the Benelux countries have limitations on the fixing of prices between fuel companies, by virtue of anti-trust laws.

26. Material Engagements

Delek Benelux considers the franchise agreements with Texaco and with Baker Street, and the fuel supply agreement with Nerefco, to be material engagements. For details, see sections 17, 11.3 and 19, respectively.

27. Legal Proceedings

Delek Benelux is not party to any significant legal proceedings.

28. Strategy and Objectives:

Delek Benelux examines its goals and strategies and updates them from time to time according to developments in the fuel market, the competition and macro-economic impacts.

Delek Benelux' operations in the coming years are expected to focus on the following activities:

A. Expansion of retail operations in fueling compounds, inter alia, by opening additional convenience stores and car wash facilities.

B. Review of options to convert CORO and RORO stations into COCO stations.

C. Increased efforts to market fuel products, increase brand awareness and increase convenience store sales.

D. Cost reduction at non-profitable sites, via optimization of product purchasing, efficient inventory management, etc.

E. Renovation and re-design of convenience stores, including smart product arrangement and efficient inventory management - in order to reduce costs.

F. Optimization of fuel station deployment, including acquisition of attractively positioned new sites.

G. Investment in Delek Benelux' IT systems, including the ERP system, to improve the company's pricing management system.

29. Risk Factors

Delek Benelux estimates the following to be the major risk factors associated with its operations in Benelux countries:

a. **Competition** - The fuel market in Benelux countries includes several large competitors, who constantly strive to increase their market share. Competition is manifested in the acquisition of fuel stations, sales promotion, price reduction, etc. Increased competition, including the entry of hyper-markets, may impact sector margins and the Delek Benelux business results. Furthermore, existing and future regulatory restrictions, aimed at

limiting the power of major market players and at increasing market competitiveness, may impact the Delek Benelux ability to expand its operations, or may restrict it in contracting with other parties.

b. **Exposure to fluctuations in global fuel prices** – The price paid by Delek Benelux for the fuel products it purchases is derived from the global fuel market price, and the company is therefore exposed to fuel price fluctuations in these markets. Among the factors that influence fuel prices one can list: Changes in the state of the global and local economy; the level of demand for fuel products inside and outside Benelux countries; the geo-political situation in general and of the oil producing areas in particular (USA, the Middle-East, the former Soviet Union countries, West Africa and South America); the production level of crude oil and petroleum distillates around the world; development and marketing of fuel substitutes; interruptions in the supply lines; local factors including market and weather conditions. The rise in fuel prices around the world causes a rise in prices of products sold by Delek Benelux, which can lead to a decrease in demand for these products, while impairing the Delek Benelux profits on every product sold.

c. **Environmental protection requirements** - Although statutory provisions in Benelux countries with regard to environmental protection are relatively stringent today, additional, future regulations and ordinances due to increasing awareness of dangers associated with uncontrolled operations by fuel companies in general, and by Delek Benelux in particular, may increase the monetary expenses incurred by Delek Benelux.

d. **Credit limits** - As of June 30, 2007, Delek Benelux has obtained loans and letters of credit amounting to €300 million. These liabilities are likely to heighten Delek Benelux' sensitivity to negative economic changes; force it to allocate a substantial part of its cash flows for debt repayment; limit its ability to plan, make changes and react quickly to changes in its field of activity; and curtail its ability to borrow additional funds.

e. **Alternative energy sources** - Moving to the use of alternative energy sources, such as natural gas, electric-powered engines, etc., may negatively impact the volume of fuel sold by Delek Benelux or, alternatively, may require it to adapt fuel stations to new customer requirements, which would entail significant investment.

f. **Food sector regulation** - Food products being sold in convenience stores and in the Baker Street food store chain are subject to various regulatory requirements. Failure to comply with regulatory requirements and incurring the resultant damages, or more stringent regulatory requirements, may impact the Delek Benelux business results.

g. **Fuel taxation** - Increase of current fuel tax rates in Benelux countries may impact fuel consumption in these countries and may negatively impact the Delek Benelux business.

h. **Slow-down in local market** - An economic slow-down in Benelux countries may lead to decreased consumption of fuel and retail products purchased at the Delek Benelux fueling compounds, and may impact the Delek Benelux business results.

i. **Regulatory involvement** - Delek Benelux is subject to a range of regulatory provisions on matters such as fuel station licensing, labor laws, environmental protection, price supervision, anti-trust, etc. A breach of regulatory requirements, or more stringent regulatory requirements applicable to Delek Benelux may cause increased expenditures, may prohibit expansion of operations or may impact existing operations, and may negatively impact the Delek Benelux business.

j. **Discontinued operations in fuel stations with relatively extensive operations** - Operating volumes vary by station, to the extent that some of the fuel stations account for larger operating volumes than other stations. Discontinued or reduced operations in COCO fuel stations with relatively larger operating volumes, such as the CAPALLEN

station in Luxembourg, for any reason, would negatively impact the Delek Benelux activities.

k. **Franchises used for Delek Benelux operations** - Delek Benelux makes use of a franchise for fuel branding from Texaco, as well as a franchise for the Baker Street food store chain. The discontinued use of these franchises, for any reason, may impact the Delek Benelux business results.

Following below is a summary of the risk factors by type (macro-level risks, industry-wide risks and group-specific risks), rated according to the estimates of the Delek Benelux management by the degree of impact on group business: Major, medium or minor impact:

	Degree of risk factor impact on the Company's business		
	Major Impact	**Medium Impact**	**Minor Impact**
Macro-level risks		• Economic slow-down in local market	
Industry-wide risks	• Exposure to volatility in fuel prices	• Competition • Fuel taxation • Regulatory involvement	• Environmental protection • Alternative energy sources • Food sector regulation
Company-specific risk for Delek Benelux		• Discontinued operations in fuel stations with relatively extensive operations • Franchises used for Company operations	• Credit Limits

The degree of impact of the above-mentioned risk factors on fuel product and convenience store business in Benelux countries is based exclusively on estimates, and the actual impact may differ.

29.8.07

DELEK GROUP LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2007

UNAUDITED

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ERNST & YOUNG

■ **Kost Forer Gabbay & Kasierer**
3 Aminadav St.
Tel-Aviv 67067, Israel

■ ***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 Periods of Six and Three Months Ended June 30, 2007

At your request, we have reviewed the accompanying interim consolidated balance sheets of Delek Group Ltd. (hereinafter: "The Group") as at June 30, 2007, and the related interim consolidated statements of income, changes in shareholders' equity and the consolidated cash flows for the six and three months then ended. Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included, 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 23% of total consolidated assets as at June 30, 2007, and whose included revenues constitute approximately 10% and 12% of total consolidated revenues from general operations and approximately 22% and 23% of revenues from insurance operations for the six and three months then ended, respectively. In addition, we have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain associated companies and partnerships, the investment in which as at June 30, 2007 totaled NIS 772 million. The Group's share in the earnings of these associated companies and partnerships for the six and three months then ended totaled NIS 71 million and NIS 12 million, respectively.

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

Based on our review and the reports of other accountants, 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, based on the fact that the data for consolidated subsidiaries that are insurance companies are formulated on the basis of accounting and reporting principles according to the Law for Supervision Over Financial Services (Insurance) – 1981 and the ensuing regulations.

We have also reviewed the proforma interim consolidated statements of income, for the six-month and three-month periods ended June 30, 2007.

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% and 4% of total proforma consolidated revenues from general operations for the six-month and three-month periods ended June 30, 2006, respectively. 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 six-month and three-month periods ended June 30, 2007, totaled NIS 205 million and NIS 198 million, respectively.

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 9.

We draw attention to the matter discussed in Note 5 to the financial statements regarding claims filed against investees.

Tel Aviv
August 29, 2007

Kost Forer Gabbay and Kasierer
CPAs

Consolidated Balance Sheets

	As at June 30		As at December 31
	2007	2006	2006
	Unaudited		Audited
	NIS in Millions, Reported		
General Business Assets			
Current Assets			
Cash and cash equivalents	2,323	792	881
Short-Term Investments	1,600	1,009	815
Accounts Receivable - Trade	3,047	2,722	2,352
Other Accounts Receivable	542	406	557
Inventories	1,242	(*) 1,419	1,367
Buildings and Land for Sale	151	66	110
	8,905	6,414	6,082
Long-Term Investments, Loans and Receivables			
Investments in investee and other companies	2,653	3,641	2,815
Real Estate for Rent	13,711	2,415	3,230
Land for Construction	432	474	477
Loans, Deposits and Long-Term Receivables	1,459	(*) 662	903
Investments in Oil and Gas Exploration	1,021	794	969
	19,276	7,986	8,394
Fixed assets, net	7,400	2,629	3,077
Other Assets and Deferred Charges, Net	1,544	655	741
Total General Business Assets	37,125	17,684	18,294
Insurance Operations Assets			
Cash and cash equivalents	1,038	-	1,115
Investments	29,387	-	26,018
Fixed Assets	344	-	*) 330
Sums to collect	4,273	-	3,880
Deferred acquisition costs and other assets	2,805	-	*) 2,797
Total Insurance Business Assets	37,847	-	34,140
	74,972	17,684	52,434

(*) Reclassified

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

Consolidated Balance Sheets

	As at June 30		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	4,060	3,244	3,185
Accounts payable, trade	2,091	1,787	1,298
Other Accounts Payable	1,734	907	908
Declared dividend	130	150	86
	8,015	6,088	5,477
Long-Term Liabilities			
Long-term loans from banks and others	14,537	3,946	4,880
Debentures Convertible Into Company Shares	1	38	8
Debentures Convertible into Shares of Subsidiaries	257	313	301
Other Debentures	7,547	2,360	4,221
Accrued severance pay, net	73	13	16
Deferred Taxes	1,527	301	399
Other Liabilities	616	219	337
	24,558	7,190	10,162
Total General Business Liabilities	32,573	13,278	15,639
Insurance Operations Liabilities			
Insurance reserves and pending claims	30,381	-	27,841
Long-Term Liabilities	2,925	-	2,253
Other Liabilities	1,090	-	1,022
Total Insurance Business Liabilities	34,396	-	31,116
Minority Interest	3,936	1,103	2,232
Shareholders' Equity	4,067	3,303	3,447
	74,972	17,684	52,434

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

August 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 six months ended June 30		For the three months ended June 30		For the year ended December 31
	2007	2006	2007	2006	2006
	Unaudited				Audited
	NIS Millions, Reported (Except profit per share data)				
General Operations					
Revenues	14,076	11,796	8,106	6,328	24,118
Cost of Revenues	12,044	10,278	6,799	5,448	21,217
Gross Profit	2,032	1,518	1,307	880	2,901
Selling, Marketing and Gas Station Operating Expenses	505	461	280	237	930
General & Administrative Expenses	296	218	127	118	441
Operating Income	1,231	839	900	525	1,530
Financial Expenses, net	492	314	345	177	554
	739	525	555	348	976
Gains from realization of investments in investee and other companies, net	220	625	77	443	702
Other income, net	47	9	12	5	3
Income before taxes on income	1,006	1,159	644	796	1,681
Taxes on Income	270	233	162	162	404
Income after taxes on income	736	926	482	634	1,277
Group's share in profits of affiliates and partnerships, net	112	282	45	204	591
Minority Interest in Subsidiary Earnings, Net	(267)	(188)	(179)	(128)	(355)
Net income from general operations	581	1,020	348	710	1,513
Insurance Operations					
Profit from insurance operations	494	-	275	-	-
Income from investment and others, not included in insurance operations	118	-	78	-	-
General and administrative expenses not included in insurance operations	(20)	-	(16)	-	-
Interest expenses on long-term liabilities	(118)	-	(71)	-	-
Group's Share in profits of associated companies	63	-	17	-	-
Income before taxes on income	537	-	283	-	-
Taxes on Income	203	-	111	-	-
Income after taxes on income, from insurance operations	334	-	172	-	-
Minority Interest in Subsidiary Earnings, Net	(157)	-	(87)	-	-
Net income from insurance operations	177	-	85	-	-
Net Income	758	1,020	433	710	1,513
Net earnings per share (in reported NIS):					
Basic earnings per share	65.03	92.05	37.10	63.30	133.4
Diluted earnings per share	63.73	87.70	36.18	60.67	128.7

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

Statements of Changes in Shareholders' Equity

	Share Capital	Premium on shares	Capital Reserves	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	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	-	-	98	-	-	98
Profits yet to be realized in interest swaps at a foreign affiliate	-	-	3	-	-	3
Adjustment of fixed assets at associated company to fair value at deemed cost (see Note 2b(4))	-	-	-	(23)	-	(23)
Dividend	-	-	-	(130)	(100)	(230)
Conversion of debentures into Company shares	-	8	-	-	-	8
Exercise of option warrants into company shares	-	6	-	-	-	6
Net Income	-	-	-	758	-	758
Dividend declared subsequent to balance sheet date	-	-	-	(200)	200	-
Balance as at June 30, 2007	13	1,557	115	2,182	200	4,067

	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	-	-	(10)	-	-	-	(10)
Dividend	-	-	-	-	(150)	(61)	(211)
Conversion of debentures into Company shares	1	222	-	(4)	-	-	219
Exercise of option warrants into company shares	-	3	-	-	-	-	3
Net Income	-	-	-	-	1,020	-	1,020
Dividend declared subsequent to balance sheet date	-	-	-	-	(250)	250	-
Balance as at June 30, 2006	13	1,493	75	2	1,470	250	3,303

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

Statements of Changes in Shareholders' Equity

	Share Capital	Premium on shares	Capital Reserves	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	Unaudited					
	NIS in Millions, Reported					
Balance as at April 1, 2007	13	1,553	(30)	1,949	130	3,615
Differences arising from financial statements of investee companies adjusted to foreign currency	-	-	145	-	-	145
Dividend	-	-	-	-	(130)	(130)
Conversion of debentures into Company shares	-	4	-	-	-	4
Net Income	-	-	-	433	-	433
Dividend declared subsequent to balance sheet date	-	-	-	(200)	200	-
Balance as at June 30, 2007	13	1,557	115	2,182	200	4,067

	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 April 1, 2006	12	1,278	102	6	1,010	150	2,558
Differences arising from financial statements of investee companies adjusted to foreign currency	-	-	(27)	-	-	-	(27)
Dividend	-	-	-	-	-	(150)	(150)
Conversion of debentures into Company shares	1	215	-	(4)	-	-	212
Net Income	-	-	-	-	710	-	710
Dividend declared subsequent to balance sheet date	-	-	-	-	(250)	250	-
Balance as at June 30, 2006	13	1,493	75	2	1,470	250	3,303

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

Statements of Changes in Shareholders' Equity

	Share Capital	Premium on shares	Capital Reserves	Proceeds from convertible option	Retained earnings	Dividend declared subsequent to balance sheet date	Total
	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 six months ended June 30		For the three months ended June 30		For the year ended December 31
	2007	2006	2007	2006	2006
	Unaudited				Audited
	NIS in Millions, Reported				
Cash Flows from Operating Activities					
Net Income	758	1,020	433	710	1,513
Insurance business results	(177)	-	(85)	-	-
Adjustments required to reflect cash flows from operating activities (a)	819	(400)	434	(183)	(497)
Net cash provided by operating activities	1,400	620	782	527	1,016
Cash Flows from Investing Activities					
Acquisition of fixed and other assets	(178)	(267)	(110)	(181)	(580)
Investments in real estate for construction and leasing	(721)	(136)	(593)	(65)	(291)
Proceeds from realization of fixed assets and real estate	8	3	8	-	6
Acquisition of marketable securities, net	(58)	(383)	(16)	(565)	(20)
Collection (granting) of loans granted to associated companies, net	(17)	114	(18)	81	117
Withdrawal (deposit) of deposits, net	(610)	70	(602)	40	(152)
Increase in joint ventures for oil and gas exploration	(84)	(18)	(46)	(10)	(121)
Gains from realization of investments in investee and other companies	397	-	5	-	58
Investments in Investees and Other Companies	(616)	(781)	(206)	(388)	(844)
Acquisition of newly-consolidated subsidiaries and operations (b)	(1,936)	-	(675)	-	(1,853)
Proceeds from realization of investments in previously-consolidated subsidiaries	-	9	-	-	9
Granting of loans to others, net	(3)	(3)	(18)	(13)	(139)
Net cash used in investing activities	(3,818)	(1,392)	(2,271)	(1,101)	(3,810)
Cash Flows from Financing Activities					
Short-term credit from banks and others, net	12	(118)	4	145	15
Long-Term Loans received	2,166	644	620	221	1,415
Long-Term Loans repaid	(445)	(843)	(144)	(362)	(1,183)
Issue of shares to minority interest at consolidated subsidiaries, net	735	1,254	735	751	1,478
Dividend distributed	(186)	(61)	(100)	(61)	(461)
Dividend distributed to minority interest in subsidiaries	(138)	(28)	(124)	(6)	(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	1,945	-	1,155	-	1,942
Redemption of debentures and debentures convertible into shares	(216)	(114)	(156)	(45)	(239)
Net cash provided by financing activities	3,879	737	1,990	643	2,862
Translation Differences in Respect of Cash Balances Held by Autonomous Investee Companies	(19)	(8)	(10)	(15)	(22)
Increase (Decrease) in Cash and Cash Equivalents	1,442	(43)	491	54	46
Cash and Cash Equivalents at Beginning of Period	881	835	1,832	738	835
Cash and Cash Equivalents at End of Period	2,323	792	2,323	792	881

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

Consolidated Statements of Cash Flows – General Operations

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2007	2006	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	239	151	149	74	340
Deferred taxes, net	(169)	88	(217)	60	229
Increase in accrued severance pay, net	2	3	-	3	2
Rise in value of loans granted, net	(45)	(8)	(39)	(6)	(10)
Gain from realization of fixed assets, real estate and investments, net	(223)	(629)	(80)	(444)	(713)
Equity in non-distributed earnings of affiliates and partnerships, net (1) (2)	(65)	(340)	12	(247)	(638)
Impairment (increase) in value of securities and deposits, net	(57)	10	(19)	11	23
Increase (decrease) in value of long-term liabilities, net	147	55	196	37	(83)
Minority Interest in Subsidiary Earnings, Net	267	188	179	128	355
Cost of share-based payment	82	-	20	-	59
Changes in asset and liability items:					
Increase in Accounts Receivable	(551)	(363)	(401)	(223)	(12)
Decrease (increase) in receivables and prepayments	(42)	9	(40)	(13)	(31)
Decrease (increase) in inventories	287	40	(122)	(143)	120
Increase (decrease) in Trade Payables	626	187	450	462	(258)
Increase in payables	321	209	346	118	120
	819	(400)	434	(183)	(497)
(1) Net of dividends received	57	2	57	2	20
(2) Net of tax impact on account of Group's share in associated company earnings	10	60	-	45	67
(b) Acquisition of newly-consolidated subsidiaries and operations					
Working capital deficit, net (excluding cash)	330	-	48	-	49
Fixed assets, real estate, investments and other property	(14,672)	-	(11,196)	-	(491)
Long-Term Liabilities	11,303	-	9,373	-	690
Insurance operations assets (excluding cash)	-	-	-	-	(34,140)
Insurance operations liabilities	-	-	-	-	31,116
Decrease in investment in investee companies	497	-	497	-	-
Minority Interest	606	-	603	-	923
	(1,936)	-	(675)	-	(1,853)

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

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2007	2006	2007	2006	2006
	Unaudited				Audited
	NIS in Millions, Reported				
(c) Significant Non-Cash Operations					
Acquisition of fixed assets on credit	7	20	6	1	19
Receivables on account of divestiture of investments	-	-	-	-	16
Dividend and earnings to pay to minority interest at consolidated companies	63	71	63	71	71
Declared dividend	151	150	151	150	-
Conversion of debentures into Company shares	7	219	3	212	257
Conversion of debentures into shares of consolidated subsidiary	-	-	-	-	3
Increase in “Investments in gas and oil exploration” against liabilities	8	14	8	14	-
Dividend and earnings to receive from associated companies	88	19	88	19	-
Investment in investee company against repayment of loan	75	-	-	-	-

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

Consolidated Statements of Cash Flows – Insurance Operations

	For the six months ended June 30 2007	For the three months ended June 30 2007
	Unaudited	
	NIS in Millions, Reported	
Cash Flows from Operating Activities		
Net income from insurance operations	177	85
Adjustments required to reflect cash flows from operating activities (a)	772	533
Net cash provided by operating activities	949	618
Cash Flows from Investing Activities		
Changes in investment items corresponding to shareholders' equity and to non-insurance liabilities:		
Securities, net	(1,625)	(801)
Loans, net	(29)	(32)
Investments in Investees and Other Companies, net	(32)	(25)
Gain from realization of investment in investee company	111	111
Investment in rental properties and building under construction	(9)	-
Proceeds from realization of rental properties	67	6
Acquisition of fixed assets	(33)	(22)
Proceeds from realization of fixed assets	2	1
Investment in other assets	(55)	(33)
Net cash used in investing activities	(1,603)	(795)
Cash Flows from Financing Activities		
Repayment of loans from banks and from others, net	(260)	(258)
Issue of debentures and deferred notes	904	307
Dividend distributed to minority interest in subsidiaries	(67)	(67)
Net cash provided by (used in) financing activities	577	(18)
Decrease in Cash and Cash Equivalents	(77)	(195)
Cash and Cash Equivalents at Beginning of Period	1,115	1,233
Cash and Cash Equivalents at End of Period	1,038	1,038

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

Consolidated Statements of Cash Flows – Insurance Operations

	For the six months ended June 30 2007	For the three months ended June 30 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	1,956	1,354
Change in pending claims	9	11
Change in deferred acquisition costs	23	4
Depreciation and Amortization	5	2
Amortization of life insurance portfolio purchasing expenses	12	6
Realization of investments (investments), net:		
Securities	(1,428)	(1,124)
Loans on policies	(2)	(1)
Other loans	86	86
Bank deposits	(94)	(162)
Capital gain on realization of investments, net	(3)	(1)
Acquisition of rental properties	(133)	-
Changes in other balance sheet items, net:		
Insurance companies, net	(2)	6
Premiums to collect	(67)	(22)
Various receivables, net	57	50
Various payables, net	(5)	6
	414	215
In general insurance business:		
Income and expenses not involving cash flows:		
Change in insurance reserves	350	95
Change in pending claims	185	144
Change in deferred acquisition costs	(113)	(41)
Depreciation and Amortization	20	10
Realization of investments (investments), net:		
Securities	(88)	(103)
Other loans	78	122
Bank deposits	(90)	(12)
Changes in other balance sheet items, net:		
Insurance companies, net	(166)	(113)
Premiums to collect	(118)	84
Various receivables, net	(10)	(15)
Various payables, net	6	37
	54	208

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

	For the six months ended June 30 2007	For the three months ended June 30 2007
	Unaudited	
	NIS in Millions, Reported	
For other operating activities:		
Items not involving cash flows:		
Company's share in net results of associated companies (1)	(47)	(1)
Depreciation and Amortization	138	23
Loss from investments in investee companies	1	-
Minority Interest in Subsidiary Earnings, Net	240	87
Change in deferred taxes, net	(16)	(17)
Changes in balance sheet items:		
Change in various payables, net	44	36
Change in various receivables, net	(101)	(43)
Deferred purchasing expenses in life insurance	(13)	(9)
Cost of share-based payment	6	4
Valuation of long-term loans	35	17
Deferred notes, net	17	13
	304	110
	772	533
(1) Net of dividends received	16	16

(b) Significant non-cash operations in insurance operations

Receivables on account of sale of rental properties and building under construction	58	-

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

Note 1: - General

These financial statements have been prepared in a condensed format as at June 30, 2007, and for the six and 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, approved on May 30, 2007 as part of the shelf registration of the Company (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, based on the fact that the data for consolidated subsidiaries that are insurance companies are formulated on the basis of accounting and reporting principles according to the Law for Supervision Over Financial Services (Insurance) – 1981 and the ensuing regulations.

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 Group 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. Accounting Standard No. 23 - Accounting Treatment of Transactions Between an Entity and its Controlling Shareholder

On January 1, 2007, the Group 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, inter alia, to transactions involving the transfer of assets, the assumption of liabilities, indemnification, waiver and the granting of loans between a company and its controlling shareholder and between companies under common control that occur subsequent to January 1, 2007. The Standard is also applicable to loans granted to 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. Accounting Standard No. 26 - Inventories

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 standards by the associated company, consist of a decrease of approximately NIS 23 million in retained earnings, 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 included the software costs at insurance companies under Other Assets, and not under Fixed Assets, as presented in the past. The comparative figures for December 31, 2006 were classified 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 Group is required to include in a note to the annual financial statements as of December 31, 2007, a balance sheet as of December 31, 2007, and a statement of income for the year then ended, that have been prepared based on the recognition, measurement and presentation criteria of IFRS.

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

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

	Consumer Price Index In Israel *)	Representative exchange rate of				
	Known	Sterling (GBP)	CAD	US dollar	100 Japanese yen	Euro
As at	Points	NIS				
June 30, 2007	110.2	8.507	4.020	4.249	3.441	5.713
June 30, 2006	111.6	8.138	4.000	4.440	3.869	5.643
December 31, 2006	109.9	8.288	3.641	4.225	3.553	5.564
Rate of increase (decrease) for the period	%	%				
June 2007 (6 months)	0.3	2.6	10.4	0.6	(3.2)	2.7
June 2007 (3 months)	0.7	4.7	11.6	2.3	(2.2)	3.2
June 2006 (6 months)	1.3	2.5	1.1	(3.5)	(1.3)	3.6
June 2006 (3 months)	1.2	0.1	(0.5)	(4.8)	(2.6)	(0.3)
December 2006 (12 months)	(0.3)	4.4	(8.1)	(8.2)	(9.4)	2.1

*) The index on an average basis of 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 postponed and offset from the cost of acquiring the shares in the foreign companies acquired by Delek Global in January 2007, as mentioned above.

   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 (approx. NIS 88 million). The Delek Global expenses associated with the IPO amounted to GBP 10 million (approx. NIS 83 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 are consolidated with the Group's financial statements. See 2, below.

Blenheim was granted an option to obligate a consolidated subsidiary of Delek Real Estate 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 exercise of the option.

Subsequent to the balance sheet date, in July 2007, Blenheim exercised the option it was granted and consequently, the Delek Real Estate consolidated subsidiary acquired the shares of Delek Global in consideration of GBP 25 million (approx. NIS 213 million).

Subsequent to the offering and the said exercise of options, the Delek Real Estate consolidated subsidiary holds approximately 81.5% of the issued and outstanding share capital of Delek Global. The gains created for Delek Real Estate as a result of the issue of shares in Delek Global amounted to NIS 77 million (the Company's share after minority interest is NIS 52 million).

On the eve of the Delek Global IPO, the consolidated subsidiary of Delek Real Estate transferred to Delek Global its holdings in foreign companies that own real-estate assets. In accordance with the draft arrangement that is being formulated with the tax authorities, in return for the transfer of the said holdings, the consolidated subsidiary of Delek Real Estate will pay the tax authorities a sum of approximately NIS 200 million, to be paid over a period of seven years and the consolidated subsidiary of Delek Real Estate will be eligible for a tax exemption on account of dividends distributed by Delek Global on account of the said companies and/or from capital gains created from the sale of the real estate assets of the transferred companies, up to the level of the sum decided upon in the said draft arrangement. We note that Delek Global has undertaken a dividend distribution policy as part of the public offering. Consequently, Delek Real Estate's consolidated subsidiary has created deferred tax receivables in the amount of said liability as it is probable that they will be utilized.

2. As aforesaid in section 1, during the months January through April 2007, Delek Global acquired the holdings in associated companies from Blenheim. The excess acquisition cost amounted to GBP 52 million (NIS 445 million) and was attributed primarily to goodwill. The attribution of the excess cost is preliminary and upon the completion of the examination of the attribution of the acquisition price, changes may occur in the classification between the asset and liability items.

   Furthermore, in March 2007, Delek Global granted Blenheim an option that entered into effect subsequent to the offering of Delek Global shares to the public. The option obligates Delek Global to acquire all the Blenheim holdings in certain associated companies (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 is 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. As at the balance sheet date, the said option was exercised in relation to the holdings of a certain associated company and the company is consolidating its financial statements starting April 1, 2007.

Subsequent to the said acquisitions as aforesaid, Delek Global has become the controlling shareholder in the majority of the foreign associated companies and consequently, as of April 1, 2007, their financial statements are consolidated with the financial statements of the Group.

Below is the composition of the assets, liabilities, revenues and expenses of the investee companies which, as a result of the acquisition of control therein, have been consolidated for the first time at the balance sheet date, after adjusting their financial statements in accordance with generally accepted accounting principles (GAAP) in Israel (the companies are preparing their financial statements in accordance with IFRS):

	June 30 2007 Unaudited NIS in Millions
Current Assets	216
Real Estate for Rent	9,846
Long-term receivables	557
Goodwill	540
Current Liabilities	(317)
Long-Term Liabilities	(8,647)
Minority Interest	(546)

	For the three months ended June 30 2007 Unaudited NIS in Millions
Rental Revenues	173
Cost of rental revenues	(26)
Other costs (including financing)	(112)
Minority interest in earnings	(13)
Net Income	22

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 Petroleum) 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). In addition, the foreign subsidiary granted MSA a long-term loan in the amount of GBP 148 million (approx. NIS 1,202 million), that served primarily for the repayment of a loan to the previous shareholders.

The Group is consolidating the MSA assets and liabilities starting March 31, 2007. The excess of cost of investment over the equity purchased amounted to GBP 89.4 million (NIS 742 million). Delek Real Estate is in the last stages of examining the method by which the purchase price is to be allocated, and has revised the initial estimate it made upon acquisition. Most of the changes were an increase in fixed assets and a reduction in goodwill. The said revision had no impact on the Group's results of operation. Upon the completion of the examination, additional changes may be made to the allocation between the asset and liability items. Detailed below are the assets and liabilities, revenues and expenses of MSA at the time of consolidation, including the allocation of excess cost as aforesaid:

	June 30, 2007 Unaudited NIS in Millions, Reported
Current Assets	172
Fixed assets, net	3,957
Other assets, net	55
Current Liabilities	(447)
Long-Term Liabilities	(2,258)

	For the 3 months ended June 30, 2007 Unaudited NIS in Millions, Reported
Revenues	674
Cost of Revenues	(627)
Other costs (including financing)	(51)
Loss	(4)

During the reported period the foreign subsidiary signed a management agreement pursuant to which it transferred to a third party complete responsibility for the management of RoadChef for a period of 5 years.
Under the management agreement the third party has undertaken to reach a minimum annual EBITDA of GBP 28.5 million, where in the event that RoadChef fails to comply with said requirement, the third party will pay the difference each year. In return, the management company will be entitled to a reimbursement of expenses in the amount of GBP 400,000 as well as 7.5% of any future upgrade of RoadChef, including profit from sale.

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 (approx. NIS 115 million).
As at the balance sheet date, the Delek Real Estate consolidated subsidiary has invested NIS 26 million in the Fund.

6. In the course of the first half 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 64 million (after taxes).

7. 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 an 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. Consequently, Delek Real Estate's investment in Industrial Buildings is included at the equity method as of the second quarter of 2007. The Company's share in the carrying value of Industrial Buildings is determined on the basis of financial statements prepared in accordance with international accounting principles, including IAS No. 40 according to which investment property is presented at its fair value, with changes in the fair value being allocated to the statement of income.
The negative excess of cost of investment created as a result of the transition to the equity method amounted to NIS 70 million and was allocated to rental assets.
As at June 30, 2007, Delek Real Estate's investment in the Industrial Buildings shares totals NIS 328 million.

8. On June 15, 2007 a foreign subsidiary of Delek Global completed the acquisition of 100% of the shares of a foreign company that holds an office building in Lausanne, Switzerland. The property was acquired for CHF 108.5 million (NIS 364 million) and primarily financed through a long-term non-recourse loan. Total shareholders' equity required to be invested by the foreign subsidiary (including expenses) is CHF 21.74 million (NIS 73 million). The foreign subsidiary is negotiating for the inclusion of a partner at the rate of up to 20%.

9. Subsequent to the balance sheet date, on July 31, 2007, foreign companies owned by Delek Real Estate (50% held by Delek Real Estate) and others signed an agreement for the acquisition of income-generating real estate in city centers in Switzerland in consideration of CHF 3.4 billion (NIS 12.2 billion). The annual rent fees in 2007 are expected to amount to CHF 155 million (NIS 558 million) and with the completion of properties in development, rent fees in 2009 are expected to amount to CHF 183 million (NIS 659 million). The acquisition is expected to be 85% financed by long-term non-recourse loans bearing fixed interest. Delek Real Estate's share in the shareholders' equity in the transaction will be CHF 320 million (NIS 1,147 million) with 33.3% of the investment to be made by Delek Global and 16.7% through foreign subsidiaries wholly owned by Delek Real estate. The transaction has yet to be completed as at the date of the financial statements. In addition, in July and August 2007 subsidiaries owned by Delek Global acquired between 95.5% - 100% control in foreign companies that hold income-generating properties in Finland and Germany, as well as 50% in a foreign company that holds income-generating properties in Germany. The cost of said acquisitions amounted to NIS 1 billion and was mostly financed by long-term bank loans bearing fixed interest.

10. On June 4, 2007, a wholly-owned subsidiary of Delek Real Estate signed an agreement for the acquisition of all the shares of Sahar Development and Investments Ltd. (hereinafter: "Sahar") that holds income-generating real estate in Israel and overseas. The cost of acquiring the shares amounted to NIS 251.5 million. The agreement is contingent upon obtaining the approval of the Anti-Trust Commissioner.

    Delek Real Estate is conducting negotiations for the introduction of partners into the transaction, at a rate of up to 50%.

11. Pursuant to Section 9j(a)(13) to the annual financial statements, Delek Real Estate announced that the negotiations with Azorim for the sale of Dankner Investments have been discontinued.

12. In their review of the financial statements as at June 30, 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 of June 30, 2007, Hof Hacarmel has a capital deficiency of NIS 187 million and working capital deficit of NIS 410 million. Its operations are financed primarily by a bank as part of financial support agreements, the balance of credit of which at balance sheet date totals approximately NIS 385 million, as well as by long and short-term credit available from related parties the balance of which at balance sheet date totals approximately NIS 37 million (the share of Delek Real Estate is approximately NIS 12.2 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 the 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 12 million as at June 30, 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.

B. Fuel operations in the USA

1. Pursuant to Note 9j(b)(4) to the annual financial statements, in the course of the second quarter of 2007, a wholly-owned subsidiary of Delek US completed the acquisition of 103 fuel stations that include convenience stores in Eastern Tennessee and Georgia, USA. Furthermore, subsequent to the balance sheet date, in July 2007, the acquisition of 4 additional fuel stations was completed. The cost of acquiring all 107 stations amounted to $72 million, including related acquisition costs (approx. NIS 307 million).

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

	NIS in Millions, Reported
Inventories	29
Property and equipment	262
Other assets, including intangible assets	17
Other Liabilities	(1)
	307

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.

3. Between May and June 2007, Delek US employees exercised 125,037 options into an equal number of Delek US shares. As a result of the said exercise of the options, the holding rate of Delek Petroleum in Delek US has decreased to 76.8%. As a result of the decrease in the holding rate, Delek Petroleum recorded gains of NIS 3 million.

4. Subsequent to the balance sheet date, in July 2007, Delek US signed agreements with several shareholders in Lion Oil (hereinafter: "Lion") pursuant to which, Delek US will purchase 28.3% of the Lion shares in consideration of a cash payment of $65.4 million (approx. NIS 280 million). In addition, Delek US will issue 1,916,667 ordinary shares to one of the sellers. The transaction was finalized in August 2007.
Lion is a privately-held company that operates a refinery with a capacity of 75 thousand barrels of oil a day, located in El Dorado, Arkansas. Lion also owns three crude oil pipelines and two oil marketing terminals in Nashville and in Memphis (Tennessee), through which Lion markets fuel to third parties, including Delek US.

Subsequent to the issue of shares, as stated above, the Group's holding rate in Delek US has decreased to approximately 74%. The gains expected for the Group as a result of the said issue of shares is currently estimated (based on the financial statements of Delek US as at June 30, 2007 and other assessments) within the range of NIS 110 and 125 million.

Moreover, in August 2007, Delek US signed an additional agreement for the acquisition of 6.24% of the Lion shares in consideration of $23 million. Subsequent to the closing of the transaction, the Delek US holdings in Lion are expected to amount to 35%. The closing of the transaction is contingent upon standard closing terms, including obtaining regulatory approval. The transaction is expected to be closed in the course of the third quarter of 2007.

C. Fuel Sector Operations in Israel

1. 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, 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 (approx. $25 per share, subject to adjustments on account of 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 decided that as long as Delek Israel is not a publicly-traded company, upon termination of employment, the CEO of Delek Israel shall be eligible to sell his shares to Delek Israel, according to the company value as determined on that date.

   The CEO of Delek Israel has the right to obtain a non-recourse loans (linked to the CPI, plus annual interest of 4%), for the purpose of financing the exercise of the options.

   Said plan was approved by the Board of Directors of Delek Israel on June 2007. The economic value of the options, on the date of approval, based on the principles of the plan, was estimated at $11.5 million (NIS 49 million). The Group included in its financial statements for the six-month period ended June 30, 2007, an expenditure of NIS 38 million (NIS 33 million after the tax effect) in respect of said option warrants, in accordance with the terms of the vesting period.

Delek Israel utilized the Black & Scholes pricing model for the measurement of the fair value of the stock options. The table below presents the data used in the measurement of the fair value of the stock options:

Annual standard deviation (semi-annual calculation) (%)	36
Annual discount rate for dollar-denominated option warrants (risk-free) (%)	5.5
Estimated life span of the options (years)	7.5
Value of share (US$)	38.3

In light of the issue of shares of Delek Israel to the public subsequent to the balance sheet date (see Section 3, above), the CEO's eligibility to sell his shares to Delek Israel has elapsed and consequently, since that date, the granting of options shall be considered as a share-based payment carried out using equity instruments.
The value of the option plan on the eve of the IPO at this stage, based on the value of the shares of Delek Israel soon after the IPO, is estimated at $8.6 million.

2. In June 2007, the sale procedure of the terminals of Pi Glilot Petroleum and Pipelines Ltd. (hereinafter: "Pi Glilot") took place. As part of the procedure for the sale of Pi Glilot, Government representatives chose Delek Israel as the "Preferred Bidder" for the acquisition of three Pi Glilot fuel terminals offered as part of the sale procedure (Ashdod, Jerusalem and Beer-Sheva). The terminals will be sold as one group, in accordance with Delek Israel's price proposal.
Subsequent to the balance sheet date, in July 2007, the transaction was completed after terms set out in the Pi Glilot sale procedure were fulfilled and the approval of the Anti-Trust Commissioner was obtained. The proceeds of the acquisition totaled NIS 806 million (NIS 820 million including related expenses).

The acquisition agreement prescribed several minimum periods in which Delek Israel would be required to operate the acquired terminals as storage and delivery terminals.

Based on the valuation of outside experts with which Delek Israel has engaged, the proceeds of the acquisitions were allocated to the assets and liabilities of the acquired operation as follows:

	NIS in Millions, Reported	Amortization Period
Land	252	-
Buildings and development	5	Approx. 17 years
Equipment (primarily tanks)	292	According to the remaining useful life span of the tanks and equipment (for tanks - between 18 and 54 years)
Employee-related liabilities	(15)	According to realization of the liability
Environmental liabilities	(26)	According to realization of the liability
Goodwill	312	-
Total	820	

3. Subsequent to the balance sheet date, in August 2007, Delek Israel completed a public offering of shares, option warrants and bonds on the Tel-Aviv Stock Exchange for a total consideration of NIS 940,042,000 (NIS 918,000,000 net of issuance expenses) as detailed below:

- The issuance of 1,216,500 ordinary shares of NIS 1 par value each together with 608,250 option warrants (Series 1), which can be exercised into ordinary shares of Delek Israel as of the date of registration thereof and until July 31, 2010, such that each option warrant can be exercised into one ordinary share of NIS 1 par value of Delek Israel at an exercise price of NIS 226, unlinked to the CPI, subject to adjustments in respect of dividend distribution, bonus shares, issue of rights, etc. The proceeds from the issue of shares and option warrants amounted to NIS 180,042,000 (NIS 171,000,000 net of issuance expenses).

- In addition, Delek Israel issued 760,000,000 par value of bonds in consideration of their par value (NIS 747,000,000 net of issuing expenses). The bonds are linked to the Consumer Price Index and bear 5.1% interest per annum which shall be paid once a year starting from July 31, 2008 and until July 31, 2016. The bonds' principal is repayable in 8 equal annual installments on July 31 of each of the years between 2009 through to 2016.

As a result of the issue of the shares, the rate of the Group's holdings in Delek Automotive decreased to approximately 89%. The gains derived for the Group as a result of the issuance of said shares is currently estimated at NIS 70 million, and is to be included in the statement of income for the third quarter of 2007.

4. Delek Israel holds an effective rate of 39% of the shares of the Israel-American Gas Company Ltd. (hereinafter – Amisragas). As of June 30, 2007, Delek Israel's investment in Amisragas amounts to NIS 148 million. As to claims and legal proceedings against Amisragas, see note 5h.

   Subsequent to the balance sheet date, in July 2007, an agreement was signed between Delek Israel and its parent company (Delek Petroleum), pursuant to which Delek Israel has undertaken to sell the shares of Amisragas it holds to Delek Petroleum, in consideration of NIS $72 million (NIS 300 million). The completion of the sale is subject to provision of waivers by the remaining shareholders in Amisragas of priority rights conferred to them in connection with the sale of the Amisragas shares in accordance with the articles of Amisragas, or alternatively, an approval by Amisragas that the remaining shareholders have not exercised said priority rights.

   During July 2007 Amisragas sent Delek Israel letters in which it states that any sale of shares at Amisragas is subject to the priority rights of the other shareholders, as well as to the approval of the Board of Directors of Amisragas.
   In addition, Amisragas requested details on the selling agreement that was being formulated as well as clarifications from Delek Israel on how the proposed transfer would secure Amisragas' nature as a private company. Amisragas further stated that in view of Delek Israel's declared intention to sell its shares in Amisragas, it appeared that Amisragas and the Delek Group had unresolved issues and disputes relating to Delek Israel's non-compliance with its obligations to Amisragas, inter alia, under the share purchase agreement.
   In the opinion of the Group and of Delek Israel, the Amisragas claim against the Group and against Delek Israel, regarding their non-compliance with their liabilities, is unfounded.

D. Fuel Sector Operations in Europe

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, mostly under the Texaco brand.
The transaction was finalized in August 2007, subsequent to the balance sheet date.

The acquisition was made in consideration of €342 million and will be adjusted according to the working capital on the date of closing, with said adjustment estimated by Delek Benelux to amount to €50 million (A sum of €34 million on account of this adjustment, was paid on the closing date). Approximately 63% of the sum of the acquisition was financed by a bank loan that was raised by Delek Benelux, with the rest consisting of an investment in the shareholders' equity of Delek Benelux.

As part of the bank financing agreement, a lien was placed on Delek Benelux shares and those of the three companies it acquired.

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.
   Final approval from the Chinese authorities was obtained May 8, 2007, allowing for the construction work to begin. The planning of the venture has so far started.

2. 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 food additives industry, primarily in North America, pursuant to which Gadot USA will acquire 85% of the issued and outstanding share capital of Pharmline.

   The transaction was closed on June 8, 2007. The cost of acquiring the Pharmline shares amounted to $ 12.2 million (approx. NIS 52 million) (including related acquisition costs). The excess of cost of investment over the equity purchased amounted to $9.7 million (NIS 42 million). Gadot USA is examining the manner of allocating the said excess cost to the Pharmline assets and liabilities, while at this stage it is included under Other Assets.

The Group has consolidated the Pharmline assets and liabilities since June 30, 2007. Appearing below are the Pharmline assets and liabilities, as included in the consolidated balance sheets (including said excess cost):

	June 30 2007 Unaudited NIS in Millions, Reported
Current Assets	49
Fixed assets, net	18
Other assets	42
Current Liabilities	(47)
Long-Term Liabilities	(7)

As part of the acquisition 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.

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. In May 2007, Delek Capital acquired the shares of Barak Capital in accordance with the said agreement. Excess of cost of investment over the book value acquired amounted to NIS 24 million. Delek Capital is currently examining the manner in which the proceeds of the acquisition will be carried to the assets and liabilities of Barak Capital.

2. 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 June 30, 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 issued 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 The 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 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 from extraordinary item of NIS 178 million in the first quarter of 2007. The Group's share in this profit (after depreciating the excess cost attributed to said reserve and net of the minority interest) amounted to immaterial amounts.

6. Subsequent to the balance sheet date, in July 2007, Phoenix entered into a memorandum of understanding (through a wholly-owned subsidiary) with a third party for the establishment of a joint company in the field of sheltered housing investments. Phoenix's share in the joint company will be 50% and it shall have a decisive vote on the Board of Directors.

Under the memorandum of understanding, Phoenix and the third party acquired 100% of the issued and paid-up share capital of Ampal Sheltered Housing (1994) Ltd. and Ampal Sheltered Housing (1998) Ltd., for a total consideration of NIS 126 million (Phoenix's share being NIS 63 million).

7. In June-July 2007 the Board of Directors of Phoenix decided to adopt a plan for the allotment of option warrants to the Phoenix employees, including the CEO of Phoenix. Under the plan, Phoenix will allocate, for no consideration, up to 9,125,000 option warrants exercisable into a maximum of 7,885,522 ordinary Phoenix shares of NIS 1 par value, based on the benefit value inherent in the option warrants as of the exercise date. The exercise price will be the value of the Phoenix share on the Stock Exchange on the date in which the option was granted with the addition of 3.75% interest per annum. The options can be exercised in three equal annual tranches after between two and four years have elapsed from the date of granting of these options. In July 2007, the sum of 7,111,150 options was allotted out of said plan. The value of the bonus in respect of the allotted options is estimated at NIS 40 million. The value of the benefit is measured on the date of granting of the options in accordance with the Lattice system using the Monte Carlo model.

G. Petroleum and Gas Exploration and Production Operations

1. Subsequent to the balance sheet date, on August 20, 2007, the Board of Directors of Delek Energy Systems Ltd (hereinafter – "DES") approved an agreement for the granting of options to the CEO of DES. Under the terms of the agreement, the CEO will be granted, without consideration, 258,265 options exercisable into ordinary shares of DES in 7 equal annual tranches over a period of 7 years starting from June 1, 2007, while the vesting period of each tranche during the relevant year can be reduced if DES attains the market value targets that were determined in the agreement. The shares allotted under the exercise of the options constitute 5.6% of the share capital of DES prior to the allotment. The exercise price varies between NIS 349.96 per share to NIS 468.99 per share, in accordance with the determined vesting periods. In addition, the CEO is entitled to receive from DES a non-recourse loan linked to the consumer price index and bearing 4% interest per annum for the financing of the exercise price.

   The options can be exercised until one year has elapsed from the last vesting date. The economic value of the options on the date of approval amounts to NIS 32 million. DES included in its financial statements for the second quarter of 2007 an expense in the amount of NIS 3.6 million in respect of the cost of share-based payment.

   The data used in the measurement of the fair value: The share price on the date of granting: NIS 299.6, expected volatility: 40.4%, the projected life of the options: 8 years, interest rate of 3.91% and exercise prices as aforementioned.

Furthermore, subsequent to the balance sheet date, on August 23, 2007, the Audit Committee and board of directors of DES approved an agreement for the granting of options to the chairman of the board of directors of DES, who also serves as chairman of the board of directors of the Group. Under the terms of the agreement, the chairman of the board of directors will be granted, without consideration, 55,343 options exercisable into ordinary shares of DES in 5 equal annual tranches over a period of 7 years starting from June 1, 2007, while the vesting period of each tranche during the relevant year can be reduced if DES attains the market value targets that were determined in advance in the agreement. The shares allotted under the exercise of the options constitute 1.2% of the share capital of DES prior to the allotment. The exercise price varies between NIS 349.96 per share to NIS 425.37 per share, in accordance with the determined vesting periods. In addition, the chairman of the board of directors is entitled to receive from DES a non-recourse loan linked to the consumer price index and bearing 4% interest per annum for the financing of the exercise price.

The economic value of the options on the date of approval by the board of directors amounts to NIS 5.7 million.

The granting of options is subject to the approval of the general meeting of DES and the approval of the Group's organs.

2. In March 2007, Delek International Energy Ltd. (hereinafter –Delek International), a wholly-owned subsidiary of DES, signed an agreement with Matra Petroleum PLC (hereinafter – Matra Petroleum), a company listed on the AIM in London, which is engaged in oil exploration mainly in Central Europe, pursuant to which Delek International will purchase shares in Matra Petroleum for a total consideration of GBP 6 million (NIS 47.8 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 license is valid through to August 2009 and is contingent upon the performance of four drillings. The transaction for the acquisition of the Matra Petroleum shares was completed in May 2007. Subsequent to the completion of the transaction, Delek International holds 29.9% of the issued capital of Matra Petroleum(22.2% fully diluted). The excess cost of investment amounted to NIS 2 million and was allocated to oil and gas rights. As part of the said agreement, Delek International was 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, in July 2007, Delek International entered into several agreements pursuant to which it will invest a sum of $14 million in Vanguard Oil and Gas International Ltd. (hereinafter: "Vogil") in return for the allocation of 24.2% of the issued and outstanding share capital of Vogil (22.2% fully diluted). Vogil deals in the purchase of oil tankers and their conversion into floating oil-production platforms. The company also invests in various oil production companies.

4. In February 2007 an agreement was signed between Delek International 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. In return for the said rights, Delek International undertook to cover 22.86% of the drilling expenses, up to a total cost of $13.3 million (its relative share) and beyond that sum - to cover its relative share of the project's total expenses.

   The first drilling was conducted in March 2007 and a decision was made to abandon it. The second drilling was conducted in April 2007 and a decision was made to abandon it. Delek International's share in the cost of the drilling was NIS 58.4 million and this sum was carried to the statement of income as an expenditure.

5. On April 26, 2007, an agreement was signed between a consolidated subsidiary of DES and Noble Energy (Oilex) Limited (hereinafter: “Noble”), 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 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 consolidated subsidiary 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.

H. 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. In April 2007, Delek Infrastructures Ltd. – a wholly-owned subsidiary of the Group – 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. Furthermore, Delek Infrastructure has entered into agreements for the construction of additional power plants in Brazil. These agreements are contingent upon preconditions, as agreed between the parties.

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 was 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"). Gas Routes informed Delek Ashkelon on June 6, 2007, that it was prepared to supply gas to its facilities.
   Subsequently, in the course of June 2007, Delek Ashkelon informed the construction contractor that the preservation period would end on June 29, 2007 and that starting on that date, it will have natural gas available for the running in of the Power Plant and for its ongoing operation. Starting on that date, the construction contractor began the process of operating the turbines and running in the Power Plant. According to the agreement with the contractor, this process is scheduled to be completed within 20 weeks of the date of availability of the gas.

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 5 million, in accordance with the vesting terms of the option.

5. On June 8, 2007, IDE signed an agreement for the construction of a seawater desalination plant in China on behalf of a local energy company, at a volume of $119 million.

Note 4: - Debentures

A. 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 29 and September 29 of each of the years 2013 and 2014 and on March 29 and September 29 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. In May 2007, the said debentures were registered for trade on the Tel Aviv Stock Exchange, as part of a shelf registration published by the company.

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 June 2007, the Company held a public offering of Series V debentures in the sum of NIS 500 million. The debentures will be repaid in 8 equal semi-annual installments, on June 30 and December 31 of each of the years 2012 and 2019 through to 2021. The debentures carry fixed annual interest of 4.5%, paid semi-annually on June 30 and December 31, starting December 31, 2007. The debentures are linked to the CPI.

C. In February 2007, Delek Real Estate raised NIS 769 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 will not be registered for trade during the said period, the debenture holders will be eligible to demand their early repayment.

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.

D. On March 22, 2007, Phoenix raised NIS 600 million by way of a private placement of debentures to institutional investors, at an interest rate of 4.5% (effective subsequent to the registration of the debentures for trade by the company). The company intends to register the debentures for trade on the stock exchange via a prospectus that will be published in the future. Pending such registration, Phoenix would pay the bond holders additional interest of 0.7% per annum.
The debenture principal is repayable in six equal annual installments in each of the years 2014-2019 (inclusive). The interest payments will be made once annually. The debentures are linked to the CPI.

Note 5: - Contingent Liabilities

Pending claims of significant sums, that may reach hundreds of millions and up to 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 1 through 8, 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. The Group's management estimates, based on the opinion of Gadot's management and the opinion of 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.

Furthermore, in August 2007, Gadot received a copy of a letter sent from the Ministry of the Environment to the Securities Authority, stating, inter alia, that the Kishon River Authority has or may demand from Gadot (and additional plants in the Kishon River region) its participation in financing various projects required for rehabilitating the Kishon River, including the construction of a marine discharge pipe and the discontinuation of discharge of effluent to the river, the removal and treatment of sludge, rehabilitation of the river bed and more. The said letter contained preliminary financial estimates of the necessary costs for performing part of the rehabilitation activities, amounting to dozens of millions of dollars (pertaining to all the plants).

Gadot has received no formal correspondence in this matter from the Ministry of the Environment and/or Kishon River Authority (these issues and others were raised in the meetings of the Kishon River Authority, of which Gadot is a member, although they have yet to run their course and had no practical outcome). The company is currently unable to estimate the degree of its responsibility and liability - if any - in relation to this demand, nor the sums its may be required to pay, if any.

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. In the course of 2007, the court rejected several claims for the approval of class action suits, including lawsuits on account of the failure to connect remote villages to the CATV network, the legality of the basic subscriber package for TV subscribers and the charging of a deposit and utilization fees for a converter. Regarding the other lawsuits, the HOT management estimates - based on the opinion of legal counsel - that most of these will in all likelihood not be approved as class action suits and HOT therefore created no provisions on their account in the financial statements. 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 billion, 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. The HOT management is examining the details of the

lawsuit, although it cannot at this stage estimate its chances. No provision was therefore created on its account in the HOT financial statements.
For additional details, see the financial statements of HOT as at June 30, 2007, that 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 believes, based on the estimates of Delek Israel's management and on the opinion of its legal counsel, that, at this preliminary stage of the proceedings, the chances of the above request cannot be assessed. It does appear that Delek Israel possesses strong defensive claims to counter the petition and the ensuing sum demanded of Delek. 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 1.4 billion.

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 believes, based on the estimates of Delek Israel's management and on the opinion of 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. In the course of 2007, three requests to be recognized as class action lawsuits were filed against Delek Israel (along with other fuel companies), in the total sum (against all defendants), according to the plaintiffs, that shall not fall below NIS 885 million. These lawsuits concern the unlawful charging of service fees, false advertising

regarding discounts and a number of self-service fuel pumps that falls short of the legal requirement.
The Group's management estimates, based on the management of Delek Israel and the opinion of legal counsel, that at this stage it is yet impossible to assess the chances of approval of these requests and consequently, no provision was created in the financial statements.

F. 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. No provisions were created in the financial statements for most of these lawsuits, inter alia on account of the fact that the Group's management believes, based on the Phoenix management and the opinion of legal counsel, that Phoenix possesses strong defensive claims in order to battle these lawsuits.

In addition, in May 2007, a request to authorize a class action lawsuit was filed against Phoenix in the sum of NIS 21 million, on account of charging excess insurance premiums. The Group's management believes, based on the Phoenix management and the opinion of legal counsel, that due to the preliminary stage of these proceedings and prior to a defense statement being submitted, it is impossible to assess the actual chances of the lawsuit and the financial liability of Phoenix, in the event that a class action suit is authorized. Nevertheless, subsequent to a preliminary examination of the financial exposure in the event that the lawsuit is accepted, Phoenix believes that the financial risk is immaterial.

Subsequent to the balance sheet date, in August 2007, a request to authorize a class action suit was filed against Phoenix and additional insurance companies. The lawsuit relates to the refund of insurance premiums on account of an eligibility period in health insurance policies. The overall sum of the lawsuit - against all insured parties - totals NIS 731 million. At this stage, it is impossible to assess the chances that this lawsuit will be approved as a class action lawsuit and if approved - it is impossible to estimate the chances of success.

G. 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. At this stage, 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.

H. 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 and additional gas companies. The lawsuits relate to overcharging the customers and price fixing with other gas companies.

Furthermore, the Tax Authorities issued orders to Amisragas relating to the years 1987-1990 in which Amisragas' appeal to the District Court was dismissed and, later, Amisragas submitted an appeal to the Supreme Court. In November 2006, the Supreme Court rejected the Amisragas appeal. Amisragas has filed a request for an additional hearing regarding this ruling. The result of the appeal having been rejected signifies that Amisragas must pay a sum estimated at NIS 60 million on account of the years 1987-1990. Moreover, Amisragas received orders pertaining to the years 1991-2002 and has appealed these orders.

The Amisragas management estimates that it is impossible to assess the outcome of these proceedings.

I. 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%). 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.

J. To the best of the knowledge of Phoenix, an investigation was launched by the Securities Authority in April 2007 against an associated company (hereinafter: "Excellence"), executives therein and executives in its subsidiaries. Documents were collected, senior executives were questioned at Excellence and at its subsidiaries. Excellence believes that the investigation has to do with brokerage fees at mutual funds.

Note 6: - Shareholders' Equity

A. During the six-month period ended June 30, 2007, a sum of 7,386,547 debentures (series E) whose carrying amount totaled approximately NIS 8 million, were converted into 21,769 ordinary shares of the company.

B. During the six-month period ended June 30, 2007, a sum of 13,560 stock options (Series 2) were exercised into 13,560 ordinary shares 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 11,671,261 ordinary shares of NIS 1 par value each.

D. Subsequent to the balance sheet date, a sum of 499,414 debentures (series E) whose carrying amount totaled approximately NIS 1 million, were converted into 1,542 ordinary shares of the Company. Subsequent to the said conversions, the issued and outstanding capital of the company amounts to 11,672,803 ordinary shares.

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. On March 29, 2007, the Company declared the distribution of a dividend to its shareholders in the amount of approximately NIS 130 million. The dividend was distributed in July 2007.

G. Subsequent to the balance sheet date, on August 29, 2007, the Company declared the distribution of a dividend in the amount of approximately NIS 200 million to its shareholders.

Note 7: - Information Regarding Business Sectors

A. Revenues:

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2007	2006	2007	2006	2006
	Unaudited				Audited
	NIS in Millions, Reported				
Israeli Fuel Sector Operations	2,182	2,262	1,182	1,196	4,455
Gas stations and convenience stores in the USA	3,393	3,038	1,998	1,648	6,181
Refinery operations in the USA	4,528	3,737	2,527	2,045	8,072
Automotive sector	2,335	2,143	1,160	1,134	4,060
Real Estate Sector	1,142	205	1,000	93	439
Biochemicals sector	187	199	88	99	366
Oil and gas exploration and production	150	109	72	51	268
Other sectors	159	103	79	62	277
	14,076	11,796	8,106	6,328	24,118
Insurance overseas *)	609	-	313	-	-
Insurance in Israel *)	2,113	-	1,061	-	-
Total in statements of income	16,798	11,796	9,480	6,328	24,118

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

B. Sector results *):

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2007	2006	2007	2006	2006
	Unaudited				Audited
	NIS in Millions, Reported				
Israeli Fuel Sector Operations	61	54	50	38	94
Gas stations and convenience stores in the USA	54	62	37	41	143
Refinery operations in the USA	540	411	400	299	632
Automotive sector	327	221	172	114	440
Real Estate Sector	269	36	236	10	81
Biochemicals sector	17	37	6	19	55
Oil and gas exploration and production	17	63	18	29	154
Other sectors	17	5	7	2	35
Adjustments **)	(71)	(50)	(26)	(27)	(104)
	1,231	839	900	525	1,530
Insurance overseas ***)	83	-	29	-	-
Insurance in Israel ***)	509	-	308	-	-
Total in statements of income	1,823	839	1,237	525	1,530

*) 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, not included in the profit from insurance operations.

Note 8: - Principal Items for Insurance Operations Data

	June 30 2007	December 31 2006
	Unaudited	Audited
	NIS in Millions, Reported	
A. Investments		
Securities	23,891	20,741
Loans and bank deposits	4,553	4,465
Other Investments	943	812
	29,387	26,018
B. Insurance reserves and pending claims		
Life insurance		
Insurance reserves	22,971	20,842
Reserve for extraordinary risks	-	178
Pending Claims	76	69
Total life insurance	23,047	21,089
General insurance		
Reserve for unexpired risks	2,326	1,923
Pending Claims	5,008	4,829
Total general insurance	7,334	6,752
Total reserves and contingent liabilities	30,381	27,841
C. Assets and liabilities as part of the insurance operations include investments and liabilities as part of life insurance operations	23,286	21,331

Note 8: - Principal Items for Insurance Operations Data (Cont'd)

	For the 6 months ended June 30, 2007	For the 3 months ended June 30, 2007
	Unaudited	
	NIS in Millions, Reported	
D. Summarized insurance operations statements		
Life insurance		
Premiums net of reinsurance	1,276	637
Revenues from investments	1,629	1,126
Premiums and revenues from investments	2,905	1,763
Claims settled and contingent, net of reinsurance	(614)	(300)
Excess of revenues over claims	2,291	1,463
Increase in insurance reserves, net	(1,726)	(1,141)
	565	322
Net commissions and G&A expenses, net	(260)	(133)
Increase (decrease) in deferred acquisition costs	(12)	5
	293	194
Amortization of insurance portfolio purchasing expenses	(5)	(2)
Reinsurance results	(7)	(4)
Earnings	281	188
General insurance		
Insurance fees net of reinsurance	1,694	775
Increase in reserve for unexpired risks, net	(248)	(38)
Insurance fees earned in residual	1,446	737
Revenues from investments	204	109
Total revenues	1,650	846
Claims settled and contingent, net of reinsurance	(994)	(533)
Excess of revenues over claims	656	313
Net commissions and G&A expenses, net	(561)	(267)
Increase in deferred acquisition costs	118	41
Earnings	213	87
Total profit from insurance operations	494	275

Note 8: - Principal Items for Insurance Operations Data (Cont'd)

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")

	June 30, 2007	
	Shareholders' Equity	Primary Capital
	Unaudited	
	NIS in Millions, Reported	
Existing sum according to regulations (1)	2,059	1,381
Minimal sum required according to regulations (2)	1,362	75
	697	1,306

(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:

	June 30, 2007
	Unaudited
	NIS in Millions, Reported
Deferred purchasing expenses in life and health insurance	672
Pension fund management company	8
On account of sum at risk in self residual upon death	177
Unrecognized assets, as defined by the regulations (principally loans)	94
	951

(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.

Note 9: - 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 six-month and three-month periods ended June 30, 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 6 months ended June 30 2006	For the 3 months ended June 30 2006	For the year ended December 31 2006
	Unaudited		Audited
	NIS Millions, Reported		
General Operations			
Revenues	11,796	6,328	24,119
Cost of Revenues	10,278	5,447	21,217
Gross Profit	1,518	881	2,902
Selling, Marketing and Gas Station Operating Expenses	461	237	930
General & Administrative Expenses	218	118	442
Operating Income	839	526	1,530
Financial Expenses, net	360	200	600
	479	326	930
Gains from realization of investments in investee and other companies, net	625	442	702
Other income, net	9	5	2
Income before taxes on income	1,113	773	1,634
Taxes on Income	233	162	404
Income after taxes on income	880	611	1,230
Group's share in profits of affiliates and partnerships, net	267	210	497
Minority Interest in Subsidiary Earnings, Net	(188)	(128)	(355)
Net income from general operations	959	693	1,372
Insurance Operations			
Profit from insurance operations	153	13	500
Income from investment and others, not included in insurance operations	69	46	85
General and administrative expenses not included in insurance operations	(25)	(19)	(42)
Interest expenses on long-term liabilities	(31)	(20)	(39)
Group's Share in profits of associated companies	16	2	23
Income before taxes on income	182	22	527
Taxes on Income	59	(1)	182
Income after taxes on income, from insurance operations	123	23	345
Minority Interest in Subsidiary Earnings, Net	(56)	(13)	(150)
Net income from insurance operations	67	10	195
Net Income	1,026	703	1,567

D. Summarized insurance operations statements

	For the 6 months ended June 30 2006	For the 3 months ended June 30 2006	For the year ended December 31 2006
	Unaudited		Audited
	NIS in Millions, Reported		
Summarized insurance operations statements			
Life insurance			
Premiums net of reinsurance	1,236	611	2,469
Revenues from investments	623	174	1,580
Premiums and revenues from investments	1,859	785	4,049
Claims settled and contingent, net of reinsurance	609	291	1,226
Excess of revenues over claims	1,250	494	2,823
Increase in insurance reserves, net	(883)	(352)	(1,948)
Increase in reserve for extraordinary risks	(6)	(4)	(12)
	361	138	863
Net commissions and G&A expenses, net	236	119	482
Decrease (increase) in deferred acquisition costs	11	(1)	28
	114	20	353
Amortization of insurance portfolio purchasing expenses	4	2	9
Reinsurance results	(4)	(4)	(8)
Earnings	106	14	336
General insurance			
Insurance fees net of reinsurance	978	388	1,733
Increase in reserve for unexpired risks, net	(119)	34	38
Insurance fees earned in residual	859	422	1,771
Revenues from investments	86	24	167
Total revenues	945	446	1,938
Claims settled and contingent, net of reinsurance	638	317	1,232
Excess of revenues over claims	307	129	706
Net commissions and G&A expenses, net	284	125	537
Decrease (increase) in deferred acquisition costs	(24)	5	5
Income (loss)	47	(1)	164
Total profit from insurance operations	153	13	500

E. Information Regarding Business Sectors - Proforma

1. Revenues

	For the 6 months ended June 30 2006	For the 3 months ended June 30 2006	For the year ended December 31 2006
	Unaudited		Audited
	NIS in Millions, Reported		
Israeli Fuel Sector Operations	2,262	1,196	4,455
Gas stations and convenience stores in the USA	3,038	1,648	6,181
Refinery operations in the USA	3,737	2,045	8,072
Automotive sector	2,143	1,134	4,060
Real Estate Sector	205	93	439
Biochemicals sector	199	99	366
Oil and gas exploration and production	109	51	268
Other sectors	103	62	278
	11,796	6,328	24,116
Insurance in Israel *)	2,094	1,023	4,240
	13,890	7,351	28,359

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

2. Sector results *):

Israeli Fuel Sector Operations	54	38	94
Gas stations and convenience stores in the USA	62	41	143
Refinery operations in the USA	411	299	632
Automotive sector	221	114	440
Real Estate Sector	36	10	81
Biochemicals sector	37	19	55
Oil and gas exploration and production	63	29	154
Other sectors	5	2	35
Adjustments **)	(50)	(27)	(104)
	839	525	1,530
Insurance in Israel ***)	197	40	543
Total in statements of income	1,036	565	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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