

September 02, 2008

Israel
European Conglomerates

Delek Group (DELKG.TA - ILS 425.10) 3-Underweight

Operating Results

 David Kaplan
 (97) 23 623 8747
 dakaplan@lehman.com
 LBIE, London

No Surprises from the Delek Group

Investment Conclusion

- Delek's Q2 results were negatively affected by higher cost of financing and weakness in the real estate and energy sectors. We are encouraged by the Group's constant search for new investments and believe that when opportunities arise mngmt will know when to act. At the same time, we see the potential ST catalyst from an IPO of the desalination business as remote. We maintain our PT and rating and are reviewing our model.

FY Dec Currency ILS	2007A	2008E		2009E		2010E	
	Actual	Old	New	Old	New	Old	New
Revenues	29657	30843	30843	32077	32077	N/A	N/A
Net Income (m)	947	1111	1111	1162	1162	N/A	N/A
EPS	81.11	95.08	95.08	99.50	99.50	N/A	N/A
DPS	48.9	57.4	57.4	60.0	60.0	N/A	N/A
Dividend Yield	11.5	13.5	13.5	14.1	14.1	N/A	N/A

Summary

- Refining margins in the US (we view the recent spike as temporary) will likely continue to be weak through the course of 2008 and 2009. We recently reiterated our bearish view on US refiners continue to be cautious on the stock and the sector.
- Delek Auto was the main bright spot in Q2 however; we believe that 2H 2008 will prove to be difficult for DLEA and that solid growth vs. 07 is already priced into the valuation.
- Catalysts from IPOs remain remote in our view as we believe that Delek's partners at IDE are reluctant to take the company public.

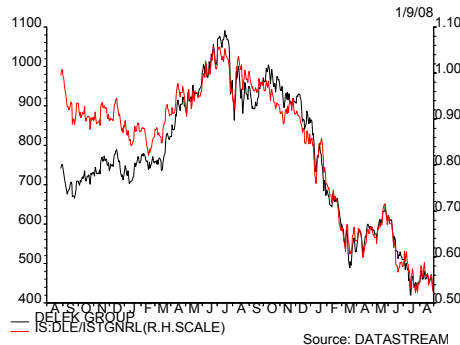
Market Data

Market Cap (m)	4918
Units Outstanding (m)	11.6
Float (%)	41
Net Distribution Yield (%)	11.50
Convertible	No
Shares per ADR	N/A

Financial Summary

Current BVPS	N/A
Net Debt (m)	N/A

Stock Overview


 Reuters DELKG.TA
 Bloomberg DLEKG IT
 ADR

Performance	1M	3M	12M
Absolute %	-2	-31	-54
Rel. Market %	0	-22	-48
Rel. Sector %	-1	-14	-35

52 Week Range 1004.00 - 420.00

Stock Rating

Target Price

New: 3-Underweight	New: ILS 580.00
Old: 3-Underweight	Old: ILS 580.00

Sector View: 2-Neutral

The hunt for Catalysts

Historically Delek has realised shareholder value through IPOs. IDE, the water desalination business, remains the top candidate for an IPO and as stated in the Q2 report an offering has been delayed since the end of 2007 citing market conditions. We do not believe that market conditions will improve enough in 2008 that would allow the Group to IPO IDE.

Two of the Group's other assets (Delek Israel Fuel and Delek Energy) have filed shelf prospectus that would allow them to raise cash through either a debt or equity offering. Each of these assets are +88% owned by the Group and we believe that increased liquidity would help to boost the value of the assets. That being said, a secondary offering of shares would not provide the Group with a cash capital gain that could be used to pay dividends.

The final catalysts for Delek are growth through acquisition. Delek's subsidiaries Delek US and Delek Europe are both examining opportunities. In the US, Delek USA ended the possible acquisition of a fuel refinery, retail, wholesale and marketing operation saying that the asking price was too high. Similarly, Delek Europe's period of exclusivity to purchase gas stations in Europe ended without an

Lehman Brothers does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

This research report has been prepared in whole or in part by research analysts that are not registered/qualified as research analysts with FINRA.

PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 3 AND IMPORTANT DISCLOSURES INCLUDING FOREIGN AFFILIATE DISCLOSURES BEGINNING ON PAGE 4

agreement. We believe that the Group's management is acting prudently and will continue to search for attractive assets at attractive prices.

Results

Delek's Q2 results reflected the difficult environment for financial, real estate and energy assets which account for close to 60% of the Group's NAV. Additionally, financing expenses driven by higher than expected CPI. On the conference call management stated that in the long run it has benefitted from relatively low coupons of 4.5% - 5% and that short durations make it unaffordable and undesirable to hedge the exposure.

On an absolute basis revenues were up 44% in 1H 2008 vs. 1H 2007 and operating income up 3% in the same period. The main reason that operating income did not grow at the same rate was the consolidation of acquisitions in the Benelux region and the UK.

Delek announced an ILS 25 million dividend amounting to c50% of net income.

Figure 1: Delek Group Market Cap Based NAV Model

Public	Methodology	Value of Holding (NIS m)	% of Gross NAV	Total
Energy				
<i>Significant Energy Holdings</i>				
Delek US	Market Price	1,089	8.3%	
Delek Energy	Market Price	1,033	7.9%	
Delek Israel Fuel	Market Price	1,732	13.2%	
Other Energy Holdings	Market Price	200	1.5%	
Total Public Energy Holdings				4,054
Real Estate				
<i>Significant Real Estate Holdings</i>				
Delek Real Estate	Market Price	577	4.4%	
Total Public Real Estate Holdings				577
Insurance and Financial Holdings				
<i>Significant Insurance and Financial Holdings</i>				
Phoenix	Market Price	953	7.3%	
Other Insurance and Financial Holdings	Market Price	36	0.3%	
Total Public Insurance and Financial Holdings				989
Automotive/Other				
Delek Automotive	Market Price	2,244	17.2%	
Other Holdings	Market Price	681	5.2%	
Total Public Automotive and Other Holdings				2,925
Sub-total				8,544
Private				
Energy				
IDE (Desalination)	1.5x '07 revenues	899	6.9%	
Delek Europe	Purchase price	747	5.7%	
Other Energy Holdings	Market Price	550	4.2%	
Total Private Energy Holdings				2,196
Other Holdings	Market Price	1273	9.7%	1273
Insurance and Financial Holdings	1.0x BV at Q2 2008	1,067	8.2%	1,067
Sub-total				4,536
Gross Asset Value				13,080
Net Debt (Cash)				4,365
Net Asset Value				8,715
NAV per Share				746
DELKG price				410
Discount to NAV				45%

Source: Lehman Brothers Estimates and Datastream

Analyst Certification:

I, David Kaplan, hereby certify (1) that the views expressed in this research Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

Important Disclosures:

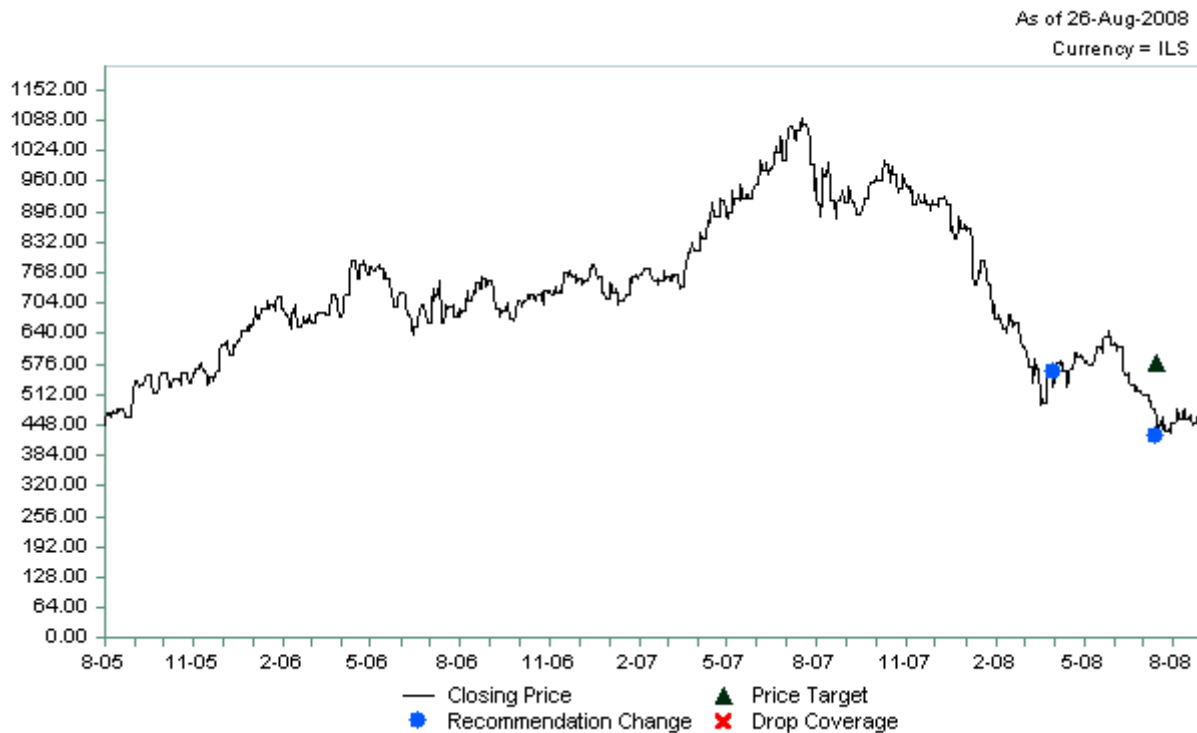
Delek Group (DELKG.TA)

ILS 425.10 (29-Aug-2008)

3-Underweight / 2-Neutral

Rating and Price Target Chart:

DELEK GROUP



Currency=ILS

Date	Closing Price	Rating	Price Target
15-Jul-08	423.20		580.00
15-Jul-08	423.20	3 -Underweight	

Date	Closing Price	Rating	Price Target
02-Apr-08	558.00	1 -Overweight	

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Lehman Brothers Inc. and/or an affiliate has received compensation for investment banking services from the subject company within the past 12 months.

Lehman Brothers Inc. and/or an affiliate expects to receive or intends to seek compensation for investment banking services from the subject company within the next three months.

Lehman Brothers Inc. and/or an affiliate trades regularly in the subject company's shares.

The subject company is or during the past 12 months has been an investment banking client of Lehman Brothers Inc. and/or an affiliate.

Valuation Methodology: We built two SOTP models. The first uses market valuation for the publicly traded holdings and implies a 45% discount to NAV of ILS 8,715m. The second applies a more robust valuation methodologies including DDM (11.5% WACC and 1.5% terminal growth) and embedded value and implies a discount of 50% to NAV of ILS 9,666m. We use various methodologies to value the privately held assets. We use the market cap model and apply a 20% conglomerate discount to arrive at our price target.

Risks Which May Impede the Achievement of the Price Target: Delek Group is a holding company based in Israel with diversified holdings including insurance, energy, real estate, automobile imports and telecommunications. Some of the major holdings of the Group are in oil refineries and real estate, which by their nature are risky investments. In addition, the company carries risks associated with fluctuations in the economy in Israel, real estate valuations and the oil price, as well as holding company risk.

Mumbai Lehman Brothers Inc., India Branch (LBI, India) Winchester, Off High Street, 9th Floor Hiranandani Business Park, Powai, Mumbai 400 076, India	Seoul Lehman Brothers International (Europe) Seoul Branch (LBIE, Seoul) Hanwha Building, 12th Floor 110, Sokong-dong Chung-Ku Seoul 100-755, Korea Regulated by FSC	Hong Kong Lehman Brothers Asia Limited - Hong Kong (LBAL, Hong Kong) Two International Finance Centre 8 Finance Street, 26th Floor Central, Hong Kong Regulated by SFC
Mumbai Lehman Brothers Securities Private Limited (LBSPL, India) Ceejay House, 11th Level, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai 400018 Regulated by SEBI	Taipei Lehman Brothers Securities Taiwan Limited (LBSTL, Taiwan) Cathay Financial Center 12F 7 Sungren Road - Shin-Yi District Taipei, Taiwan Regulated by FSC	Sydney Lehman Brothers Australia Limited (LBAUL, Sydney) Level 33, 264 George Street Sydney NSW 2000, Australia Regulated by ASIC

This material has been prepared and/or issued by Lehman Brothers Inc., member SIPC, and/or one of its affiliates (“Lehman Brothers”) and has been approved by Lehman Brothers International (Europe), authorized and regulated by the Financial Services Authority, in connection with its distribution in the European Economic Area. This material is distributed in Japan by Lehman Brothers Japan Inc., and in Hong Kong by Lehman Brothers Asia Limited. This material is distributed in Australia by Lehman Brothers Australia Limited, and in Singapore by Lehman Brothers Singapore Pte Ltd. Where this material is distributed by Lehman Brothers Singapore Pte Ltd, please note that it is intended for general circulation only and the recommendations contained herein does not take into account the specific investment objectives, financial situation or particular needs of any particular person. An investor should consult his Lehman Brothers’ representative regarding the suitability of the product and take into account his specific investment objectives, financial situation or particular needs before he makes a commitment to purchase the investment product. This material is distributed in Korea by Lehman Brothers International (Europe) Seoul Branch, and in Taiwan by Lehman Brothers Securities Taiwan Limited. Where this material is distributed by Lehman Brothers Securities Taiwan Limited, please note that recommendations expressed herein are for reference only. Investors should carefully evaluate the investment risks and are reminded that they are solely responsible for their investment decisions. This document is for information purposes only and it should not be regarded as an offer to sell or as a solicitation of an offer to buy the securities or other instruments mentioned in it. No part of this document may be reproduced in any manner without the written permission of Lehman Brothers. With the exception of disclosures relating to Lehman Brothers, this research report is based on current public information that Lehman Brothers considers reliable, but we make no representation that it is accurate or complete, and it should not be relied on as such. In the case of any disclosure to the effect that Lehman Brothers Inc. or its affiliates beneficially own 1% or more of any class of common equity securities of the subject company, the computation of beneficial ownership of securities is based upon the methodology used to compute ownership under Section 13(d) of the United States’ Securities Exchange Act of 1934. In the case of any disclosure to the effect that Lehman Brothers Inc. and/or its affiliates hold a short position of at least 1% of the outstanding share capital of a particular company, such disclosure relates solely to the ordinary share capital of the company. Accordingly, while such calculation represents Lehman Brothers’ holdings net of any long position in the ordinary share capital of the company, such calculation excludes any rights or obligations that Lehman Brothers may otherwise have, or which may accrue in the future, with respect to such ordinary share capital. Similarly such calculation does not include any shares held or owned by Lehman Brothers where such shares are held under a wider agreement or arrangement (be it with a client or a counterparty) concerning the shares of such company (e.g. prime broking and/or stock lending activity). Any such disclosure represents the position of Lehman Brothers as of the last business day of the calendar month preceding the date of this report. This material is provided with the understanding that Lehman Brothers is not acting in a fiduciary capacity. Opinions expressed herein reflect the opinion of Lehman Brothers and are subject to change without notice. The products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. If an investor has any doubts about product suitability, he should consult his Lehman Brothers representative. The value of and the income produced by products may fluctuate, so that an investor may get back less than he invested. Value and income may be adversely affected by exchange rates, interest rates, or other factors. Past performance is not necessarily indicative of future results. If a product is income producing, part of the capital invested may be used to pay that income. © 2008 Lehman Brothers. All rights reserved. Additional information is available on request. Please contact a Lehman Brothers entity in your home jurisdiction.

Lehman Brothers policy for managing conflicts of interest in connection with investment research is available at www.lehman.com/researchconflictspolicy. Complete disclosure information regarding companies covered by Lehman Brothers Equity Research, including ratings, earnings per share forecasts and price targets contained in reports covering U.S. companies is available at www.lehman.com/disclosures.