Delek Group

ANNUAL REPORT 2014

Delek Group

ISRAEL ישראל

Official Sponsor of the Israeli Delegation to the Olympic Games, Rio 2016

IMPORTANT

This document is an unofficial translation for convenience only of the Hebrew original of December 31, 2014 financial report of Delek Group Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on March 30, 2015.

The Hebrew version submitted to the TASE and the Israeli Securities Authority shall be the sole binding legal version.

IMPORTANT

The Energy segment in Part Three of Chapter A, "Corporate Description", is currently being translated and will be added on completion.

Apologies for any inconvenience,
Delek Group

ANNUAL REPORT 2014

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Chapter A

Corporate Description

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Part One – Description of the Company's Business

Key:

In this report the following abbreviations have the following meanings:

The Company	-	Delek Group Ltd.
Avner Partnership	-	Avner Oil and Gas Exploration – Limited Partnership
Cohen Development	-	Cohen Development and Industrial Buildings Ltd.
Delek Ashkelon	-	I.P.P. Delek Ashkelon Ltd.
Delek Automotive	-	Delek Automotive Systems Ltd.
Delek Drilling Partnership	-	Delek Drilling - Limited Partnership
Delek Energy	-	Delek Energy Systems Ltd.
Delek Infrastructure	-	Delek Infrastructure Ltd.
Delek Israel	-	Delek The Israel Fuel Corporation Ltd.
Delek Petroleum	-	Delek Petroleum Ltd.
Delek Power Plants	-	Delek Power Plants - Limited Partnership
Delek Sorek	-	IPP Delek Sorek Ltd.
Excellence	-	Excellence Investments Ltd.
Gadot	-	Gadot Biochemical Industries Ltd.
IDE	-	IDE Technologies Ltd.
The Partnerships	-	Avner Partnership and Delek Drilling Partnership, jointly
The Phoenix	-	The Phoenix Holdings Ltd.

Part One – Description of the General Development of the Company's Business

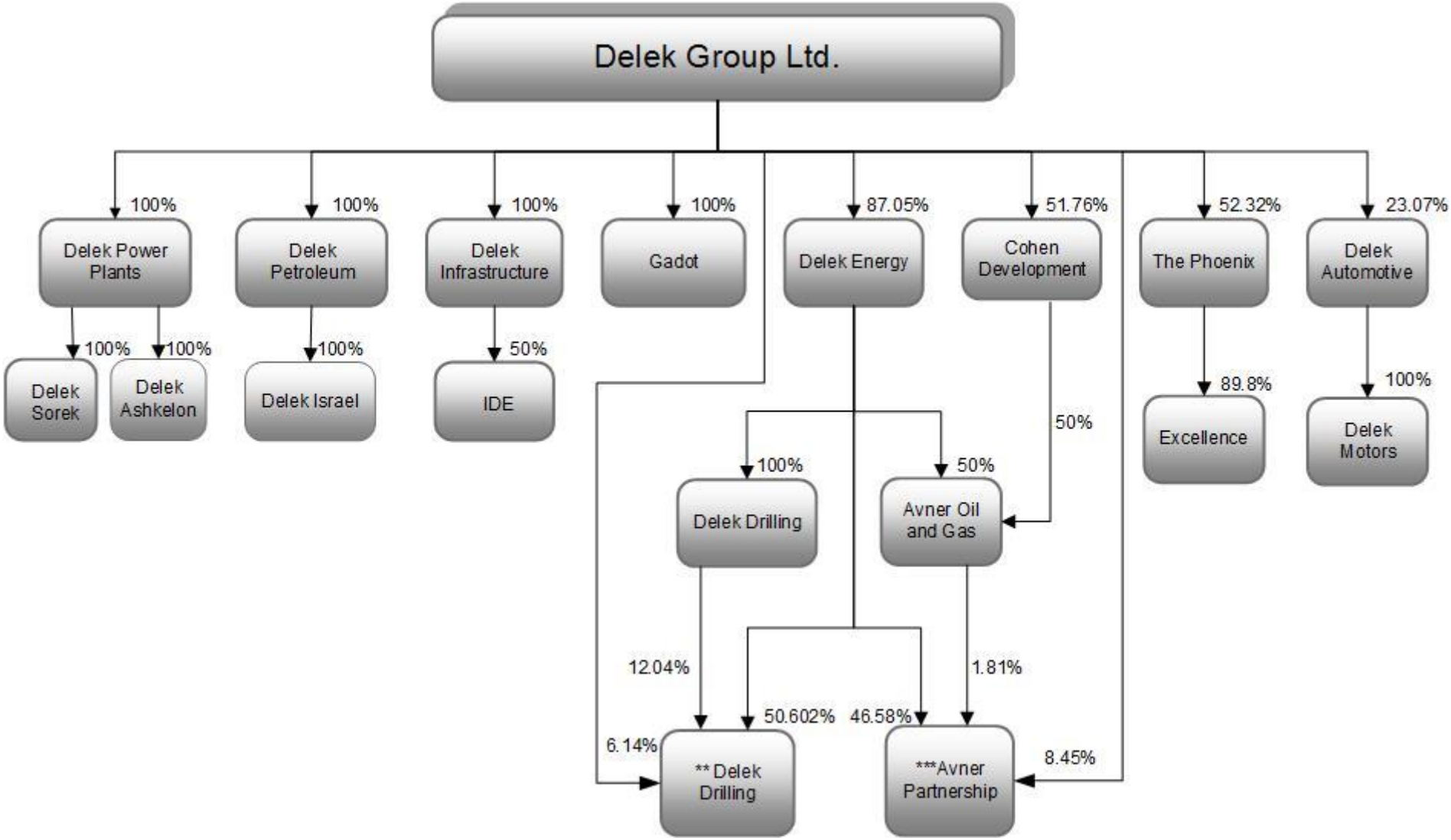
1.1 Company Operations and the Development of its Business

1.1.1 The Company is a holdings management company with subsidiaries operating in various segments, primarily in the energy industry (the Company and the companies under its control are hereinafter referred to, for the sake of convenience as "the Group" or "Delek Group").

1.1.2 The Company was incorporated on October 26, 1999 as a public company.[1]

1.1.3 The following chart illustrates the Group's major holdings as of Sunday, March 29, 2015:

[1] The Company was incorporated as part of the Group's re-structuring in 1999, wherein the Group's operations were divided between three principle subsidiaries, with the Company as parent. Prior to this re-structuring, the Group's operations were carried out under Delek The Israel Fuel Corporation Ltd., a company incorporated on December 12, 1951, and which currently, following the re-structuring, coordinates the Group's fuel products in Israel segment.



* It is noted that the Group also holds a 66% interest in Republic Companies Inc. ("Republic") without controlling rights and without directors. For more information, see Sections 1.12.3 below.

1.1.4 The Company, directly and indirectly, holds companies mainly dealing in energy, fuel products, finance and insurance in Israel, automotive and infrastructures in Israel. For more information, see Section 1.2 below.

1.2 Operating Segments

1.2.1 As of the reporting date, the Group operates in the following four segments:

(A) Energy - This segment includes development, production and sale of natural gas and oil and natural gas and oil exploration activities.

(B) Fuel Products - This segment includes sales of fuels and lubricants, the operation of gas stations with on-site convenience stores, and the provision of fuel storage and distribution services in Israel.

(C) Insurance and Finance - This segment includes various insurance operations and long-term savings operations in the finance industry in Israel. Operations are carried out through The Phoenix and Excellence.

(D) Automotive - This segment includes a 23.07% interest in Delek Automotive, which imports, markets and sells Mazda, Ford, and BMW vehicles, accessories and spare parts in Israel.

1.2.2 In addition, the Delek Group engages in various operations that are not covered by the above segments. These operations mainly include biochemical operations carried out through Gadot, a wholly-owned Group subsidiary; water desalination operations carried out through IDE, in which the Group holds a 50% interest; and power plant operations.

1.2.3 It is noted that, according to the Company's strategic focus on energy operations, several of the Group's active operating segments were sold off in 2014 as detailed in Section 1.12 below.

1.2.4 Operating segments - materiality and description in the report

The materiality of the various operating segments and their contribution to the Company's financial position, the results of its operations, its cash flows, and value, are liable to change across periods, so that a certain segment may become more dominant than others in a given period, but less dominant in another period (e.g. - due to market conditions affecting the company coordinating that segment's operations). These fluctuations may be expressed as an increase in the financial and administrative resources allocated to the segment. Furthermore, a segment which may experience frequent changes which are material to the Group may be considered more material.

The description of the Company’s operating segments in the Description of Company Business chapter is presented while bearing in mind the materiality of the operating segments and their contribution to the Company’s business in the relevant period. Material segments and/or segments which experience changes which may significantly affect the Group are described in greater detail. However, even less material segments may occasionally be presented in greater detail, due to the nature of operations in those segments and/or to provide more adequate disclosure of the segment.

The following details the materiality of the Group’s various operating segments in the reporting period:

In recent years, the significant gas discoveries made in the Group’s oil assets have led to the energy segment becoming the most significant for the Group’s operations, contributing to the Group’s operating profit. This is reflected in the market value of the Company’s holdings in companies operating in this segment, which has grown very significantly, and in the administrative resources invested by the Company’s management along with the managements of the companies operating in this segment, in developing operations, and making investment and financing decisions for this segment. Following the above gas discoveries, the Company's strategic focus on its energy operations has led it to sell off several operation segments in 2014, in which the Group had been active until that time. For more information, see 1.12 below.

Additional Group segments which constitute a significant component in its 2014 financial statements, mainly as concerns their impact on the Group's financial position and the results of its operations, are the Fuel Products segment and the Insurance and Finance segment.

In addition to the above segments, carried out through Group-controlled companies and consolidated in the Group's financial statements, the Company controls two additional companies whose results are included using the equity method - Delelk Automotive (coordinating Automotive segment operations) and IDE (included in Additional Operations). The contribution of these operations changes from one period to the next, and their effect mainly comprises a contribution to the Group's value, the Group's share in dividends from these companies, and in contribution to the Group's net profit.

1.3 Equity investments in the Company and transactions in its shares

1.3.1 To the best of the Company's knowledge, in 2013-2014 until shortly prior to the report date, the following investments were made in the Company's equity:

Date	Type of transaction	% of issued capital	Equity investment in NIS millions*
Q1/2013	Options exercised for shares	0.05	4.4
Q2/2013	Options exercised for shares	0.74	67.6
Q3/2013	Options exercised for shares	1.38	123

1.3.2 To the best of the Company's knowledge, in 2013-2014 until shortly prior to the report's approval date, the following equity transactions and material transactions were made by principal shareholders in the Company:

Date	Principal shareholder	Type of transaction	% of issued capital	Share price in NIS	Consideration in NIS millions	Company value derived from transaction (NIS millions)
5/7/2013	Delek Group Ltd. (dormant shares)	Public offering under a shelf report	0.88	946.00	97	11,106
6/10/2014	Yitzchak Sharon (Tshuva)	Off-exchange sale	0.73	1,440.5	125	16,911
9-31/12/2014	Delek Financial Investments LP[1]	Purchase on the stock exchange	0.48	1,073*	61	12,592
1-31/1/2015	Delek Financial Investments LP	Purchase on the stock exchange	0.37	938*	40	11,013
1-28/2/2015	Delek Financial Investments LP	Purchase on the stock exchange	0.28	952.8*	31	11,187

*Weighted average.

[1] Limited partnership, wholly-owned by the Company.

1.4 Dividend distributions

1.4.1 Distribution of dividends in the past two years and balance of distributable profits

Dividends declared by the Company in 2013-2014 until shortly prior to the report approval date:

Declaration date	Payout date	Dividend per share (NIS)	Total dividend (NIS millions)
26.11.2014	30.12.2014	12.7761	150
28.08.2014	29.09.2014	12.7761	150
30.03.2014	24.04.2014	13.6278	160
27.11.2013	5.1.2014	5.9622	70
28.8.2013	29.9.2013	13.6793	160
29.5.2013	24.6.2013	13.0136	150
21.3.2013	23.4.2013	19.3271	220

A total of NIS 530 million were paid out in dividends in each of 2013 and 2014.

These payouts did not require Court approval under the Companies Law.

As of December 31, 2014, the Company's distributable profits, under Section 302 of the Companies Law, 1999, total NIS 2,570 million.

On March 30, 2015, the Company's Board of Directors resolved to distribute NIS 150 million in dividends. Following this distribution, the Company's distributable profits, under Section 302 of the Companies Law, 1999, will total NIS 2,349 million[1].

1.4.2 Dividend distribution policy

As of the reporting date, the Company does not have a dividend distribution policy. On March 29, 2015, in light of changes in the nature of the Company's operations, the Company's Board of Directors resolved to annul its prior decision concerning the dividend distribution policy as detailed below, and determined that distributions would be reviewed on a case-by-case basis.

According to a prior decision from 2005, the Company's Board of Directors determined that the Company will strive to distribute approximately 50% of its net annual profit (post-tax) each year. Subject to the following terms: (a) The Company's Board of Directors will decide to distribute dividends from time to time, and the Board's decision will be made according to Law and subject to any restrictions specified therein; (b) The Board of Directors' decision on the amount of such distribution will take into account the Company's financing needs, its liabilities, liquidity, and planned investments, as may be from time to time; (c) The Board of Directors' decision on the amount of such distribution shall take into account that the dividend distribution shall not undermine the Company's commitments towards third parties, including its debenture holders and banks.

1.4.3 Conditions regarding the distribution of dividends

Under the agreement of December 27, 2012,[2] signed with a bank in which the Company's debt balance (including a secured, unutilized credit facility) as of December 31, 2014 totaled NIS 450 million, it was stipulated that should the Company distribute dividends exceeding 60% of its adjusted net profit as defined in the agreement,[3] a certain amount of the Company's debt towards the bank shall be called upon for early repayment according to the mechanism prescribed in the agreement. Furthermore, the deed of trust for Debentures (Series B31), dated February 19, 2015, set forth various limitations on the distribution of

[1] Following buy back of shares amounting to NIS 71 million by the Company, through a wholly-owned subsidiary, in January-February 2015.

[2] As updated and amended at various times in 2013 and 2014.

[3] Adjusted net profit is net profit attributable to equity owners of the parent, net of several adjustments mainly comprising gains or losses from loss or assumption of control not involving cash flows for the said profits.

dividends: the distribution is permitted under the Companies Law; the distribution does not violate the financial covenants specified in the deed of trust, both prior to and following the distribution (for more information, see Section 1.17.5 below); the Company's equity will not fall below NIS 2,600 million following the distribution; there are no grounds entitling a call for immediate repayment of the debentures (Series B31); as of the distribution approval date, there is no material violation of the deed of trust for the debentures (Series B31).

Furthermore, the Company is studying the applicability of Section 309 to the Companies Law as regards the purchase of shares by Excellence's ETN companies. These companies purchase and sell Company shares as part of their prospectus obligations to monitor the share indices in which the Company is included. Similarly, The Phoenix's profit-sharing policies occasionally buy and sell Company shares. Section 309 to the Companies Law dictates that a subsidiary or another corporation controlled by the parent company are entitled to purchase shares in the parent company or securities which are convertible or exercisable for shares in the parent company, to the same extent that the parent company is entitled to carry out a distribution, provided that the subsidiary's board of directors or the management of the purchasing corporation has determined that had the purchase of the shares or the securities convertible or exercisable for shares been carried out by the parent company, such action would have constituted permissible distribution. However, in light of the fact that these purchases are made using funds managed on behalf of others, and their limitation (to the extent that such limitation is practical) may adversely affect the ETN companies' obligations towards their investors, it seems that both materially and practically, such share purchases should not be equated with the distribution of dividends, nor should they be subject to the distribution tests. From an accounting perspective, in preparation of its quarterly or annual financial statements, the Company reviews the net volume of these purchases (i.e. - purchases less of sales in the reporting period) and accounts for them in accordance with Israeli GAAP. Therefore, shares are presented at cost offset from the Company's equity, and gains or losses on sales, purchases, issues or cancellation of treasury shares are recognized directly to equity. Net purchases are detracted from the Company's distributable profits, and as of December 31, 2013 and 2014, the Company's distributable profits were reduced by amounts that are immaterial compared to the Company's total profits designated for distribution.

Part Two – Other Information

1.5 Financial information concerning the Group's operating segments

The following table details financial information related to the Group's segments of operation:

2014 (NIS millions)* -

2014 (NIS millions)		Energy	Delek Israel	Insurance and Finance	Automotive	Other	Consolidation adjustments	Consolidated
Revenues	Revenues from externals	1,387	5,954	11,190	-	490	102	19,123
	Revenues from other segments	-	-	-	-	-	-	-
	Total	1,387	5,954	11,190	-	490	102	19,123
Total attributable costs	Costs constituting revenues for another segment	-	-	-	-	-	-	-
	Other costs	633	5,889	10,449	-	495	664	18,028
	Total	633	5,889	10,449	-	495	664	18,028
	Fixed costs attributed to segment	-	654	---	---	---	---	---
	Variable costs attributed to segment	633***	5,235	---	---	---	---	---
Profit from operating activities attributed to owners of the parent		411	65	441	-	(5)	(535)**	377
Share in profit from operating activities attributed to non-controlling interest		343	-	402	-	-	(27)	718
Total assets attributed to segment		20,187	3,545	100,907	928	1,556	4,054	131,177
Total liabilities attributed to segment		700	917	94,321	-	195	23,816	119,949

* In 2014, in view of classifying the operating results of the refining and fuel products in USA, fuels in Europe, roadway service areas in the UK, and insurance in the US segments under the profit (loss) of discontinued operations, these companies ceased to be recognized as income-generating segments. For comparison purposes, their results were not presented as income-generating segments also in periods of transition to classification as discontinued operations.

** Including adjustments for costs not attributed to operating segments.

*** Costs are mostly variable and change according to oil and gas production capacity.

2013 (NIS millions)* -

2013 (NIS millions)		Energy	Delek Israel	Insurance and finance in Israel	Automotive	Other	Consolidation adjustments	Consolidated
Revenues	Revenues from externals	1,283	6,492	12,725	-	486	(136)	20,850
	Revenues from other segments	-	-	-	-	-	-	-
	Total	1,283	6,492	12,725	-	486	(136)	20,850
Total attributable costs	Costs constituting revenues for another segment	-	-	-	-	-	-	-
	Other costs	868	6,366	11,483	-	504	221	36,746
	Total	868	6,366	11,483	-	504	221	36,746
	Fixed costs attributed to segment	-	648	---	-	---	---	---
	Variable costs attributed to segment	868 ***	5,718	---	-	---	---	---
Profit from operating activities attributed to owners of the parent		321	124	669	-	(18)	(357)**	739
Share in profit from operating activities attributed to non-controlling interest		94	2	610	-	-	-	706
Total assets attributed to segment		16,294	3,900	92,297	900	1,360	15,720****	130,471
Total liabilities attributed to segment		637	1,046	85,421	-	298	32,164****	119,566

* In 2014, in view of classifying the operating results of the refining and fuel products in USA, fuels in Europe, roadway service areas in the UK, and insurance in the US segments under the profit (loss) of discontinued operations, these companies ceased to be recognized as income-generating segments. For comparison purposes, their results were not presented as income-generating segments also in periods of transition to classification as discontinued operations.

** Including adjustments for costs not attributed to operating segments.

*** Costs are mostly variable and change according to oil and gas production capacity.

**** The assets and liabilities attributed to the operations that were terminated were included in the consolidated adjustments.

2012 (NIS millions)+ -

2012 (NIS millions)		Energy	Delek Israel	Insurance and finance in Israel	Automotive	Other	Consolidation adjustments	Consolidated
Revenues	Revenues from externals	853	6,624	10,907	-	540	(65)	18,859
	Revenues from other segments	-	-	-	-	-	-	-
	Total	853	6,624	10,907	-	540	(65)	18,859
Total attributable costs	Costs constituting revenues for another segment	-	-	-	-	-	-	-
	Other costs	606	6,499	10,372	-	614	53	68,725
	Total	606	6,499	10,372	-	614	53	68,725
	Fixed costs attributed to segment	-	710	-	-	-	-	-
	Variable costs attributed to segment	606 ***	5,789	-	-	-	-	-
Profit from operating activities attributed to owners of the parent		152	105	331	-	(56)	(118)*	414
Share in profit from operating activities attributed to non-controlling interest		95	20	252	-	(18)	-	349
Total assets attributed to segment		16,648	4,174	75,761	-	1,114	25,040****	123,743
Total liabilities attributed to segment		937	991	68,997	997	150	39,790****	110,865

* In 2014, in view of classifying the operating results of the refining and fuel products in USA, fuels in Europe, roadway service areas in the UK, and insurance in the US segments under the profit (loss) of discontinued operations, these companies ceased to be recognized as income-generating segments. For comparison purposes, their results were not presented as income-generating segments also in periods of transition to classification as discontinued operations.

** Including adjustments for costs not attributed to operating segments.

*** Costs are mostly variable and change according to oil and gas production capacity.

**** The assets and liabilities attributed to the operations that were terminated were included in the consolidated adjustments.

For details about the main developments in the financial data, see the Board of Directors' explanations regarding the Corporation's affairs.

1.6 General environment and impact of external factors

1.6.1 General

Most of the Company's investees are controlled by the Company, with holdings of more than 50%.

The Company's financial data and its operating results are affected by the financial data and operating results of its investee companies, and by its sale or acquisition of holdings. The Company's cash flow is affected, inter alia, by dividends and management fees distributed by its investee companies, by proceeds earned from the sale of the Company's holdings in such companies, by the Company's ability to raise financing that depends, inter alia, on the value of its holdings, and by investments made by the Group and by dividends it distributes to its shareholders.

1.6.2 Market developments and volatility

Market developments and volatility may have significant effects on the results of the Company and its investee companies, on their liquidity, the valuation of their assets, their ability to dispose of such assets, the state of their business, their financial covenants, their credit rating, their ability to distribute dividends, their ability to raise funds to finance their operating activities and their long-term operations, as well as the terms of such financing. Among other things, the Group's results are materially affected by developments and fluctuations in relevant markets in which the Group operates through its subsidiaries, as detailed below:

A) Natural gas market in Israel - Energy operations are materially affected by supply and demand for natural gas in Israel. The most material consumer of natural gas at the moment is the Israel Electric Corporation ("IEC"). However, IEC's share in the Partnerships' revenues is diminishing following signature of natural gas agreements with additional buyers. Energy operations are also materially affected by industry regulation. Recent years have seen a significant increase in the regulation of Israel's energy industry. Notable examples of this are the Taxation of Oil Profits Law, enacted in March 2011; the Israeli Government decision of June 2013, adopting the recommendations of the Zemach Committee for Examining Government Policy for the Natural Gas Market in Israel; the Antitrust Commissioner's declaration of the Partnerships, along with the other partners in the Tamar Project, as a monopoly in the supply of natural gas in Israel; the Antitrust Commissioner's decision to consider declaring the Partnerships as party to a restrictive trade arrangement following the Partnerships' and Noble's joint ownership with Ratio of the Ratio Yam preliminary permit; and publication of guidelines and criteria for the transfer and/or purchase of participation rights in oil assets by the Ministry of Energy and Water Resources' Oil Commissioner; proposed legislation to amend the Taxation of Oil Profits Law as concerns taxation of natural gas exports from Israel; publication of draft environmental guidelines by the Oil Commissioner; publication of the Marine Areas Bill, 2014; publication of guidelines for providing collateral and acquiring insurance for operations involving oil rights; and more. For more information, see Sections 1.7.24 and 1.20 below.

B) Fuel and convenience store products in Israel - Fluctuations in demand and in the prices of fuel products in Israel may materially affect the Fuel Products segments' results. Such fluctuations may be caused by economic conditions and by applicable regulation. For more information, see Section 1.8 below.

C) Insurance and finance operations - Capital market volatility and yield fluctuations materially affect the results of the Group's insurance and finance operations. These operations are affected, inter alia, by the ability to collect management fees on insurance and long-term saving policies. For more information, see Section 1.9 below. For information concerning the effects of the Market Concentration Law's provisions concerning separation of significant non-financial companies and significant financial entities, see Section 1.20 below. In this context, it is noted that on January 27, 2015, the Company signed a non-binding memorandum of understanding with a foreign listed company which also engages in overseas insurance operations. The non-binding memorandum of understanding laid out the principles for reaching a binding agreement for selling control of The Phoenix (42%-52.3% of The Phoenix's share capital). For more information, see the Note 14(E)(1) to the financial statements.

D) The Israeli automotive market - In recent years, the automotive segment has materially contributed to the Group's profitability. Even after the sale of part of the Group's holdings in Delek Automotive at the end of 2010, the segment remains material at the group level. The results of automotive operations depend, inter alia, on demand for vehicles in Israel, on competition among vehicle importers, and on applicable regulation. For more information, see Section 1.10 below.

E) The Group's results are also affected by capital market developments in Israel and abroad.

1.6.3 Exchange rates

The Company's functional currency and the presentation currency of the Company's financial statements is the NIS. However, some Group companies (Delek Drilling Partnership, Avner Partnership, Cohen Development, IDE, and Gadot) use the USD as their functional currency. Therefore, the Group's results and equity are materially affected by fluctuations in the NIS exchange rates for the aforesaid currencies (as well as additional currencies such as the JPY). In 2014, the effects of these exchange rate fluctuations were reflected in the Company's equity attributable to Company shareholders as a NIS 1,147 million capital reserve classified as "Adjustments from translation of overseas operations" (the increase is also due to the exercise of currency-difference reserves as part of the sale of overseas operations as detailed in Section 1.12 below).

1.6.4 Regulation

The Company and several of its investee companies are subject to restrictions on their operations imposed by law or by order of various regulatory bodies, such as anti-trust provisions, provisions relating to the obligation to tender, provisions relating to insurance companies, provident funds and retirement funds, [1]and provisions relating to the supervision of product and service prices. Furthermore, the Group's ability to raise funds is affected, inter alia, by relevant regulation, such as the Proper Conduct of Banking Business provisions (see below) and regulation of non-bank credit, such as the regulation adopted by the Ministry of Finance Commissioner of Capital Market, Insurance and Savings ("the Capital Market Commissioner") following the Hodek Committee's recommendations. The Company is affected by changes in antitrust laws or their application, primarily in those fields in which it has significant operations.

For information concerning the Antitrust Commissioner's decision to consider declaring the Partnerships as party to a restrictive trade arrangement following the Partnerships' and Noble's joint ownership with Ratio of the Ratio Yam preliminary permit, see 1.6.2.1 below.

On December 11, 2013, the Promotion of Competition and Reduction of Market Concentration Law, 2013 was published in the Official Gazette ("the Market Concentration Law"). On December 11, 2014, the Reduction of Market Concentration Committee published, pursuant to the Market Concentration Law, the list of entities promoting market concentration; a list of significant non-financial entities; and a list of significant financial entities. Furthermore, on that date, the chapter of the Market Concentration Law dealing with national-level market concentration considerations and sector-specific competitiveness considerations in rights allocations went into effect. The Group is included in the list of entities promoting market concentration. For information on the Market Concentration Law's effects on the Company and/or its subsidiaries, and the implications of the Company's inclusion in the list of market concentration promoting entities, see Section 1.20 below.

[1] On December 30, 2010, the Ministry of Finance Commissioner of the Capital Market, Insurance and Savings ("the Capital Market Commissioner") issued to Mr. Yitzchak Sharon (Tshuva), the controlling shareholder in the Company, a permit to control and to hold the means of control in an insurer - The Phoenix Holdings Ltd. and its subsidiaries. This permit includes requires that certain holdings be maintained in The Phoenix, and prescribes limitations on the sale or transfer of control blocs and the issue of means of control as defined in the Supervision of Insurance Law in the Company, The Phoenix and subsidiaries of The Phoenix. The permit also includes various requirements for reporting to the Capital Market Commissioner, concerning changes in the interest in The Phoenix and its subsidiaries, provisions concerning the holding in trust of control blocs in The Phoenix, maintaining control blocs in The Phoenix and its subsidiaries free of any pledges, except in such cases as specified in the permit, and the Company's commitment to supplement the equity of those insurance, provident and pension companies controlled by The Phoenix.

The Company and several of its investee companies are affected by the Proper Conduct of Banking Business Regulations issued by the Supervisor of Banks in Israel. These regulations include, among other things, restrictions on the scope of the loans that Israeli banks can grant to "single borrowers", and the largest "borrower group" in the bank (as these terms are defined in the aforesaid regulations). Accordingly, the scope of the loans issued to the Group's companies and the controlling shareholder in the Company may, under certain circumstances, affect the ability of the Group's companies to borrow additional amounts from banks in Israel. For more information, see Section 1.25.9 below.

The Company and its investee companies are also affected by the Government of Israel's policies in various matters (e.g. – monetary policies), and by the requirements of authorities monitoring environmental quality.

In July, 2013, the Bank Commissioner in Israel, and the Capital Market Commissioner issued a list of guiding principles, which will serve as the basis for a detailed framework of criteria and conditions for obtaining control permits from the Governor of the Bank of Israel and the Capital Market Commissioner, as relevant, for applicants seeking permits for controlling and holding the means of control in supervised entities.

1.6.5 Developments in the Israeli economy

Economic developments in Israel materially affect the results of operations. These developments stem, inter alia, from economic, political and security conditions in Israel.

For more information concerning the general economic environment and external factors that specifically affected the Delek Group's operating segments, see the description for each operating segment below.

Part Three – Description of the Company's Business by Operating Segment

Below is a separate description of the Group's business in each of its operating segments:

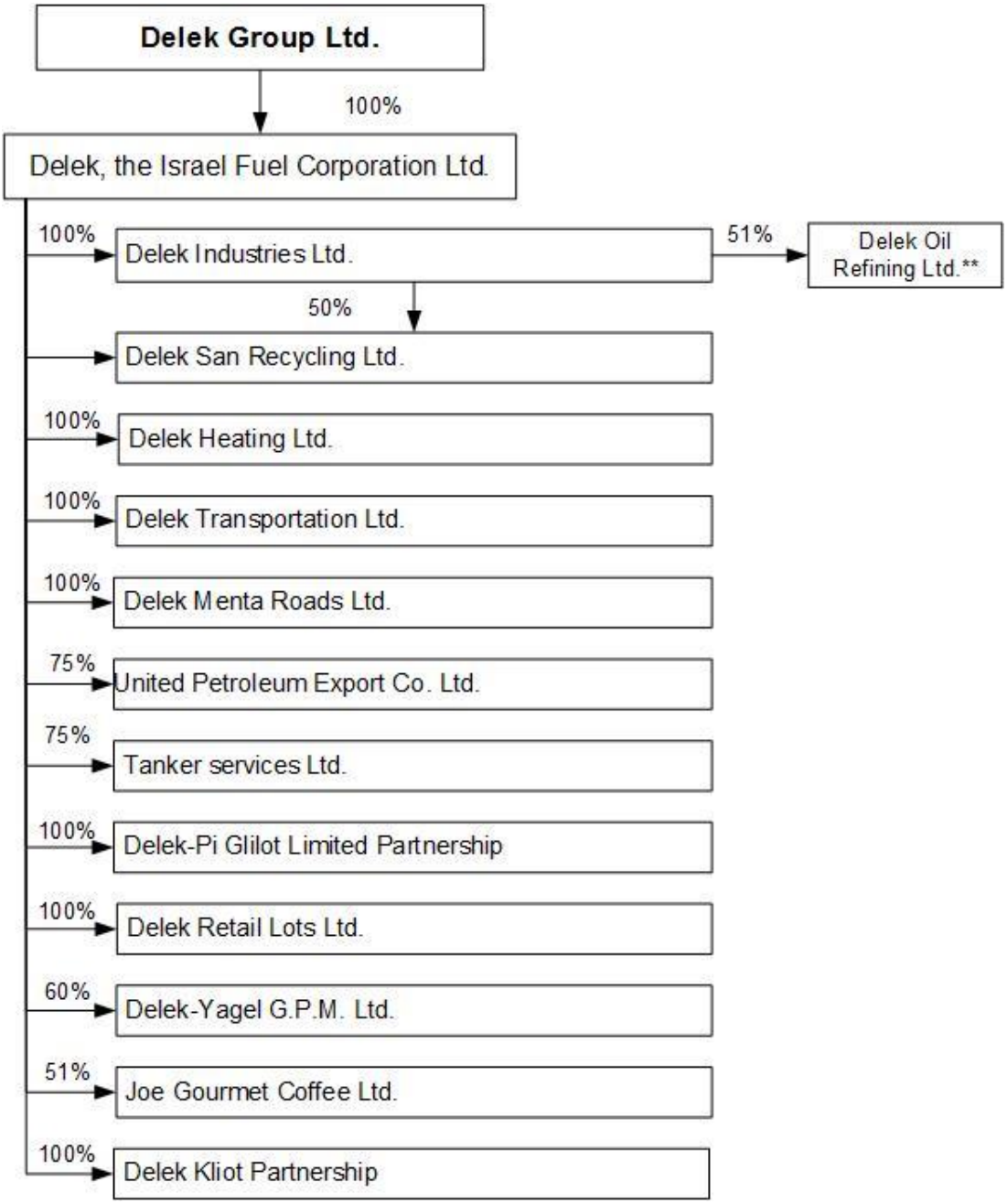
1.7 Energy

1.8 Fuel Product Segment in Israel

The Group's operations in the Israeli fuel products segment are conducted through Delek, The Israeli Fuel Corp, Ltd, and companies and partnerships that it owns (Delek, The Israeli Fuel Corp Ltd and its subsidiaries are hereinafter referred to as: "Delek Israel") In April, 2013, Delek Petroleum published a full tender offer for Delek Israel shares, which was accepted and as a result, on May 2, 2013 Delek Israel shares were delisted from the TASE and since then, Delek Israel ceased being a public company and became a private debenture company ("the Debenture Company"), as these terms are defined in the Companies Law, 1999 ("the Companies Law"). On December 24, 2014, Delek Israel effected a full early payment of all of its Debentures (Series B1, B3 and B4) that were held by the public and ceased being a reporting company, as defined in the Securities Law, 1968 ("the Securities Law"). As of the reporting date, Delek Israel is a private company wholly-owned by Delek Group (through Delek Petroleum).

Delek Israel is active in the Israeli fuel products industry, including selling fuel products at public gas stations (including selling to gas stations operated by third parties) and operating convenience stores located at most of these gas stations ("Gas Station and Commercial Compounds"), initiating setting up and operating public gas stations and convenience stores, direct marketing and distribution of fuel products and gas outside the gas station and commercial compounds ("Direct Marketing"), and storing and supplying fuel for itself and others. Also, on June 26, 2014, Delek Israel held 20% of the shares of Delek Europe.

Organizational chart Group's main holdings in the Israeli fuel products segment as of December 31, 2014:



* The holding is through Delek Petroleum (wholly-owned by the Group).

** The Company's operations were sold to a third party in December 2014.

1.8.1 General information about the operating segment

(A) Structure of the operating segment

The source of most of Delek Israel's fuel is the Haifa refinery. In Israel's fuel industry, there are infrastructure companies providing infrastructure services such as unloading, storage, supplying and piping of fuel, and fuel companies involved in marketing, distributing and selling fuel products and oils in the gas station and commercial compounds, and initiating the establishment and operation of gas stations and convenience stores. The four main fuel companies, Paz, Delek Israel, Sonol and Dor-Alon own about 922 public gas stations in Israel. There are also other fuel companies which together own about 227 public gas stations[1]. Delek Israel's operations include the selling fuel at gas stations (including marketing them at stations operated by third parties) and operating the gas stations, including refueling services using an electronic identification refueling system ("Dalkan") designed mainly for fleets, oils and other products at the public gas stations, and initiating, constructing and operating gas stations and convenience stores. At some of the compounds, Delek Israel leases out areas to third parties for commercial purposes ("Retail Areas"). Delek Israel also engages in marketing, distributing and supplying fuel products and gas outside the public gas stations directly to the customers' sites, which are not open to the general public. It also provides fuel products storage and supply services of through four storage and supply facilities in Ashdod, Haifa, Beer Sheva and Jerusalem, which it owns. It is also noted that until March 1, 2013, United Petroleum Export Co. Ltd. (a subsidiary of Delek Israel (75%)) ("UNEX") issued diesel fuel and fuel oil in the Ashdod distribution facility that it leased from Ashdod Port Ltd. ("Ashdod Port") to direct marketing customers. On May 31, 2013, possession of the Ashdod facility was handed over to Ashdod Ports. The decreased volume of UNEX's operations at the Ashdod facility with regard to issuing diesel fuel and fuel oil at the depot as well as discontinuation of its operations in the sale of diesel fuel to vessels at Ashdod Port materially impaired UNEX's financial results in 2014.

As of the end of 2014, Delek Israel marketed fuel products to 245 public gas stations[2] under the Delek, Gal and Discount brands nationwide, in 192 of which convenience stores operated. At the end of 2014, Delek Israel operated 3 convenience stores outside the public gas stations (one of which terminated their operations on July 2014). As of the report date, Delek Israel is Israel's second largest fuel company in quantity of gas stations. At the end of 2013, Delek Israel marketed fuel products to 246 public gas stations, in 192 which convenience stores operated. At the end of 2013, Delek Israel also operated 10 convenience stores outside the public gas stations. For further information of Delek Israel's gas stations, classified according to proprietary rights to the land and terms of station operation, as of December 31, 2014, see section 1.8.11 below.

As of the report date, Delek Israel has 10 is in the process of initiating, planning and setting up gas stations, of which four projects have received building permits or are in the advanced stages of obtaining them and Delek Israel estimates that their construction is expected to commence in 2015. It is noted that in 2014, the construction of one gas station was completed. Delek Israel's estimates with respect to the construction commencement date of the gas stations is forward looking information, as defined in the Securities Law, based on assessments concerning obtaining the permits and approvals required to set up the stations. This information may not materialize due to failure to receive approvals and permits in the expected time for reasons beyond Delek Israel's control. In this matter, it should be noted that the average time to set up a gas station compound is between three to five years. Most of the time is to obtain approvals and permits to establish the compound. The average cost to establish a gas station compound is between NIS 4-5 million. In 2015, Delek Israel expects to construct a gas station for compressed natural gas ("CNG") in the Tzrifin region. This gas station will be established as part of the Ministry of Energy and Water Resources tender awarded to Delek Israel. The gas station will serve vehicles powered by gas only. Delek Israel's estimates with respect the construction of this gas station is forward looking information, as defined in the Securities Law, based on assessments concerning obtaining the permits and approvals required to set up a compressed natural gas station. This information may not materialize due to failure to receive approvals and permits in the expected time for reasons beyond Delek Israel's control. In this context, it should be noted that Delek Israel is preparing, through its wholly owned subsidiary Delek Natural Gas Ltd. ("Delek Natural Gas"), to market natural gas to industrial and transport consumers. In the reporting year, Delek Israel started taking steps to establish a facility to compress and issue CNG ("the Compression Facility"). It should be

[1] Based on Ministry of Energy and Water information of January 12, 2015.

[2] Excluding 161 internal stations (i.e. a station not located on major roads at which, in accordance with the building permit or business license granted, fuel may be supplied for self use only ("Internal Station"). As of the report date, they part of the direct marketing segment.

noted that CNG is used as an intermediate solution until a suitable natural gas distribution network is set up by the regional distribution franchisees and as a means of supply for customers not connected to such distribution network. These customers will be able to receive CNG by road tankers. As of the report date, Delek Israel is in the construction stages of the Compression Facility in the Pi Glilot Ashdod depot, which is owned by Delek Pi Glilot Limited Partnership (wholly owned by Delek Israel) ("Pi Glilot Partnership"), including but not limited to completion of laying the pipe that will feed the Natural Gas Compression Facility, and the low pressure and high pressure pipe works. On March 26, 2014 signed an agreement with Israel Natural Gas Lines Ltd. ("INGL"), to regulate the natural gas flow to the compression facility.

In December 2014, Delek Israel sold its operations to the partnership Delek Oil Refining Ltd. (51% of which is held by Delek Israel through Delek Industries Ltd). The sale of its operations includes all the oil refining operations, including the plant with all its equipment, the inventory and the title to the land on which the plant is located, all under the terms defined in the sale agreement. The consideration received under this sale is immaterial to Delek Israel. It is emphasized that the sale of the operations does not substantially affect Delek Israel, its ongoing operations and its earnings.

Following is a description of the Israeli fuel industry structure, which also addresses the importation, transportation, storage, dispensing and trucking to the gas stations of crude oil and fuel products.

Importation, purchase, transportation and storage of fuel products

Fuel companies are permitted to import crude oil and fuel products to Israel. In practice, as of the reporting date, the oil refineries import crude oil to Israel and refine it into products. Until the privatization of Oil Refineries Ltd. ("Bazan"), selling prices of distillates (fuel products) sold by the refineries to the fuel companies were controlled. After completion of the privatization and the splitting up of the oil refineries, the control of ex-Bazan prices was lifted, apart from the price of two types of bitumen (PG-68 and non-blown) and LPG. Delek Israel does not import crude oil[1], but in 1999, it started importing fuel products (mainly gasoline and diesel fuel) and since 2008 the quantities are immaterial. As of the report date, Delek Israel has an agreement with Bazan for the purchase of most of the fuel for 2015. Delek Israel might also explore importing different amounts of fuel. Its decision concerning the import of fuel products is affected by the economic feasibility of importation (the import price versus Bazan ex-refinery price) and the cost of the infrastructure involved in sea freight, unloading, storage and piping from the port to the dispensing facilities.

Imported fuel products (as opposed to crude oil) may currently be offloaded at the following sites: (a) Haifa Port by PEI; [2] (b) Askhelon Port by PEI and EAPC[3]; (c) IEC dock in Ashdod to a limited extent. Fuel products are stored and supplied at infrastructure company depots (PEI and EAPC), the refineries and the facilities of the major fuel companies (Paz, Delek Israel and Sonol)[4]. The depots and facilities are operated by their owners. Delek Israel's central storage and supply facilities are located Haifa and Ashdod (which it owns). Fuel products are mostly transported to the storage and supply depots along a pipeline owned by Fuel Products Line Ltd.[5] ("FPL"). The pipeline which usually carries the fuel products to Delek Israel's storage and supply depots in Haifa is owned by Bazan. The infrastructure service rates (unloading, storage, supply and transport) of fuel products were set in the Commodity and Service Price Control (Infrastructure rates in the fuel economy) Order, 1995 ("the Infrastructure Price Control Order"). Also see Section 0 below.

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1 As finalized with the State, until December 19, 2013, Delek Israel held an emergency inventory of distillates for the State under the provisions of the State Economy Arrangements (Legislative amendments to achieve the 2001 budget and economic policy targets) (Holding reserves and security reserves of fuel) Regulations, 2001. For further information, see section 1.8.20(A)(1) below.

2 A company wholly owned by the State of Israel.

3 A company owned by the State of Israel (50%) and a third party.

4 In 2014, the Ashdod refinery supplied storage and supply services to other fuel marketing companies, including customers of Pi Glilot Partnership (which is owned by Delek Israel) and to the IDF under a tender. It is also noted that EAPC has recently substantially increased its storage capacity aimed at leasing it to the local market and international fuel traders.

5 A subsidiary wholly owned by PEI.

Transportation, supply and trucking

Oil products manufactured at the Haifa or Ashdod refineries and imported oil products are transported to the various storage facilities through a national distillate pipeline belonging primarily to FPL. The transportation to several major consumers in the Haifa area is by means of the pipelines owned by Bazan and IEC. The fuel products are stored at the supply sites in tanks and from there, supplied to road tankers or directly to the end facilities of institutional customers. The fuel companies select a storage site and the method of transporting the fuel products from time to time, based on their business considerations.

Fuel products are carried from the supply sites by road tankers, some of which carry only "white" products (gasoline, diesel oil and kerosene) while others carry only fuel oil or bitumen.

As of the reporting date, over 80% of the fuel products sold by Delek Israel are transported by a wholly owned subsidiary of Delek Israel. The remainder (about 20%) is transported by subcontractors hired by Delek Israel or customers using their own fleet of tankers or parties acting on their behalf[1].

Marketing of fuel products and gas

To the best of Delek Israel's knowledge, more than 40 fuel companies are registered with the Fuel Administration and licensed to purchase fuel products directly from the refineries. Delek Israel estimates that additional entities operate in this market (companies, agents, distributors, and wholesale customers), purchasing fuel products from the licensed fuel companies and selling them to customers. As noted in section 1.8.1(A) above, Delek Israel is also making preparations to operate in the natural gas segment. To the best of Delek Israel's knowledge, in addition to Delek Israel, another three natural gas distribution companies (Amisragas, Supergas and Dorgas) operate in the natural gas segment. It should also be noted that Supergas has established a CNG supply facility in northern Israel. As Delek Israel understands, at the end of 2014, Paz received a permit to market gas and is exploring the option of constructing a natural gas compression facility at ORA.

(B) Material changes in the segment

(1) Privatization of Bazan - As of the report date, the material changes which have occurred since the Bazan privatization at the decision of the Ministerial Committee on Privatization of December 26, 2004 is that Delek Israel currently has two potential local suppliers of fuel products instead of one. However, as of the report date, ORA sells most of its products to Paz (its parent company) and a large majority of Delek Israel's purchases in the fuel segment are currently from Bazan. In addition, the price control of all the products sold by Bazan was lifted, apart from LPG (which Delek Israel does not purchase from Bazan) and two types of bitumen (PG-68 and non-blown).

(2) Pi Glilot Tender (storage and supply operations) – On July 31, 2007, Delek Israel acquired the three Pi Glilot depots (Ashdod, Jerusalem and Beer Sheva) for NIS 806 million once the provisions of the sales procedure were fulfilled and approval from the Antitrust Commissioner was obtained. The acquisition of the Pi Glilot depots increased Delek Israel's storage capacity, allowing it to import, store and distribute larger quantities of fuels.

(3) Increased competition – The increased competition in marketing fuel products to the final customers is expressed in the level of discounts for fleets, granting of discounts on fuel prices at the gas stations, competition over customer credit terms, and an ongoing rise in the number of gas stations and convenience stores. The increasing competition in the direct marketing segment is expressed mainly in lower marketing margins. The competition in the fuel storage and supply segment is affected mainly by the location of the storage facilities and establishment of companies operating in this segment, the costs involved in transporting the fuel to the end user and the rates of storage and supply services, which are controlled. As of the report date, ORA does not use the storage services of Pi Glilot Partnership in Ashdod regularly, but rather stores independently, and as a result of lifting the control of the ex-Bazan prices together with the supply fees in the north, the Haifa refinery can compete with the import of fuel products.

(4) Changes in the fuel supply segment - To the best of Delek Israel's knowledge, due to a surplus production capacity as opposed to Paz's own consumption, some of Pi Glilot Partnership's customers supplied fuel from the ORA facility in Ashdod.

[1] Some of the agreements with third parties grant them the right to carry the fuel products that they purchase.

(5) Regulatory developments in the fuel segment – Since the Bazan privatization in 2004, regulatory changes have been made concerning the State's control policy of fuel product purchases by the fuel companies; the control policy of fuel product selling prices to consumers (currently the 95 octane unleaded gasoline prices are controlled), including fixing the marketing margin (see section 1.8.20(B)(2)1.8.20(B)(2) below); the Fuel Economy Regulations (Promotion of Competition) (Including the universal automatic fueling device issue), 2011 ("Universal Refueling Device Regulations") (see section 1.8.20(A)(8) below); control of the infrastructure rates see section 0 below); and the Vehicle Operation Ordinance (Engines and Fuel)(Dispensing Fuel in a Tanker), 2007 (see section 1.8.20(A)(6) below).

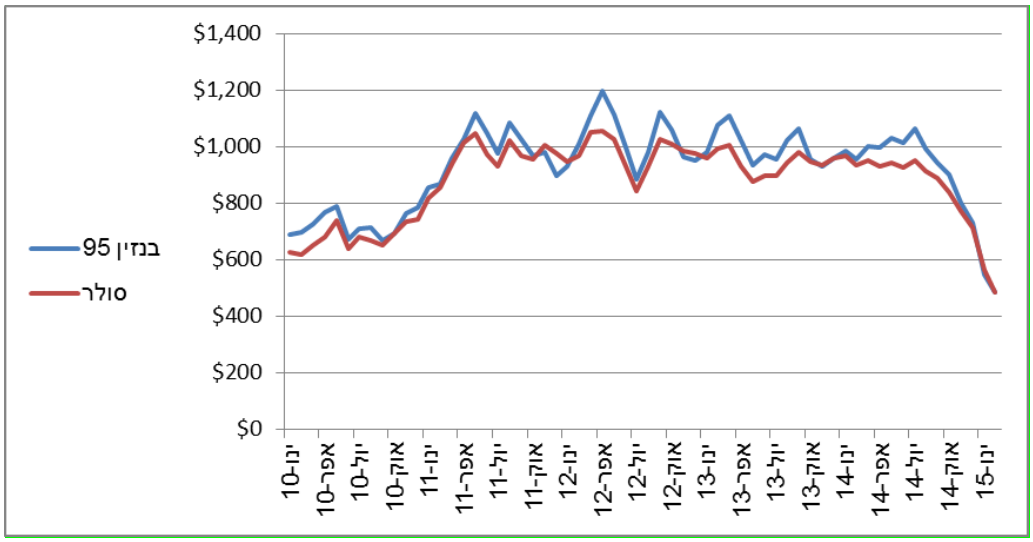
(C) Restrictions, legislation and standardization

The fuel companies' operations are subject to various legislative and regulation restrictions. For further information, see sections 1.8.19 and 1.8.20 below.

(D) Changes in volume and profitability of operations in the segment

Global fuel prices directly affect the price of the fuel products marketed by Delek Israel. When crude oil prices decrease, Delek Israel's profitability declines due to a reduction of the value of its fuel product inventory and erosion of profits, impairing its gross profitability. On the other hand, when global crude oil prices rise, Delek Israel's profitability may improve due to selling its fuel product inventory at higher prices and an indirect increase in marketing margins, while a possible consequence is decreased demand, fiercer competition and increased discounts. It is also emphasized that the higher the fuel prices rise, the greater the need for working capital and increased financing costs resulting from the hike in financial liabilities.

In the report period, the quantities of fuel sold in the gas station and commercial compounds increased slightly, while the gasoline sales remained unchanged and the diesel fuel sales recorded a moderate rise in quantities sold. The decline in the average ex-Bazan prices in the reporting year compared to the average the previous year brought about increased inventory losses for Delek Israel compared to the previous year, which are expressed mainly in the fourth quarter of 2014. For additional details, see section A(6)(b) of the Group's Board of Directors report. The following graph describes the fluctuations in the oil distillate (gasoline and diesel fuel) Bazan ex-refinery prices (directly affected by the global distillate prices), from January 2011 until proximate to the report date:



For information regarding the changes in volume of UNEX's operations in the Ashdod facility and their effect o UNEX, see section 1.8.1(A) above. Most of the lease and fuel storage agreements are short-term, while the supply agreements are usually for unlimited periods and/or without quantity obligations. The transition of customer to purchasing fuel directly from the Ashdod refinery and/or renewal of the fuel storage agreements resulting from increased supply of storage tanks in Israel, may give rise to reduced revenue. Changes in Israel's policy to include an obligatory increase of emergency inventory, could affect the volume of storage operations. For further information, see section 1.8.23(X).

(E) Developments in markets and customer characteristics

Delek Israel's operations are affected by various market developments, including the Israeli economic situation. Material market and customer characteristic developments:

Development of fuel stations in retail areas – In recent years, there is a growing trend of fuel companies, including Delek Israel, developing and expanding their gas stations into retail areas which, in addition to fuel products and lubricants, also offer a range of services such as convenience stores, restaurants, cafes, car wash services etc. For further information, see sections 1.8.2(B) and 1.8.7(B) below.

Self-service expansion – In a gradual process until April 2006, the fuel companies were required to install self-service gas pumps (whose price is controlled) in their public gas stations. As of the reporting date, all Delek Israel's public gas stations contain self-service pumps. The selling price of gasoline products is lower at the self-service pumps and no service fee is collected. As a result of self-service, the cost of employing gas station attendants has dropped and the transition to self-service is also in line with the trend to expand the use of the convenience stores. The move to reduce the marketing margin gave rise to a reduction in staff, transition of many gas stations to self-service only and led the customers to change their consumption habits, which are reflected in purchasing fuels in the discount lanes. Also see Section 1.8.20(B)(2) below.

Fleet customers – In recent years, there has been an increase in the number of fleet customers signing agreements with fuel companies for the supply of fuel products. The number of fleet customers and their proportion of the total number of customers at Delek Israel's public gas stations have grown in recent years. The fuel product sales and marketing for fleets is carried out mainly through the Dalkan system, which enables computerized refueling and payment by direct debit. The competition between the four major fuel companies (Paz, Delek Israel, Sonol and Dor-Alon) has led to increased discounts for fleet customers. On July 29, 2013, Delek Israel was awarded the Ministry of Defense tender to supply fuel by tankers to IDF bases and provide fueling services for IDF and Ministry of Defense vehicles, for three years with an option for the Ministry of Defense to extend the contract for a further two years. In this matter, also see section 1.8.5(A) below.

(F) Technological changes which materially affect the operating segment

On October 23, 2011, the Universal Refueling Device Regulations were published in the Official Gazette. For further information, see section 1.8.20(A)(8) below.

(G) Key success factors in this segment and the changes in them

Delek Israel estimates that the key success factors in the segment are:

(1) Nationwide deployment of the gas stations and convenience store chain and successful integration of fuel operation alongside the commercial operations.

(2) Financial strength that allows supporting the present gas stations, including making financial investments if necessary.

(3) Capacity to raise capital from banking and non-banking sources.

(4) Capacity to grant customer credit.

(5) Lease agreements for gas station compounds under attractive terms that express the size of the Company and allow dealing with the competition in a variable market. Striving for proprietary rights to strategic gas station compounds.

(6) Availability and storage capacity of fuels and various products and capacity to transport them to the end-users.

(7) Competitive prices offered in the tenders of major institutional clients.

(8) State-of-the-art marketing and logistics systems, developed collection and credit control system and a cutting-edge compound control system.

(9) In the direct marketing segment, the other important success factors are reputation, know-how, professionalism, quality control systems and human capital.

(H) Changes in the segment's array of supplier and raw materials

There are two oil refineries in Israel, one in Haifa (Bazan) and the other in Ashdod (ORA), which were State-owned until the Bazan privatization. Since the Bazan privatization, Delek Israel has two potential local fuel product suppliers (Bazan and ORA) and the option to import fuel products from abroad. For further information, see section 1.8.14 below.

(I) Main entry and exit barriers in the fuel segment

(1) The high financial costs involved in locating and setting up gas stations are affected by the required gas station construction standards.

(2) A key entry barrier into the direct marketing segment is the financial strength required of a marketing company that distributes the products which it manufactures, due to the need to extend customer credit, because of the high fuel prices and diesel oil excise tax.

(3) The long time required to obtain a permit to construct and operate gas stations and storage and supply facilities.

(4) Regulatory restrictions, including legislation and regulation relating to planning, construction, firefighting and environmental protection, the requirements of Israel Police, and laws and regulations relating to accessibility to buildings, industry, environmental protection and service.

(5) Competition with other well-established fuel companies in all segments.

(6) The need for substantial sources of credit to finance purchasing fuel product inventories and granting credit to the station operators and fleet customers.

(7) The key exit barrier of the fuel storage and supply segment is rental contracts/leases/operating contracts with land/station owners. The key exit barriers in the storage and supply segment are the material investments made in facilities and the liabilities and restrictions which Delek Israel undertook as part of acquiring the depots see section 1.8.21(E) below).

(J) Substitutes for existing products and the changes in them

Natural gas - Natural gas is increasingly taking hold in Israel as an energy resource for industry and Delek Israel believes it will become a highly significant industrial energy resource and replace most of the use of fuel oil, diesel fuel and LPG. As of the reporting date, the impairment to Delek Israel's profitability due to the transition to using natural gas until now is immaterial. If the use of natural gas becomes more extensive and is integrated as a replacement for diesel fuel for transportation, this may materially impact Delek Israel's business. For information concerning Delek Israel’s preparations in the natural gas segment, see section 1.8.1(A) above and 1.8.4 below.

Substitutes for powering of vehicles - In 2003, the Israeli Government approved Amendment No.3 to National Outline Plan No.18 permitting the use of LPG to refuel vehicles in gas stations ("Automotive LPG"). Under this government resolution, the engines of gasoline-powered vehicles may be converted to engines which operate on the basis of Automotive LPG. As of the reporting date, Delek Israel has five gas stations where vehicles may refuel with LPG. In this matter, it should be noted that Delek Israel is acting to develop the CNG vehicle refueling segment (as set out in section above 1.8.1(A) and section 1.8.4 below). Recently, alternative vehicles to those powered by fuels have also started being sold As of the reporting date, there was no material development of such alternative vehicles that materially affected Delek Israel's fuel sales. Such material development would pose a threat to the sale of fuels at gas stations. However, Delek Israel is unable to estimate the extent of the impact, if at all, this may have on its fuel sales at gas stations and its profitability from such sales. With respect to oil substitutes for transportation, it is noted that on January 13, 2013, Government Resolution No. 5327 was published following Government Resolution No. 2790 of January 30, 2011 to exercise a national plan to develop oil substitutes for transport, promote the transition of transport in Israel between 2013 and 2025 to alternative energy sources, and allow the feasibility of decreasing the weight of oil as a source of energy in Israel by 30% in 2020 and 60% in 2025, based on the forecasted consumption, if the transition is economically viable. Due to the preliminary stage of this process, Delek Israel does not have the tools to examine any feasible impact. In future, the goals of this plan may affect its business operations and financial results either positively or negatively, based on their trends.

This section includes forward looking information, as defined in the Securities Law, based on information in Delek Israel's possession on the report date. Delek Israel’s estimations and the actual results may be different from the above if any of the basic assumptions used for such estimations change.

(K) Structure of competition in the segment and changes therein

For a description of the competition in the sector, see section 1.8.8 below.

1.8.2 Products and services

The products marketed and services rendered by Delek Israel in this segment are mainly the following:

(A) Fuel products and other services

(1) Distillates (“White Products”)

Various types of gasoline – used as fuel for gasoline powered vehicles and marketed mainly at gas stations.

Diesel fuel – used mainly as fuel in vehicles with diesel engines, ships, heating and industry.

LPG – used as fuel for gas-powered vehicles.

Kerosene – used mainly for industrial and household heating.

Jet fuel – used for refueling aircraft.

(2) Residues (“Black Products”)

Fuel oil – used mainly as a fuel for industry, ships and electricity production.

Bitumen (tar) – used mainly as a raw material in the manufacture of asphalt for roads and as a sealant, and sold mainly to earthworks contractors.

(3) Industrial Products

Delek Israel sells automobile and industrial oils and byproducts from its own production and from imports. The industrial products, such as engine oils, lubricants, greases, fuel oil and fuel products (including diesel oil) are sold to institutional customers, business customers (including industrial plants and garages) and other entities. Delek Israel, through its subsidiary (Delek Industries Ltd. ("Delek Industries"), which is a partner in Delek San Recycling Ltd.: ("Delek San") (50%), engages in recycling solvents for industry and export[1].

(4) Ship services

Delek Israel, through the subsidiary Tanker Services Ltd. (75%) ("Tanker Services"), provides services to ships anchored in Haifa, Ashdod, Ashkelon and Eilat ports, including port, electricity and cash withdrawal services, as well as referrals to local offices and payment of fees, etc. As of the report date, Tanker Services is acting to merge with Kamor Shipping Services Ltd. This merger receive the approval of the Antitrust Commissioner. On completion of the merger, Delek Israel will hold 15% of the merged company.

(B) Retail products

(1) Delek Israel sells a range of retail products such as food products, beverages, cigarettes and other products at its Menta convenience stores. Most Menta stores also provide cash withdrawal services, cutting-edge services (such as charging cellular phones and WiFi), postal services (in collaboration with Israel Post), parcel collection services (in cooperation with DHL), payment services to various authorities, etc. Most of its gas stations also sell car-related accessories. Most Menta stores are operated by Delek Israel and operate 24/7. Delek Israel intends to increase the deployment of Menta stores at additional gas stations and expand the range of products and services sold in some of them. As of December 31, 2014, 194 convenience stores were operated (compared to 192 as of December 31, 2013), while as of the report publication date, two convenience stores operate outside the Gas Station and Commercial Compounds[2]. Until the reporting date, Delek Israel also had 14 Menta Market minimarket concept stores (in this matter, also see section 1.8.7(E) below). As of the report date, 15 convenience stores are operated by franchisees and the remainder by Delek Israel.

(2) At the end of December 2011, Delek Israel completed the acquisition of 51% of issued and paid up share capital of Joe Coffee Gourmet Ltd. ("Joe Chain") under an agreement dated September 22, 2011 signed between Delek Israel on the one part and Joe Chain and Joe Chain shareholders on

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[1] Delek Industries had a partnership called Deleksan Partnership with Sano Intertrans ("Sano"), which was established on September 1, 2001 to recycle industrial solvents by performing various separation and purification processes, all aimed at salvaging and reusing the solvents. In the reporting year, this operation was transferred to Delek San, which is jointly and equally owned (50-50) by Delek Industries and Sano.

[2] In this regard, it should be noted that until the end of 2014, Delek Israel operated three convenience stores outside gas station compounds.

the second part. At the same time, it also signed a franchise agreement with Joe Chain under which the coffee and food sales points currently operated at its convenience stores will gradually be converted to a store-in-store under the Cup-O-Joe brand. As of the report date, 130 Delek Israel convenience stores were converted to the store-in-store model, which were branded, in addition to the Menta brand, also under Cup-O-Joe. It is noted that despite the above, Cup-O-Joe products are sold at all the convenience stores in the chain. Delek Israel is also taking steps to open Cup-O-Joe branches in gas station compounds through franchisees.

(C) Supply services

Delek Israel, through Pi Glilot Partnership, provides supply services of various fuels from its four facilities: gasoline, diesel fuel and kerosene are supplied from the Ashdod facility; gasoline and diesel fuel from the Haifa facility; and only diesel fuel and kerosene from the Beer Sheva and Jerusalem facilities. The supply services are provided to road tankers which carry the fuels to the fuel companies (including Delek Israel) that either transport the fuels to their customers or supply them by direct piping to the customer's premises. In 2013 and 2014, the four facilities supplied 2,605 thousand kl and 2,480 thousand kl of fuel products, respectively. In 2014, 48% of the supply at the Ashdod, Beer Sheva and Jerusalem facilities (compared to 49% in 2013) and 96% of the supply at the Haifa facility (compared to 97% in 2013) were for Delek Israel.

(D) Storage services

The storage services include operational storage for the fuel companies receiving supply services from Delek Israel, through Pi Glilot Partnership (including Delek Israel itself), storage of a State defense inventory, commercial storage through leasing of storage tanks to Delek Israel's customers (IEC, Bazan and other commercial entities) and temporary ("in transit") storage in five transit tanks at the Ashdod facility of fuel piped directly to FPL's customers throughout Israel.

(E) Delek Israel, through Pi Glilot Partnership, also sells fuel additives for the fuels to meet the Standards Institution of Israel standards and provides an additives adding service for the fuel that it supplies.

1.8.3 Breakdown of revenue and profitability of products and services

Following is the amount and proportion of Delek Israel's income out of the Group's total revenues, by product groups or services, from which the total revenues account for at least 10% of the Group's revenues in 2014, 2013 and 2012 (including excise taxes):

		Total sales in NIS millions		% of revenue of operating segment		% of Group's revenues	
	Product	Including excise tax	Less excise tax	Including excise tax	Less excise tax	Including excise tax	Less excise tax
2014	Fuels and oils*	6,309	3,194	61.4%	53.6%		
2013	Fuels and oils*	6,249	3,268	58.1%	50.4%	16.22%	8.49%
2012	Fuels and oils*	6,118	3,359	58.3%	50.7%	16.11%	8.85%

* It is noted that the main revenue is from fuel sales.

It is noted that the operating profitability of price-controlled fuels and uncontrolled fuels is similar. Delek Israel's revenues from controlled products (excluding excise tax and VAT) of the Group's total revenues in 2014, 2013 and 2012 amounted to 12%, and 11.9% respectively.

1.8.4 New products

Delek Israel, through Delek Natural Gas, is preparing for entry into the Natural gas and CNG distribution segments, and taking steps to locate potential customers that are likely to move to using natural gas in place of fuel oil and diesel fuel and sign agreements with them for the supply of natural gas and CNG. As of the reporting date, Delek Israel has signed natural gas and CNG supply agreements with several customers. It should be noted that as part of thereof, Delek Israel offers customer a full package of services, including the supply of natural gas through the natural gas transmission infrastructure, converting and adapting facilities for natural gas (if required) and supplying CNG by road tankers. In the reporting year, as part of preparing to enter the natural gas and CNG distribution segment, Delek Israel took steps to obtain the regulatory approvals required for this operation (as of the report date, not all the required approvals have been received yet) and construction of infrastructures as a basis for receiving natural gas and CNG distribution contracts (see section 1.8.1(A) above). On December 3, 2013, as part of these preparations, Delek Israel

contracted with the Tamar project partners, including Delek Drilling Limited Partnership and Avner Oil Exploration Limited Partnership ("the Sellers" and "Tamar Project", respectively), whose general partners are controlled by the Group, in an agreement to purchase natural gas from the Tamar Project (in this sub-section: "the Agreement to Purchase Natural Gas" or "the Agreement"). The Agreement period is expected to commence in 2015 and end 7 years later or on at the date in which the buyer consumes the total contract quantity, whichever is the earlier (in this sub-section: "the Agreement Period"). Delek Israel has a take or pay agreement for a minimum annual volume of gas according to a mechanism set out in the Agreement. The Agreement provides that the supply of gas to Delek Israel during an interim period starting from the date set in the Agreement until the supply capacity of the Tamar project has been increased by setting up additional facilities (in this sub-section: "the Expansion Project"), will be subject to quantities of gas available for sale at that time, after supplying gas to the customers of the Yam-Tethys project and other Tamar project customers, according to the mechanism set out in the Agreement. It is noted that the Expansion Project is subject to the Sellers' decision regarding its project plan and budget, and obtaining the required statutory approvals under reasonable terms to the satisfaction of the Sellers. The gas price in the agreement will be linked to Brent prices, including a minimum price and a maximum price, in accordance with the formula set out in the agreement. Delek Israel estimates that the cumulative purchase in the Agreement Period (based on its estimate regarding the price and quantity of natural gas that it will purchase during the supply period) may amount to USD 100 million. It is clarified that the actual revenue will derive from a range of factors, including the actual quantities of gas purchased by the Delek Israel and the Brent price. A precondition for the Agreement to enter into effect is receiving the approval of the Antitrust Authority and Delek Israel signing a natural gas transportation agreement with INGL[1]. The above estimates concerning the total financial value of the Agreement, the quantity of natural gas that will be purchased and the supply commencement date under the Agreement is forward-looking information, as defined in the Securities Law, and there can be no certainty that it will materialize, in whole or in part, and it might materialize substantially differently due to various factors, including non-compliance with the preconditions, in whole or in part, changes in the volume, rate and timing of Delek Israel's natural gas consumption, the price that will be fixed under the formula set out in the agreement, Brent prices, performance and completion of the Expansion Project (if at all), etc.

It should be noted that Delek Israel's natural gas operation is subject to obtaining various regulatory permits under the Gas Law (Safety and Licensing), 1989, the Natural Gas Sector Law, 2002 and the Planning Law.

By December 31, 2015, Delek Israel invested NIS 37 million in the natural gas operation and by the end of 2015 is expected to invest NIS 50 million. This is forward looking information, as defined in the Securities Law. In practice, the volume of this investment could be greater or smaller than Delek Israel's estimation due to regulatory changes and the occurrence of other events beyond Delek Israel's control and contrary to its expectations.

1.8.5 Customers

(A) Delek Israel’s customers may be classified into groups as follows:

(1) Gas station and convenience store customers, divided into two main groups: (a) Private customers, who buy fuel products, lubricants or retail products at the gas stations and convenience stores operated by Delek Israel. Customers pay a price for the fuel products which is set at each station and the payment is usually in cash of by credit card. Delek Israel sets the selling prices to the end user at the stations that it operates, while the selling price of 95 octane gasoline is limited as it is government controlled, as described in section 1.8.20(B)(2) below. The difference between the selling price to end users and the cumulative Bazan ex-refinery gasoline price, including excise taxes and infrastructure service payments, is called the "marketing expense basket" or "marketing margin". The selling price at stations operated by an external operator is set in an agreement between the parties, while the operator sets the price for random customers; (b) Corporate customers, including fleets subscribing to the Dalkan service, tender customers (Dalkan customers) and gas stations associated with Delek Israel under operating contracts on its behalf

[1] It is noted that on December 3, 2013, Delek Israel's audit committee approved effecting unexceptional transactions from time to time for the purchase of natural from the Sellers during its routine business until the supply of natural gas to Delek Israel begins under the natural gas purchase agreement, provided that the daily quantity of natural gas it purchases does not exceed the maximum fixed between the parties and the price and other contract terms under which it is sold to Delek Israel are market terms.

and supply contracts for the purchase of fuel and oil products[1]. These customers differ from the private consumers mainly in the credit terms (which are longer) and discounts which they receive.

Due to the fact that the maximum margins for unleaded 95 Octane gasoline is a fixed amount (because of government control and an order determining the update rate), which is not affected by price gasoline price or excise tax fluctuations (whether controlled or not), there is no built-in compensation for the credit risk costs when the customer credit rises due to increases in fuel prices and the excise tax component. It should be noted that during the ordinary course of business, and as is customary in the fuel segment, Delek Israel extends loans to the gas station owners for several purposes: (1) Enterprise loans – to a third party (the land buyer) to purchase land. These loans are generally repaid by offsetting the future rent owing to the gas station owner; (2) commercial loans extended for the renewal of a contract with the gas station owner under a rental or supply agreement. These loans are repaid by offsetting the current rent to the gas station owner or against current cash receipts; and (3) debt-scheduling agreements (converting the debt into a loan) of gas station operators (on behalf of Delek Israel or independent). Most enterprise and commercial loans are backed by a charge on the land where the gas station is located and most debt-scheduling loans are without collateral. As of December 31, 2014, the total balance of these loans is NIS 77 million, of which NIS 12 million is for debt-scheduling loans.

(2) Direct marketing customers: These include private customers, tender customers (both government and commercial companies), and corporate customers such as industrial plants, sea craft, infrastructure contractors, etc.

(3) Fuel storage and supply customers: These are private customers (fuel companies, including Delek Israel) and government customers (FPL, the Ministry of Defense and IEC)[2].

(B) Breakdown of segment sales by customer type

(1) Breakdown of sales in the Gas Station and Commercial Compounds (including excise) in 2014, 2013 and 2011 by customer type (in NIS millions and as a percentage of total segment revenues in that year):

Type of customer	2014		2013		2012	
	NIS millions	% of total segment revenue	NIS millions	% of total segment revenue	NIS millions	% of total segment revenue
Corporate (incl. tenders and Dalkan)[3]	2,219	21.6%	2,101	19.5%	1,984	18.9%
Operating/supply stations[4]	1,390	13.5%	1,409	13.1%	1,446	13.8%
Private	3,059	29.8%	3,082	28.7%	3,010	28.7%
Total	6,668	64.9%	6,592	61.3%	6,440	61.4%

[1] As noted in section 1.8.1(E) above, Delek Israel was also awarded the Ministry of Defense tender to supply fuels and provide fueling services for IDF and Ministry of Defense vehicles at its gas station chain. In the last quarter of 2013, Delek Israel started providing these services to the defense forces. It should be noted that the actual distillates belong to the IDF and Delek Israel provides distribution and transport services by road tankers of Delek Transportation Ltd (a wholly-owned subsidiary of Delek Israel) ("Delek Transportation"), and fueling through Dalkan-Delek devices at Delek Israel gas stations.

[2] For further information, see footnote 1 above.

[3] The operating profit percentages from sales to tender and Dalkan customers are not materially different.

[4] Delek Israel's sales to operating/supplying stations include sales to Dalkan customers through these stations. It is clarified that sales data in the table do not represent the sales of those stations to Dalkan customer, but Delek Israel's sales to the stations.

Breakdown of fuel sales in through the stations in Delek Israel's chain to fleet end-users by of the customer seniority/length of the contract[1]:

Customer seniority	2014		2013		2012	
	NIS millions	% of total revenue from fleet customers	NIS millions	% of total revenue from fleet customers	NIS millions	% of total revenue from fleet customers
Up to 1 year	132	4%	168	5%	197	7%
Between 1 and 5 years	1,262	40%	1,296	41%	1,322	44%
More than 5 years	1,770	56%	1,699	54%	1,486	49%
Total	3,166	100%	3,163	100%	3,005	100%

(2) Breakdown of sales in the direct marketing segment (including excise) in 2014, 2013 and 2012 by customer type (in NIS millions and as a percentage of total segment revenues in that year):

Type of customer		2014		2013		2012
	NIS millions	% of total segment revenue	NIS millions	% of total segment revenue	NIS millions	% of total segment revenue
Tenders	1,345	13.1%	1,548	14.4%	1,647	15.7%
Corporate	2,181	21.2%	2,547	23.7%	2,364	22.5%
Private	9	0.1%	12	0.1%	12	0.1%
Total	3,535	34.4%	4,107	38.2%	4,024	38.3%

(3) Breakdown of sales in the storage and supply segment, by customer type:

1.8.6 The rate of sales to non-government customers in 2014 was 64% (compared with 84% in 2013 and 88% in 2012) (of which, 58% to Delek Israel (compared with 50% in 2013 and 47% in 2012) and government customers 36% (compared with 16% in 2013 and 12% in 2012).

1.8.7 Marketing and distribution

Following is a brief description of Delek Israel's marketing methods:

(A) Marketing at gas stations

Marketing to the public – Delek Israel promotes its products and services in several ways: discounts, national or station-specific sales campaigns, customer and consumer loyalty clubs, use of sales promoters, and advertising in the media. Delek Israel also invests in maintaining and upgrading its gas stations and the services they provided, refurbishing old stations and improving their exteriors, and is also working to expand the range of services provided at the stations.

Marketing of the Dalkan electronic identification system– Delek Israel employs sales staff and hires outside sales promoters to recruit new Dalkan customers. Delek Israel also participates in tenders published by companies and entities with large fleets seeking collective gas service arrangements.

(B) Deployment of gas stations, convenience stores and retail areas

Delek Israel employs an enterprise manager to identify potential locations and entities interested in partnering with it to set up gas compounds. Delek Retail Lots Ltd. ("DRL"), a wholly owned subsidiary of Delek Israel, specializes in identifying and purchasing 50% or more of the ownership in land on which it will initiate, plan, build and operate real estate projects, including gas stations and commercial centers.

[1] The sales to final fleet customers shown in the table are the total sales to such customers through Delek Israel's stations, including stations operated by third parties on its behalf and supply stations, and not necessarily the sales recognized in Delek Israel's financial statements. The sales to Dalkan customers through stations operated by Delek Israel are fully recognized as revenue in the financial statements, while the sales to Dalkan customers through stations operated by third parties on behalf of Delek Israel and supply stations are only partially recognized, based on the accounting with the station owner.

(C) Marketing and distribution in the direct marketing segment

In the direct marketing operation, Delek Israel has a marketing and sales system, either alone or through investees, to market the products to the end-users. It also has contractual arrangements with fuel agents (third parties) selling fuel to end-users. The transportation of fuel products sold by Delek Israel in the direct marketing segment is mainly through its subsidiary Delek Transportation, various subcontractor carriers and direct piping to the customer. Delek Israel is not dependent on any single agent marketing the fuel products, but the entire marketing array is material for it. With respect to marketing LPG, it should be noted that Delek Israel, through Delek-Yagel G.P.M. Ltd. ("Delek Yagel") (60% of which is held by Delek Israel and 40% by Gaz Yagel Gas Marketing & Distribution (1996) Ltd. ("Gaz Yagel") engages in acquiring LPG facilities, granting Delek-Yagel customers rights to use them, and marketing LPG. The LPG marketing to customers is carried out by Gaz Yagel's marketing department. The transportation of LPG is executed by road tankers owned by Gaz Yagel.

(D) Exclusive agreements

At the end of 2013, Delek Industries signed five-year distribution agreement as the exclusive Israeli agent of Eni S.p.A ("ENI"), which manufactures quality oils for vehicles and industry. Under the agreement, Delek Industries will distribute ENI products at Delek gas stations, chain stores and directly to its customers. This contract has no material impact on Delek Israel's business.

Most of Delek Israel's supply agreements with gas stations are for exclusive supply of fuel products during the contract period. For information of the supply contracts, see section 1.8.11(C) below.

(E) Development of the ministore sales concept - until the report date, Delek Israel established 14 new convenience stores under the Menta Market ministore concept. These convenience stores differ from the others both in size and offering a wider range of products than those offered in the competition's convenience stores. Delek Israel intends to explore investing in development of this concept in the forthcoming years.

(F) As part of the above acquisition of 51% of the holdings in the Joe chain, Delek Israel has also started the process of introducing Cup-O-Joe at its compounds. As of the report date, this has been partially deployed in Delek Israel compounds.

1.8.8 Competition

(A) According to data published by the authorities, there are more than 40 fuel companies registered in Israel and licensed to import fuel products or purchase them directly from the refineries in Israel. There are four key competitors (including Delek Israel) operating in the gas station and commercial compound segment, which hold the the major share of the Israeli market. To the best of Delek Israel’s knowledge, based on Ministry of National Infrastructures, Energy and Water Resources data, it is the second largest fuel marketing company in Israel (20% of all the gas stations). Paz has 24% of all the gas stations, while Sonol and Dor-Alon each have 18%. Delek Israel believes that each of its three main competitors has a nationwide gas station chain and the capability to provide fleet services. It is also noted that there are many small companies in the market, which together, as of the report date, operate 20% of the public gas stations in Israel.

(B) The Israeli fuel economy is currently characterized by fierce competition in all of Delek Israel's areas of operation, as follows:

(1) Updating and refreshing the fuel companies' gas station deployment, whether by identifying new locations and setting up new stations or through agreements with well-established gas stations whose operating/supply contracts have expired when there is a demand for gas stations in strategic locations, leads to increased rent or purchase price that must be paid to the land owner, eroding the fuel companies’ margins.

(2) Marketing to end-users and increasing sales at gas stations. This competition is reflected in erosion of marketing margins, granting discounts, holding various sales campaigns, the service provided at the stations, and the range of services offered to the customer.

(3) Competition in marketing to fleets, which is primarily between the major fuel companies, is reflected mainly in competition over the prices offered to the fleets, credit terms and other services provided by the fuel companies, such as fuel consumption analysis reports, electronic media, fleet management software, car-wash services, etc. In this matter, the universal refueling devices which are already expected to enter into effect in October 2015 should be noted (for information, see section 1.8.20A(8) below.

(4) Competition in the direct marketing segment is characterized by low operating investments, but there is a credit term and line of credit risk. The operations under tenders with government institutions and companies with large fleets is characterized by very low margins.

(5) The storage and supply rates, which are controlled, hamper flexible competition and, therefore, the storage and supply operation is affected mainly by the relationship between the distillate consumer of these services and its geographic location and the source of the fuels, namely the refineries or import alternatives.

(C) Key ways in which Delek Israel deals with competition and factors affecting its competitive position:

(1) Delek Israel provides an adequate competitive solution with respect to deployment of gas station compounds throughout Israel. It also takes steps to increase the range of services provided at the gas station compounds for the convenience of its customers.

(2) Delek Israel is acting to improve the its entire customer service system, including the appearance and cleanliness of the compounds, and thereby increasing the volume of sales and strengthening the relationship with its customers, financial resilience and a processional and focused marketing system with a high level of command and control.

(3) In the fuel storage and supply segment, the key manner in which Delek Israel deals with competition is providing better service and waiting times. This action is highly significant for the length of time a tanker waits for supply and the time it takes to fill a tanker from the moment of entry to the supply facility until departure at the end of the process.

1.8.9 Seasonality

Delek Israel is generally not affected by seasonality.

1.8.10 Direct marketing production capacity

The maximum potential production capacity at the plant manufacturing oils and auxiliary products for vehicles and industry ("Delek Industries Plant") is 40 thousand tons annually. The annual oil production capacity utilized at this plant is around 15 thousand tons. For a description of the maximum and utilized capacity of the storage and supply facilities, see section 1.1.1(A) below

1.8.11 Property, plant and equipment

(A) As of December 31, 2014, Delek Israel owns or leases from ILA 58 gas stations (including 14 jointly owned with third parties) and 151 stations nationwide leased or rented under long-term agreements (over three years). Delek Israel gas stations, by proprietary rights to the land and station operating terms, at December 31, 2014 (all the gas stations are branded Delek, Gal and Discount and sell Delek Israel products):

Type of station	Self-service (Delek Menta Roadway Retail Stores Ltd. ("Delek Menta")	Operated by Delek-appointed operator	Operated by contractor (supply)	Total
Ownership and ILA lease	50	8	---	58
Disabled IDF veterans	21	1	4	26
Rental of over three years	110	3	2	115
Rental of under three years	23	2	1	26
No proprietary rights (supply)	---	---	20	20
Total	204	14	27	245

(B) Proprietary rights in station land

Delek Israel's gas stations are divided into four categories from the aspect of ownership of the land where the stations are located as follows:

- Gas stations in which Delek Israel has ownership rights to the land on which they are built (in some cases, joint ownership with a third party) or in which Delek Israel is the primary lessee from Israel Land Administration or another institutional authority.
- IDF veteran stations, which were established pursuant to an interministerial agreement between the State and the fuel companies. This arrangement stipulates that ILA land would

only be allocated to establish gas stations unless the right to operate them is granted to a disabled IDF veteran selected by the Rehabilitation Department of the Ministry of Defense for his rehabilitation. This provision was modified in the 1990s and a disabled IDF veteran is now granted primary leasing rights for 49 years with an extension option for a further 49 years. At the same time, the fuel companies are granted secondary leasing rights for the same term in return for leasing fees equal to those paid by the veteran to ILA. Delek Israel would lease the land to establish the gas station, install the equipment needed for its operation and maintain its systems. After establishing the station, Delek Israel appoints the veteran as an operator on its behalf, so that he must purchase all fuel products exclusively from Delek Israel, and the fuel product prices to the station (i.e. the sale prices to the veteran) are determined by Delek Israel. In this context it should be noted that approval must be received from the Rehabilitation Department of the Ministry of Defense for any transfer of operating rights for the said gas station to a third party. It should be noted that if the Rehabilitation Department does not approve operation of the veteran stations by Delek Israel, it will order cancellation of the operating agreement between Delek Israel and the veteran and Delek Israel will only be permitted to supply fuel to those stations. As of the report date, the Ministry of Defense has yet to determine guidelines in this matter. If Delek Israel's rental agreements with the 21 disabled IDF veteran stations are canceled, this will not affect it materially.

- Rented stations include those in which Delek Israel is sub-lessee or primary lessee from a third party which is not ILA and stations under long-term or short-term rental. Delek Israel usually commits to establish the station at its expense, install most of the equipment required for normal operation, and maintain all its systems. At these stations, the operator is obligated to purchase fuel products exclusively from Delek Israel and their price to the station operator is are determined by Delek Israel. By the end of 2015, Delek Israel's rental rights at 10 gas stations are expected to expire. Delek Israel estimates that a rental agreement will be signed for most of these stations for a further period. Delek Israel's estimations are forward looking information, as defined in the Securities Law, based on its past experience, and there can be no certainty that such agreements will be signed for further periods or that the rent will not change when renewing those contracts.

- Stations to which Delek Israel has no proprietary, possession or usage rights are those in which it has signed agreements with station owners usually granting it exclusivity in supplying fuel products for a one-year term, with the owner alone having the option to demand renewal of the agreement for a further one to three years; the remaining cases include provisions with regard to commercial terms. In many of these agreements there is no collateral for the supply of fuel product. The supply agreements for 13 such stations will end by end of 2017. However, in view of past experience and relationships with the owners of these stations, Delek Israel estimates that supply in most of these stations will continue after expiration of the supply agreement. This estimate of Delek Israel is forward-looking information which may not materialize if the supply agreements are not renewed or if margins do not changed upon their renewal. If the agreements are not renewed, Delek Israel foresees no material impairment of its business. For information of restrictions in antitrust laws applicable to Delek Israel's contracts with the owners of rights in gas stations, see section 1.8.20(E) below.

(C) Gas stations are operated in several ways:

- By Delek Israel through Delek Menta Roadway Retail Stores Ltd. (wholly owned by Delek Israel).

- By a third party appointed by Delek Israel. Gas stations in this arrangement bear Delek Israel signage and purchase all products from it exclusively. The operator is obliged to operate the station under Delek Israel's standard procedures. The operator usually bears most of the gas station operating cost, including staff employment and purchase of inventory from Delek Israel. In some cases, Delek Israel contributes to operating costs. In other cases, it does not participate in the operators' costs, but grants discounts on the prices of the fuels sold to them. The operator is responsible for obtaining the licenses and permits required to operate the station, but in some cases Delek Israel processes and pays for compliance with regulatory requirements applicable to the gas station. The operator pays Delek Israel fixed and/or variable rent, based on the volume of sales at the station.

- By an independent third party not appointed by Delek Israel. In these stations there are actually short-term supply agreements of a year, with the operator alone having the option to request renewal of the agreement for another one to three years. The supply agreements require operators to purchase fuel products and lubricants from Delek Israel at agreed prices

and credit terms and sell them under Delek Israel trademarks, under its name, within price control restrictions and under Delek Israel's instructions concerning safety procedures, marketing, the gas station's exterior appearance etc. Delek Israel usually owns the gas station equipment and lends it to the station operator. Delek Israel installs the equipment required to operate the station and provides the owner of the rights with maintenance services and professional training under the contractual agreement. In most cases, there is no collateral for selling fuel to stations. In some cases, Delek Israel has no exclusivity in supplying fuel products.

(D) All Menta convenience stores are operated by Delek Israel, through Delek Menta, except for 16 stores operated by franchisees. All Menta store employees are Delek Menta employees. Delek Menta purchases the inventory and bears the entire risk involved in operating the stores. In 2008, Delek Israel started operating convenience stores through franchisees who run them with their own employees. The franchisees purchase the inventory and bear the entire risk involved in operating the stores. Delek Israel will decide in each case, based on business considerations, whether to operate the convenience store through franchisees, if any. Cup-O-Joe was introduced at Menta stores in the store-in-store concept, when Cup-O-Joe is responsible to supply and continually maintain equipment and supply Cup-O-Joe products for sale.

(E) Delek Israel’s property, plant and equipment in the gas station and convenience store segment include the buildings and equipment in most public gas stations where it has ownership rights. It also has equipment installed in all its stations where it has no ownership rights or where it has short-term lease agreements. At some of these stations, Delek Israel also has property, plant and equipment in station buildings constructed many years ago, when it had proprietary rights (including long-term lease contracts) there. It also has vehicles and trucks to transport the fuel products and lubricants.

(F) Delek Israel’s property, plant and equipment in the direct marketing segment includes the equipment at customer premises and facilities (mainly designated tanks and pumps) and equipment at the interior stations, including infrastructure, tanks, pipelines, electronic pumps, electronic refueling control systems and three refueling ships that serve UNEX. Delek Israel has a 4.9 hectare plant in Lod, of which 4.7 hectares are owned by Delek Israel and the rest is leased from ILA. As of the report date, the plant contains lubricant mixing, filling and packing facilities, a lubricant re-refining installation, solvent manufacturing and recycling facilities, a central sewage treatment plant, warehouses, laboratories, and various buildings.

(G) Delek Israel's property, plant and equipment in the storage and supply segment includes four facilities: three in Ashdod, Beer Sheva and Jerusalem for providing storage and supply services for Delek Israel and third parties and the fourth in Haifa, mainly for Delek Israel's own use. Delek Israel also has the equipment required for the storage and supply operation. Breakdown of the facilities:

	Area	Proprietary rights	Capacity	Capacity utilized in 2014	Additional information
Ashdod facility	Approximately 32.9 hectares	Delek Israel is entitled to be registered at ILA as owner of leasing rights in this land through June 30, 2019, with an option for a further 49 years.	26 above-ground tanks with a maximum capacity of 506,000 cu.m. as well as 6 additive tanks and three water tanks.	100% of the maximum capacity of the above-ground tanks.	Adjacent to the tank farm is an operating area which includes an administrative building, an office building and technical and special-purpose buildings.
Beer Sheva facility	Approximately 7.9 hectares	Delek Israel is entitled to be registered at ILA as owner of leasing rights in this land until July 31, 2015[23] with an option for a further 49 years.	10 above-ground tanks with a maximum capacity of 72,000 cu.m. as well as 2 additive tanks and 2 water tanks.	Approximately 69,000 cu.m of the maximum capacity of the above-ground tanks.	Adjacent to the tank farm is an operating area which includes an administrative building with restrooms and technical and special-purpose buildings.
Jerusalem facility	Approximately 5.6 hectares[24]	Delek Israel is registered at ILA as owner of leasing rights in 5.5 hectares until March 31, 2057.	8 above-ground tanks with a maximum capacity of 33,500 cu.m. as well as three additive tanks and one water tank.	Approximately 40% of the maximum capacity of the above-ground tanks.[25]	The operating area includes two office buildings and technical and special-purpose buildings.
Haifa facility	Approximately 3.1 hectares	Owned by Delek Israel	14 above-ground tanks with a maximum capacity of 20,000 cu.m. as well as two additive tanks and water tanks.	100% of the maximum capacity of the tanks.	---

[23] This date is according with Rights Confirmation issued by ILA. Under the leasing contract, the leasing rights are through August 20, 2015.

[24] Of which FPL holds 0.3 hectares under a separate leasing agreement.

[25] It should be noted that Delek Israel contracted with Israel Land Administration, which holds land adjacent to the compound that is planned to be rezoned similarly to the land of the compound, with the aim of preparing a joint urban building plan and submitting it to the Jerusalem District Planning and Building Committee. At this stage, the timetables for submitting the urban building plan to the committee cannot be estimated. This urban building plan will include an application to change the zoning of the land and an application to construct a residential neighborhood of hundreds of housing units. It is also noted that simultaneous to the moves for such land zoning change, Delek Israel is continuing to negotiate with various investors from time to time with respect to selling the compound in its current condition. At this stage, the timetables for finalization of such negotiations, the chances of their finalization and their results cannot be estimated.

1.8.12 Intangible assets

Delek Israel operates under several well-known, protected brands: "Delek", "Gal" and "Discount" (gas station brands), "Menta" and "Discount & Go" (convenience store brand), "Delkol" (lubricant brand) and "Dalkan Delek" (electronic refueling service brand).

1.8.13 Human resources

(A) Delek Israel employees at December 31, 2013 and December 31, 2012:

Segment	No. of employees as of December 31, 2014	No. of employees as of December 31, 2013
Gas stations and commercial compounds	2,057	2,135
Direct marketing	210	213
Storage and supply	42	42
Other	50	51
Total	2,359	2,441

(B) Most of Delek Israel's employees are hired under personal employment contracts and not subject to a special collective agreement, while special or general collective agreements apply to some by virtue of membership of the companies in employers organizations or by virtue of expansion orders.

(C) Delek Israel only employs road tanker drivers who are licensed to transport hazardous materials. Also, employees who work in the gas stations or come into contact with fuel materials, undergo fire fighting and hazard prevention training and environmental protection courses.

(D) Officers and senior management staff at Delek Israel are employed under personal employment contracts which include contributions to executive insurance. Delek Israel customarily grants bonuses to its employees, including senior staff, based on performance and subject to the approval of the competent organizations. It should be noted that on January 9, 2014, Delek Israel's general meeting approved the remuneration policy for its officers according to the provisions of Amendment 20 of the Companies Law, following its approval by Delek Israel's Board of Directors on December 23, 2013, based on the Remuneration Committee's recommendation of December 16, 2013 to approve the policy. On July 10, 2014, Delek Israel's general meeting approved an update of this remuneration policy, following approval by its Board of Directors on July 9, 2014 on the basis the Remuneration Committee's recommendation of July 9, 2014 to approve the policy. Udi Nissan started serving as active Chairman of the Board at Delek Israel on January 1, 2013. On January 2, 2013, his employment terms were approved at Delek Israel's general meeting, following approval by its Remuneration Committee and Board of Directors on November 27, 2012, Under his employment terms, Mr. Nissan is entitled to a phantom grant. On August 21, 2014, subsequent to ratification of Company's remuneration committee on August 20, 2014 and its Board Of Directors on August 21, 2014, the general shareholders' meeting of Delek Israel (Delek Petroleum) approved granting Mr. Nissan an annual bonus for his activities in 2013 of NIS 185 thousand. On May 28, 2014, subsequent to receiving approval of Company's remuneration committee on May 14, 2014 and its Board Of Directors on May 18, 2014, the general shareholders' meeting of Delek Israel (Delek Petroleum) approved granting Delek Israel's former CEO, Avi Ben Assayag an annual bonus for his activities in 2013 of NIS 777 thousand. For further information of the bonus to Avi Ben Assayag, see immediate report of December 4, 2013 (ref. no. 2014-01-067047). On September 1, 2014, Shmuel Anchel started serving as Delek Israel's CEO in place of Avi Ben Assayag, whose term of office ended on that date. On July 10, 2014, his terms of employment were approved at Delek Israel's general meeting, following approval by its Remuneration Committee and Board of Directors on July 9, 2014.

1.8.14 Fuel products, raw materials, and fuel and oil product suppliers

(A) Main fuel products used by Delek Israel

The main fuel products used by Delek Israel in both fuel marketing at public stations and direct marketing are distillates produced from crude oil purchased and traded on global exchanges. In most of the direct marketing operations (excluding oils and products manufactured by Delek Industries) Delek Israel purchases finished fuel products and not raw materials. The main raw materials used by Delek Israel to manufacture oils and lubricants are basic oils purchased from Haifa Basic Oils Ltd. and overseas suppliers and additives purchased primarily from various

suppliers overseas. In 2012 to 2014, Delek Israel purchased more than 95% of its fuel products from Bazan and the rest from ORA, apart from a negligible amount which was imported. Delek Israel's decision concerning the source of fuel purchases derived purely from financial feasibility considerations. Delek Israel is dependent on Bazan. In 2014, 2013 and 2012, Delek Israel's purchases from Bazan amounted to 95%, 95%, and 94% of its total sales cost respectively. For information of the risk factors involved in dependence on Bazan, see section 1.8.24(I) below.

(B) Agreements with major suppliers

(1) Local suppliers

As of the report date, Delek Israel's primary fuel product supplier is Bazan. The purchases from Bazan are made under an annual agreement under which Bazan will sell and supply fuel products to Delek Israel. This agreement stipulates that Delek Israel will purchase fuel products on the basis of monthly orders. With respect to 96 octane gasoline and diesel fuel for transportation, the monthly order will be placed on the basis of an annual plan (listed by month) which was submitted to Bazan, while Delek Israel is permitted to update the volume of monthly and annual purchases by the deviation specified in the agreement. The price of fuel products purchased from Bazan is determined according to the CIF Lavera prices. The relevant Lavera price used to determine the price will be five consecutive published prices, the last being two working days in Israel of the month preceding the supply month under the mechanism fixed in the agreement. The credit extended to Delek Israel is EOM + 15 days. The agreement includes provisions concerning Bazan discounts based on quantities purchased by Delek Israel, financial collateral that Delek Israel must provide for the purchases, etc. Delek Israel also purchases small quantities of fuel products from ORA under an agreement whereby the fuel product purchases are made by means of monthly orders in exchange for prices set in the agreement and calculated using a price formula derived from the Mediterranean Basin fuel price, while under the agreement ORA is permitted to update the price structure from time to time at its own discretion. Fuel product purchases above the quantities noted in these agreements are made on the basis of agreed terms between Delek Israel and fuel product suppliers with respect to each and every purchase.

(2) Import of fuel products

In the past, Delek Israel imported fuel products from global fuel suppliers when the cost of imported fuel products was lower than local supply. In 2014, Delek Israel never imported any fuel products. The import price for international trade companies is determined by a formula based on the local rate. Delek Israel is continuing its efforts to review import alternatives to fuel product purchases, including the option to reduce the unloading and piping costs of fuel products to the Pi Glilot facilities in Ashdod.

1.8.15 Working capital

(A) Composition of working capital: Delek Israel's working capital includes the total current assets (cash, trade and other receivables, and current operating inventory) less the current liabilities (including to current liabilities to banks, current maturities of debentures and other long-term loans, and trade and other payables).

(B) The main change between the net working capital as of December 31, 2014 and as of December 31, 2013 derives from a substantial decrease in the trade payables and trade receivables, exercise of Pi Glilot Oil Terminals Ltd. shares, and collection of a loan which Delek Israel extended to Delek Europe, which was repaid in May 2014. In the last quarter of 2014, the Company effected full early repayment of the debenture series issued to the public, against which it took bank loans. The decrease in fuel prices also led to reduced inventory.

Delek Israel's policy is for the working capital requirements to match the financing sources for working capital purposes as much as possible and for the requirements for investments and non-current assets to match the long-term sources. Its considerations concerning short-term financing sources derives from the lower costs and the fact that they are more readily available than long-term sources

(C) When there is a working capital deficit, Delek Israel occasionally examines the availability and cost of long-term financing sources to exchange short-term the loans. It also reviews the projected cash flow along with the credit facilities available to finance future increase in working capital requirements and to ensure financing of the negative deficit in the net working capital.

1.8.16 Investments

(A) Delek Europe – On June 26, 2014, Delek Israel sold its holdings in Delek Europe (20% of the shares), which it held through the associate Delek Europe Holdings Ltd.1. On September 9, 2014, Delek Europe Holdings Ltd. effected an early repayment of NIS 103 million (including accrued interest and linkage differences), which represents the full balance of the loan extended by Delek Israel, whose final repayment was fixed at May 1, 2015. Upon repayment of this loan, the guarantee received from Delek Group to back the loan expired.

(B) Orpak Systems Ltd. - Delek Israel holds 12.8% of the issued and paid up share capital of Orpak Industries ("Orpak"). Orpak and its subsidiaries are involved in developing, manufacturing and marketing sophisticated refueling management, gas station chain management, fleet management, and convenience store and electronic payment management systems and products. Orpak was founded in 1983 and in 2005, it completed the IPO process and listing of its shares on the AIM London stock exchange, thereby becoming a public company.

(C) Pi Glilot - Delek Israel signed an agreement with a third party for the sale of Pi Glilot shares in return for NIS 69 million. Completion of the Transaction was subject to fulfillment of the preconditions, including the right of first refusal for the remaining Pi Glilot shareholders and receiving the Minister of Finance's approval. On February 24, 2014, such approval was received from the Minister of Finance. Delek Israel achieved a capital gain after tax NIS 44 million from the transaction.

1.8.17 Financing

(A) Delek Israel's ongoing operations are financed mainly by cash flows from operating activities and short-term bank loans.

(B) Below are the average effective interest rates on loans from bank and non-bank sources effective in 2014 and not intended exclusively for specific use by Delek Israel:

		Average interest rate	
		Short-term credit	**Long-term credit**
Banking sources	NIS loans	1.3%-2.5%	4.2%
	Foreign-currency-denominated loans	-	-
Non-banking sources	NIS loans	-	3.0%-3.4%
	CPI-linked issued debentures	-	5.5%
	NIS-linked issued debentures	-	5.2%-6.6%

(C) Financial covenants and restrictions applicable to Delek Israel – in receiving the bank loans and credit facilities, Delek Israel undertook to comply with the following financial covenants and restrictions:

(1) Delek Israel committed to some of the banks not to pledge its property, plant and equipment in any form without the prior written approval of the banks (excluding property, plant and equipment pledged in favor of the entities that financed the purchase of those items).

(2) A bank agreement of 2002 between eight banks (which Delek Israel is not party to) to regulate the relationship among them concerning exercise of the floating lien given to them on Delek Israel's inventory and its consideration, stipulates that if one of the banks enforces and/or exercises the charge generated for its benefit that leads to appointing a receiver or receiver and manager of the charged property (as defined in this agreement), the other banks are entitled to exercise the charge given in their favor by Delek Israel.

(3) In agreements with two local banks for long-term fixed-interest loans for a six-year period (average life expectancy of three years) totaling NIS 300 million (in this section: "the Loans"), the Company undertook that non-compliance with any of the following covenants may lead to immediate repayment of the loans. If the financial ratio changes so that Delek Israel's equity to balance sheet[2]

[1] The rest of the shares are held by Delek Petroleum.

[2] The ratio between the total equity attributed to the shareholders, excluding non-controlling rights, and Delek Israel's balance sheet total in its audited or reviewed consolidated financial statements.

is less than 12% and its equity[1] is less than NIS 600 million (in this sub-section: "the Lowest Level") and this financial ratio remains below the lowest level in three consecutive Delek Israel financial statements; If most or all of Delek Israel's operations in the Gas Station and Commercial Compound and Direct Marketing segments are sold and as a result, the percentage profit of Delek Israel's ordinary operations in these segments (cumulatively) falls below 25% of the total consolidated profit of its ordinary operations in all segments, as appears in the first financial statements published following the sale of such operations; For any lowering of the rating of Midroog Ltd. ("Midroog"), or any other rating company replacing it, by one degree compared to the base rating (A2), the annual interest rate born by the unpaid balance of the debentures will increase by 0.25% above the interest rate fixed when the debentures were issued. Such interest rate increase will be effected for each one degree lowering of the rating of the debentures compared to the base rating, but no more than a maximum addition of 0.75% to the annual interest rate of the debentures. If lowering the rating increases the annual interest rate and subsequently, Delek Israel's credit rating is increased again, the annual interest rate payable will be decreased to the rate fixed in the loan documents, and if the financial ratio changes so that Delek Israel's equity to balance sheet ratio is less than 14% and its equity is less than NIS 700 million in two consecutive financial statements ("the Lowest Ratio"), the annual interest rate of the unpaid principal balance of the loans will increase by 0.25% above the interest rate fixed in the loan documents. If, after the financial ratio decreases to the lowest ratio or lower, such ratio in Delek Israel's financial statements will be higher than the lowest ratio (i.e. the equity to balance sheet ratio is equal to or higher than 14%, or its equity is equal to or higher than NIS 700 million).

Following is information of Delek Israel's compliance with the relevant financial covenants under the events for immediate repayment of the loans:

Financial covenants	The ratio reviewed as at December 31, 2014
Equity to balance sheet higher than 12% and equity higher than NIS 600 million.	Total equity = NIS 1,097 million. Total balance sheet = NIS 3,536 billion. Equity to balance sheet ratio = 31%.
The sale of most or all of Delek Israel's operations in the gas station and commercial compounds and direct marketing segments, following which the percentage profit of Delek Israel's ordinary operations in these segments (cumulatively) falls below 25% of the total consolidated profit of Delek Israel's ordinary operations in all its segments of operations, as appearing in the first financial statements published following the sale of such operations.	No operations were sold.

As of December 31, 2013 and close to the publication date (May 16, 2014), Delek Israel complies with all the above financial covenants.

(4) Its subsidiary committed to a bank to maintain equity to balance sheet ratio of 30% in the subsidiary. As of December 31, 2014, the ratio in the subsidiary was 27.6%. The subsidiary also committed to the same bank not to place a lien on its existing assets and those it will have from time to time without the bank's consent. As of December 31, 2014, the liabilities to the bank were NIS 68 million.

(D) Credit facilities – As of December 31, 2014 and proximate to the publication date (May 9, 2015), Delek Israel's bank credit facilities (separate) totaled NIS 1,900 million, of which it has utilized NIS 1,400 million.

(E) Variable interest credit:

Details of the variable interest credit obtained by Delek Israel as of December 31, 2014 and proximate to publication date:

Track	Range of interest rates as at December 31, 2013	Interest rates proximate to report date
NIS	3.4%-5.5%	3.4%-5.5%
On Call	1.75%-2.5%	1.75%-2.5%

[1] Delek Israel's equity, excluding non-controlling rights, as appearing in its audited or reviewed financial statements.

(F) Liens and guarantees – To secure debt to banks amounting to NIS 1,400 million as at December 31, 2014, Delek Israel placed an unlimited floating lien on the inventory in its possession, the proceeds and the rights of which are defined in the lien documents.

1.8.18 Taxation

The primary tax rate applicable to Delek Israel is different to the effective tax rate, mainly due to the timing differences between expenses, unrecognized discounted expenses, exempt income and losses of affiliates. Besides the regular corporate tax laws applicable to the companies (see further information in Note 42 of the financial statements), it is noted that under the Fuel Excise Tax Law, 1958 ("the Excise Tax Law") and the Fuel Excise Order, 1980, an amount of tax is imposed on the fuel products listed in the order, which is updated every three months on the basis of CPI fluctuations. In January 2005, an order was issued whereby the diesel fuel and kerosene excise tax rates would be raised gradually to equal that on gasoline over a period between 2005 and 2009. The excise tax component in fuel prices is highly significant. Fuel companies are charged excise tax directly upon issuing the fuel, with 10 days credit, whereas the number of credit days granted by Delek Israel to its customers is significantly higher, especially for diesel fuel sales.

1.8.19 Environmental risks and manner of handling them

The principal provisions concerning environmental laws applicable to Delek Israel and their impact are set out as follow:

(A) Maintenance of Cleanliness Law

The Maintenance of Cleanliness Law, 1984 ("the Maintenance of Cleanliness Law") imposes criminal liability on whoever dirties and/or disposes waste (including fuels) in the public domain. This law also grants authority to levy fines, issue an order requiring the polluter to restore the polluted area or impose double the expenses for restoration of the site by the authorities.

(B) Water Law and Regulations

The Water Law, 1959 ("the Water Law") imposes liability for polluting water sources. It grants State authorities extensive powers, including the authority to demand termination of the pollution, restoration, levy fines and charge expenses. The Water (Prevention of water pollution) (Gas stations) Regulations, 1997 ("the Water Regulations") enacted under the Water Law include comprehensive provisions aimed at regulating this field and preventing soil, water or air pollution. These regulations include provisions requiring gas station operators to install various means of protection for various matters, in the station construction and operation stages. When constructing a station (after the Water Regulations entered into force), a sealed floor, drainage system, fuel-water separator, secondary tank and monitoring means to detect leakage must be constructed. The Water Regulations require the operator to conduct regular permeability tests (once every five years) on the pipes and tanks at all gas stations or more frequently, depending on the circumstances. The cost of these tests is immaterial to Delek Israel and its does not expect it to significantly affect its results unless soil or water pollution resulting from defective sealing is detected which will lead substantial repairs. The Water Regulations set out methods of reporting and treating sites polluted by fuel leakage and prescribe that most of the Old Stations (as defined below) must be adapted to most of the provisions of the regulations applicable to new stations. The responsibility to uphold the provisions of the Water Regulations is imposed on the gas station operator, which is defined as the business license holder or the person under whose supervision, management or control the station operates. It is noted that in the supply contracts, the liability for handling this matter is imposed on the gas station owner or its operator. As noted above, at December 31, 2014, Delek Israel operates, itself and through its operators, 245 gas stations (of which 129 are stations established before 1997 ("the Old Stations"), where liability for pollution control and treatment of such pollution is imposed on Delek Israel.

(C) Clean Air Law, 2008 ("Clean Air Law, 2008")

This law is aimed at improving the air quality and preventing and reducing air pollution with a series of treatments under a single legislative procedure. For the most part, the law entered into effect on July 1, 2011. A gradual transition period ending on March 1, 2015 was also determined to enforce the obligation to obtain a permit for emission sources requiring a permit under the law, including the energy industries in general and the gas and fuel refining industry in particular. Under this law, the Ministry of Environmental Protection is permitted to order Delek Israel to take steps to prevent air pollution generated while refueling vehicles, in addition to similar provisions usually arising from the business license issuing process for the gas stations.

(D) Environmental Protection (Polluter Pays) (Legislative Amendments) Law, 2008

The objective of this law is to protect, maintain and improve the environment, prevent damage to the environment or public health, and negate the economic viability of causing harm to the environment by means of punishment which takes into account the value of the damage caused and the benefit or profits gained by committing environmental crimes. In addition to stricter penalties for environmental violations, the courts are authorized, for a violation by a person resulting in that person gaining a benefit or profit, to impose a fine to the value of the benefit or profit in addition to any other punishment.

(E) Rehabilitation of Polluted Soil Bill, 2007

The aim is to solve the problem of soil and ground water pollution to protect the environment and public health in Israel from pollution caused by the presence of hazardous substances in the soil. On February 14, 2012, the bill passed the second and third reading, but as at the report date a decision has not yet been made concerning the proposed wording and the bill was returned to the ministerial committee. Delek Israel estimates that adoption of the bill in the current wording, if at all, may obligate it to invest substantial amounts in tests, surveys and equipment. It should be noted that Delek Israel gave its opinion in this matter through Israel Oil Companies Association, which holds joint meetings for it and other Delek companies with the bill initiators. Delek Israel cannot evaluate if and when this bill will be approved.

(F) Additional environmental requirements

(1) In September 2005, the Ministry of Environmental Protection published additional framework terms in business licenses for gas stations (in this subsection: “the Framework Terms”), enabling the authorities, under certain conditions, to demand implementing further station infrastructure improvements excluded from the water regulations published in 1997, e.g. sealing beneath the pumps, installing overfilling limiters and installing means of preventing cathode protection spillovers and gas vapor retrieval systems (stage 1 and 2). The framework terms that were included in the requirements for granting business licenses at the various authorities do not materially affect Delek Israel. In November 2013, as part of the business licensing reform, draft framework terms for gas stations were published in preparation for their entry into force at the beginning of 2014. Delek Israel has submitted its response to this draft, but as of the reporting date, the final framework terms have not yet been published. Delek Israel believes that such terms will not materially affect it.

(2) As of the report date, Delek Israel was required by the Ministry of Environmental Protection to conduct tests (soil surveys and groundwater monitoring bores to identify land and water pollution) at 129 old stations. The cost of these tests and treatment is estimated at amounts that are immaterial for the Group, spread over 2015 to 2018. As of the report date, Delek Israel has carried out tests at all the old stations (129) and treatment at some of them, when the actual cost in 2012 to 2014 totaled amounts which are immaterial for the Group[1]. Since Delek Israel's old stations (129) were built to standards predating the Water Regulations and since accumulated knowledge indicates that the required standards of tha period cannot ensure soil and/or water damage prevention, Delek Israel cannot estimate which of its old stations have polluted the soil or the water surrounding them. Tests conducted detected several stations where the soil and/or groundwater is contaminated. Delek Israel has started implementing a soil and/or groundwater rehabilitation plan at the stations where the survey was completed and contamination was discovered. In this matter, Delek Israel is in compliance with the arrangement signed with the Ministry of Environmental Protection in 2008 with respect to the timetables for locating and rehabilitating contaminated soil at old gas station. This arrangement does not contradict any other law applicable to Delek Israel. However, under the agreement, so long as it operates according to the rehabilitation plan, this will be taken into consideration in decisions of the authorized entities when they have to rule with respect to the legal and public justification of enforcing this matter. Delek Israel believes that if additional pollution which is unknown at the date of this report is identified, it could be required to allocate substantial investments to that end. In 2008, Delek Israel has submitted to the Ministry of Environmental Protection a work (rehabilitation) plan for locating, monitoring and surveying soil and water at its old stations (established prior to January 1, 1998) operated by or on behalf of Delek

[1] In this regard, it should be noted that soil pollution was discovered at some 80 gas stations, while at 24 of them groundwater pollution was also discovered for past violations and leaking fuel infrastructure, which Delek Israel is treating according to the provisions of the Water Authority, for which it has made provision in the financial statements. The cost estimate for cleaning soil and water contamination depends on the size of the contaminated area and severity of the contamination. As of the report date, soil surveys and groundwater monitoring bores have been completed at 75 gas stations. At 35 of them, the soil restoration process has been completed and at the remainder, Delek Israel has started the process.

Israel. The Ministry of Environmental Protection clarified that its policy is to enforce the provisions of environmental protection laws, and execution of the plan would not grant immunity from enforcement of the law where its provisions were violated or result in the cancellation of indictments already filed. However, when considering the legal and public justification of prosecution, all circumstances of the matter would be taken into account, including actions taken by the violating entity.

(3) In 2008, Delek Israel reached an agreement with the Ministry of Environmental Protection to install Stage 2 vapor retrieval systems gradually over four years according to the American standard.

In August 2011, the Minister of Environmental Protection published guidelines obligating the gas companies to install such vapor retrieval systems in the German standard at all gas stations by the end of 2015 (in this subsection: "the Guidelines"). This demand is presented in the business license terms and also appears as a guideline under the Clean Air Law. As of the report date, a stage 2 vapor retrieval system has been installed in gas stations located up to 80 meters away from sensitive buildings. On April 29, 2014, an update was received from the Ministry of Environmental Protection postponing the final date for installation of the system in the German standard to the end of 2016. By that date, Delek Israel is expected to install stage 2 vapor retrieval systems the remaining gas stations (about 70) where a systems is not yet installed (excluding new gas stations and those of operators and independent operators). Until the end of 2016, Delek Israel is expected to invest amounts which are immaterial for the Group.

(G) Legal and administrative proceedings relating to environmental protection

Non-compliance with the provisions of the Water Law and Water Regulations is likely be a criminal offense, carrying a one-year prison sentence or a fine of up to NIS 350 thousand[1], and heavier penalties in the event of an ongoing offense. It should be noted that several hearings against Delek Israel and its senior officers are being conducted with respect to claims of environmental protection law violations in a minimal number of stations. Delek Israel cannot estimate at this stage whether the hearings will lead to enforcement measures against the invitees or not.

(H) Stricter enforcement to prevent blended fuel sales

In April 2008, the Knesset adopted an amendment to the Operation of Vehicles (Engines and fuel) Law, 1960 (“the Vehicle Operation Law”), aimed at minimizing the sale and supply of blended fuels. Under the amendment, every gas station operator (as defined in the Vehicle Operation Law) is required to conduct six annual tests to have product quality verified by an authorized laboratory. Sanctions against nonstandard fuel products will be increased substantially, including possible administrative closure orders, publication of the names of gas stations selling nonstandard products, and significantly higher fines. The provisions of the amendment entered into force on October 10, 2008. In view of the application filed by Delek Israel to dismiss or to order amendment of the motion for certification of a class action and due to the complexity of the evidentiary material, Delek Israel cannot estimate the impact of claims related to the fuel blending affair discovered at gas stations in October 2006, if any.

(I) Hazardous materials - poisons permit

Under the Hazardous Materials Law, 1993 ("the Hazardous Materials Law"), oil distillates are defined as hazardous materials. The law imposes an obligation to hold a poisons permit from the commissioner authorized to issue such by the Environment Minister. Delek Israel has permits to hold the hazardous materials defined in it, and to trade in fuels without storing them.

(J) Green Tax Reform

The Green Tax Reform entered into force as from August 2009, prescribing vehicle tax incentives based on their pollution emission level, aimed at encouraging the purchase of more environmentally friendly vehicles Under the reform, the purchase tax of a new vehicle sold in Israel will be determined according to the air pollution emissions from the vehicle. The outline of the green tax is expected to be determined soon by an interministerial committee headed by the Deputy Director of the Tax Authority and including representatives of the Ministries of Finance, Environmental Protection, Transport and National Infrastructures. The committee's conclusions are likely to determine a sizable transition of vehicles powered by oil distillates to alternative green propulsion. Delek Israel cannot estimate the impact of the reform on its operations and results. This section includes forward looking information, as defined in the Securities Law, which is uncertain and beyond Delek Israel's control. Delek Israel’s estimations may not materialize and the

[1] The fine is in addition to the expenses involved in treating the contamination.

actual results may be different to those set out above if any of the assumptions used by Delek Israel in their estimations change.

(K) A subsidiary of Delek Israel (Delek Industries) removes industrial waste according to the provisions of environmental laws.

(L) Delek Israel's direct marketing operation at internal gas stations located on customer premises is also subject to the provisions of the Water Regulations described in section 1.8.19(B) above. If the matter is brought for a decision, a court may rule that, in view of the terms of the agreement between Delek Israel and the internal station owner, Delek Israel is also considered to be a “station operator”. For information of the responsibility of a “station operator,” see section 1.8.19(B) above.

(M) Delek Israel's environmental risk management policy and steps taken to decrease these risks

Delek Israel takes ongoing measures to minimize and prevent possible damage to the environment and invests substantial resources on environmental protection, including regular maintenance of facilities and infrastructures, and employee training in accordance with statutory requirements on this matter. Since enactment of the Water Regulations, which include comprehensive provisions aimed at regulating this issue and preventing soil and water pollution, Delek Israel has increased its investments in this area. It should be noted that in the reporting year, Delek Israel launched an internal environmental protection enforcement plan, which it expects to assimilate in 2015 (in this subsection: "the Enforcement Plan"). The aim of the Enforcement Plan is to ensure compliance with the statutory provisions and Delek Israel's procedures on environmental protection, while constantly improving its environmental performance and drawing conclusions.

(N) Incurred and expected material environmental expenses

In 2014, 2013 and 2012, Delek Israel’s total environmental expenses amounted to sums which are immaterial for the Group. In the forthcoming years, the total environmental expenses are also expected to amount to immaterial sums for the Group.

The information in this section 1.8.19 and its subsections concerning the expected environmental expenses, the projected effects and the negotiations with the Ministry of Environmental Protection is forward looking information, as defined in the Securities Law, based on information available as of the report date. In practice, the information may be significantly different to the above for various reasons, including discovery of material deviations in Delek Israel’s operations, discovery of pollution at additional stations, further Ministry of Environmental Protection and/or Water Authority demands, changes in environmental laws, etc

1.8.20 Restrictions and supervision of Delek Israel's operations

Below is a description of the main restrictions and supervision applicable to Delek Israel, in addition to the above environment supervision:

(A) Legislation specific to the fuel economy:

(1) State Economy Arrangements (Legislation amendments to achieve 2001 budget and economic policy targets) Law, 2001 ("the State Economy Law") – This law states that a fuel company must be registered before starting its operation and may continue to operate so long as it is registered in the register maintained by the Fuel Administration. Delek Israel and Gal Fuel Co. Ltd. (a Delek Israel subsidiary) are registered at the Fuel Administration Register as fuel companies. It is also noted that the State Economy Law prescribes that a fuel company must maintain, at its own expense, such fuel inventory as is determined by the Minister of National Infrastructures, Energy and Water in consultation with the Ministers of Defense and Finance, and by virtue of the State Economy Law, regulations have been enacted[1]regulating this matter. It is noted that in November 2002, the High Court of Justice approved an interim arrangement requiring the maintenance of a security inventory, but the State can change the present status to require also maintaining a civilian inventory. The implications of holding a civilian inventory if the above enter into effect is an increase in Delek Israel's total credit. It is also noted that on December 19, 2013, Delek Israel signed an agreement with the State, under which the emergency inventory held by Delek Israel under the Commodities and Services (Fuel Economy Arrangements) Order, 1988 will be transferred to the State's possession on that date (in this subsection: ("the Agreement"). It is further noted that the purchase and maintenance of the inventory by Delek Israel was recorded in its financial statements of September 30, 2013 as a loan to the State of NIS 220,644 thousand (in this subsection: "the Financing"). Under the agreement, the State repaid the Financing against such

[1] The State Economy Arrangements (Legislation amendments to achieve 2001 budget and economic policy targets) (Maintaining inventory and security inventory of fuel) Regulations, 2001.

transfer of possession of the emergency inventory to the State, when the lion's share of the payment was paid in cash on the date if the agreement and the balance at the end of January 2014. As of the reporting date, the emergency inventory that was transferred to the State's possession under the agreement is stored in the Pi Glilot facilities at the State's expense. The main effect of transferring possession of the emergency inventory to the State is that Delek Israel's financial flexibility has increased due to repayment of the bank financing accordingly.

(2) Fuel Economy (Promotion of competition) Law, 1994 – The law prescribes restrictions on opening new gas stations near stations marketing the products of the same fuel company or operated by the same operator. The section in the law dealing with the restrictions concerning a regional engagement between gas stations of one fuel company is in force through the end of July 2018. In December 2007, the Fuel Economy (Promotion of competition) (Amendment No. 2) Law, 2007, designed to regulate the advertising of prices at gas stations to increase competition and prevent deceit in prices, was enacted.

(3) Fuel Economy (No sale of fuel to specific gas stations) Law, 2005 – This law bans the sale and supply of fuel to public gas stations unless they are on the list maintained by the Fuel Administration. As of the reporting date, all of Delek Israel's public gas stations which require registration are included in the list published by the Fuel Administration.

(4) Excise – Under the Excise Law, no person shall manufacture or engage in selling fuel without a license from the Customs and Excise Administration. Delek Israel has been issued such a manufacturing license, which it renews annually. Excise is levied on fuel when it is issued at a supply facility or released from customs in the case of import. As a result, only companies holding such a manufacturing license may purchase oil distillates directly from refineries in Israel or import them. The Excise on Fuel (Levying excise) Order, 2004 sets specific excise rates for every oil product. In addition, the Excise on Fuel (Exemption) Order, 2005 prescribes that fuel used by civil commercial marine vessels transporting passengers or cargo are exempt from excise payment, provided that after fueling the vessel departs from an Israeli port for a destination outside Israel. Increasing the excise tax rate leads to increased exposure of Delek Israel to customer credit and a rise in its financing expenses. It should noted that in the last two years, the excise tax was updated according to the index fluctuations and the changes were minor compared to changes in the base price of distillates.

(5) Hours of Work and Rest Law, 1951 – Most Delek Israel public gas stations and some of its convenience stores operate on Saturdays. Under Section 9 of this law, employing Jewish staff on Saturday, which is part of the statutory weekly rest period, must be approved by the Minister of Labor. The Hours of Work and Rest Law also stipulates that on rest days defined in the Law and Administration Ordinance, 1948, no store owner will conduct business in his store. This law lays down a fine or up to one month's imprisonment or both for whoever employs staff in breach of the law. To date, the restrictions imposed by these laws have not materially impaired Delek Israel's business results, and based on past experience it estimates that they will not do so in the future either. This estimate is forward-looking information which may not materialize due to stricter enforcement of provisions of the Hours of Work and Rest Law throughout Israel, which could lead to convenience stores being closed on Saturdays.

(6) Vehicle Operation (Engines and fuel) (Supply of fuel by tanker) Order, 2007 ("the Fuel Supply Order") – this order imposes liability on fuel companies to take all reasonable precautions to ensure that every fuel product that it supplies to a gas station meets the requirements of the official Israeli standard and the Operation of Vehicles Law, including by installing an electronic seal (that meets the requirements set out in an addendum to the Fuel Supply Order) on fuel tankers transporting fuels to gas stations. The order also imposes responsibility on the supply facilities and gas station owners. Under the order, by January 1, 2014, an electronic seal (a device designed to control opening of the tanker and the quantity of fuel therein) must be installed on every fuel tanker, all as defined in the order. As of the reporting date, an electronic seal has been installed on all Delek Israel tankers by a certified vendor, according to the order.

(7) Fuel Economy Bill, 2012 ("the Fuel Economy Bill") – At the beginning of 2007, the Fuel Economy Bill, 2007 was distributed, which was updated on January 30, 2011 and March 15, 2012 ("the Fuel Economy Bill"). Under the Bill, the purpose of the Fuel Economy Bill is to regulate all operations in the fuel economy, from the financial, safety and consumer aspects, by setting an appropriate licensing and regulatory regime. On July 25, 2012, it passed the first reading, but a date has not yet been set for deliberation at the Knesset Economic Committee. Delek Israel cannot estimate whether or when the Fuel Economy Bill will be adopted and what its scope will be. It estimates that adoption of the current version of the Fuel Economy Bill, if at all, may materially impair its results,

while the extent of the impact will derive from the wording of the law that is approved in the long run, if at all.

(8) Universal Refueling Device Regulations: On October 23, 2011, the Fuel Economy Regulations (Promotion of Competition) (Rules Regarding Universal Automatic Refueling Devices), 2011 were published in the Official Gazette requiring fuel companies wishing to sell fuel using an automatic refueling device to install a universal refueling system that allows consumers to contract with various fuel companies, and use the same system to refuel at gas stations operated by different fuel companies. Under these regulations, the universal refueling device system will be based on specifications for a universal automatic refueling device ("the Universal Device") to be approved by the Fuel Administration (in this section: "the Administration"). It should be noted that the Standards Institute has published standards regulating the issue of specifications and on October 1, 2014, a document announcing the universal automatic refueling device specifications, which requires compliance with these standards, was published on the website of the Ministry of National Infrastructures, Energy and Water. The regulations provide a transition period of 36 months from approval of the specifications during which refueling nozzles that allow refueling through a universal Dalkan must be installed at gas stations gradually as set out in the regulations. Delek Israel estimates that it may incur expenses due to universal refueling device provisions for conversion of the existing refueling devices to universal refueling devices and adapting computers, the scope of which will be determined by the above specification or standards. Enforcement of the universal refueling standards will also increase the number of fuel marketing companies and the number of stations at which customers may purchase fuel products, which may lead to a reduced number of customers purchasing fuel products through its automatic refueling system. At this stage, Delek Israel cannot estimate the effect that the regulations will have on its financial results, if any, and the effect on the market competition is unclear.

(B) Price control

(1) Supply of fuel products by Bazan to the fuel companies - prior to privatization of the refineries, Bazan was declared a monopoly of crude oil refining in Israel. Only two types of bitumen are currently sold by Bazan, subject to maximum Bazan ex-refinery prices set under the Commodity and Service Price Stability Order (Temporary order) (Maximum Bazan ex-refinery oil product prices) 1992 ("the Bazan Ex-Refinery Price Order"), which sets the maximum Bazan ex-refinery prices for the various fuel products (see section 1.8.1(B)(1)above). These prices are updated on the first of every month on the basis of the external fuel product price plus or minus an amount set by the Fuel Administration Director, with the approval of the Ministers of Energy and Finance.

(2) Consumer price - Commodity and Service Price Control Order (Maximum prices at gas stations, 2002 - this order prescribes the maximum price for unleaded 95 octane gas sold at a public self-service pump as well as the date and methods of its update. In September 2011, the marketing margin was decreased in a manner that negatively affected Delek Israel and to the best of its knowledge, other fuel companies in the market as well. From then until September 2012, the marketing margin was updated from time to time, but never returned to its previous state before the substantial decrease of September 2011. It should be noted that the margin erosion is evident at Delek Israel, which is expressed in low financial expenses if not for the margin decrease. It is also noted that Delek Israel is still trying to maintain its current margin in face of fierce competition in the fuel market, the main implications of which is future margin erosion.

(3) Price control of diesel fuel for transportation - On July 31, 2012, Commodities and Services Price Control Order (Application of the diesel fuel law and determination of the control level), 2012 (in this subsection: "the Order") was published. The Order stipulates that the control of diesel fuel for transportation will be on the profitability and price reporting level according to chapter G of the Commodities and Services Price Control Law, 1996. On November 20, 2012, an amendment to the order was published prescribing that the first report under the order must contain such a report as from 2009. The provisions and amendment of the Order do not materially affect Delek Israel's financial results. If, in practice, the control applies to diesel fuel prices (beyond such reporting), this may have a material effect on Delek Israel, which cannot be estimated at this stage

Control of infrastructure prices - Infrastructure services relating to fuel products in Israel, include unloading and loading at the fuel port, transportation, storage of fuel products, etc. The Commodity and Service Price Control Order (Fuel Economy Infrastructure Tariffs) 1995 (in this section: "the Order") aims to ensure obtaining the maximum price for the various infrastructure services. In 2004, a committee was appointed to examine the infrastructure prices in the energy sector (in this section: "the Committee"). Over the years, the Committee distributed a draft report concerning its recommendations for the various infrastructure prices, the last and most updated in December 2013 ("the Draft Report"). The Draft Report includes recommendations for a new price structure

and mechanism for updating it. On May 1, 2014, the Commodity and Services Price Control Order (Fuel Economy Infrastructure Tariffs), 2014 ("the Updated Order") was published, which is similar to the infrastructure price recommendations of December 2013. The Updated Order increased the revenues of Pi Glilot Partnership from proceeds received for storage services provided to various entities, but this has no material effect on Delek Israel's results.

Essential Operations - Delek Israel, its gas stations and storage and supply depots have been declared an Essential Operation as approved by the Ministry of Industry, Trade and Labor. Under this approval, in an emergency, Delek Israel's fleet and fuel storage and supply installations are enlisted for national emergency to enable the regular supply of fuel and gas.

(C) Weights and Measures Ordinance, 1947 ("the Weights Ordinance") - the Weights Ordinance sets various standards for weights and measures. The weights regulations were established under the weights ordinance, setting out various provisions for instruments which measure oil distillates assembled on tankers, including installing a calibration seal on these instruments. It is prohibited to use of such instruments unless they have been calibrated and sealed in accordance with the weights regulations. In this regard, it is noted that the Delek Israel's Haifa, Jerusalem, Ashdod and Beer Sheva storage and supply depots have valid calibration certificates.

(D) Gas station operating licenses

The licensing procedures for new gas stations are long and complicated and require large investments in obtaining approvals, permits and licenses from numerous entities. This procedure is regulated under many laws granting licensing powers to various governmental authorities. On November 18, 2010, an amendment to the Business Licensing Law (Amendment 27) was published, prescribing an expedited procedure for receiving a temporary license valid for one year only, under the terms laid out in the amendment. Below is the main legislature granting licensing powers to the various governmental authorities:

(1) Planning and Construction Law, 1965 ("the Planning Law") and its regulations - Under the Planning Law and its regulations, a permit is required for any use of land, i.e construction and the use of any structure, etc. A building permit for the construction of a gas station often also requires rezoning the land. Under this law, the National Planning Council approved the National Outline Plan for Gas Stations - NOP 18, 1986 ("NOP 18) setting conditions and criteria for the establishment of gas stations, including prevention of safety, social and environmental hazards, minimum distances between stations, and minimal distance between fuel tanks and pumps and populated buildings. In the first half of 2006, Amendment No. 4 of NOP 18 entered into force, aimed at adapting the gas station system to the needs of the Israeli population while ensuring proper service to consumers and preventing transportation, safety, visual or environmental nuisances. Most of the change is that local planning and construction committees are authorized to approve construction of a gas station in any built-up area, including areas zoned for housing, offices, commerce, etc., while until the amendment the power of the local committees was for industrial zones and areas combining industry and trade. Another change in the plan is the possibility of setting up mini gas stations, an option not previously available under NOP 18. Mini stations require smaller capital investment than that currently required for public gas stations. A mini gas station is any station which can serve up to four 4-ton vehicles simultaneously and no structure can be added to such station other than a roof over the gas pumps. For information of the risk factor involved in Amendment No. 4 of NOP 18, see section 1.8.24(A) below.

(2) Business Licensing Law, 1968 ("the Business Law"), and its regulations and orders -

(a). Business Licensing (Businesses requiring a License) Order, 1995 - Under this order, a gas station is a business that is required to be duly licensed. To operate a gas station, approval is required from the following authorities: Israel Police; the Ministry for Environmental Protection, Ministry of Industry, Trade and Labor; Israel Fire and Rescue Services; and the relevant Planning and Construction Committee.

(b). Business Licensing (Fuel Storage) Regulations, 1976, ("the Fuel Storage Regulations") - Regulations enacted under the Business Licensing Law set out specific provisions for obtaining a gas station business license. These regulations describe the fuel safety and storage conditions to obtain a license.

(c). Business Licensing (Sanitary Conditions at Gas Stations) Regulations, 1969 - These regulations set out provisions concerning the sanitary conditions and facilities required at gas stations.

(d). Business Licensing (Hazardous Plants) Regulations, 1993 - Under these regulations, a business that stores, produces, processes or sells hazardous materials must have a special license to do so and must comply with the safety provisions laid down in or under any law.

(e). Business Licensing Law Amendment No. 26 (Temporary Order), 2010 - Under this amendment, a business in which alcoholic beverages are sold or served, including food chains, kiosks and convenience stores, is prohibited from serving or selling them between 23:00 p.m. through 6:00 a.m.

(f). Supervision of Commodities and Services (Garages and Vehicle-related Plants) Order, 1970 - prohibits opening or operating a gas station without a license from the Division of Vehicles and Maintenance Services at the Ministry of Transport.

(3) Most of Delek Israel's public gas stations and convenience stores have received business licenses or temporary permits pending receipt of permanent permits. With respect to other gas stations and convenience stores, Delek Israel or the station owner are taking necessary measures to obtain business licenses or temporary permits, and Delek Israel believes there is nothing material preventing receiving them. There are several indictments are pending against Delek Israel, its subsidiary and officers relating to the operation of gas stations and/or convenience stores without a business license or in contradiction to the permit. Delek Israel estimates that apart from insignificant fines and/or issuing a closure order until a business license and/or temporary permit is obtained, it has no other material exposure in this regard.

(4) As of the reporting date, four indictments are pending against Delek Israel relating to the operation of gas stations and/or convenience stores in contradiction to the planning and building provisions and/or the provisions of the Business Licensing Law. Some of the indictments were filed against several of its senior managers and station owners/operators. Delek Israel estimates that apart from fines fluctuating between NIS thousands and NIS tens of thousands, it has not other material exposure in this regard. Delek Israel's estimations concerning the exposure in section 1.8.20(D)(3) above and in this section is forward-looking information based on Delek Israel's past experience. This forward-looking information may not materialize due to the occurrence of events contrary to Delek Israel's expectations.

(5) The Delek Industries plant has a permanent business license.

(6) The storage and supply operations require business licensing under the Business Licensing Law and subsequent regulations. The supply facilities in Ashdod, Beer Sheva and Jerusalem have permanent valid business licenses. The Haifa facility has a temporary license, subject to compliance with certain conditions, valid through July 1, 2015, and Delek Israel is taking steps to obtain a permanent business license.

(7) With regard to the internal gas stations at kibbutz or moshav settlements, ILA Agricultural Division provides that an internal non-commercial gas station may be set up within the area of the agricultural settlement without requiring payment to the ILA, subject to certain conditions. The establishment of an internal station requires obtaining a building permit and operating approvals.

(E) Antitrust

(1) Exclusive supply agreements with gas stations:

On October 27, 1997 the Antitrust Commissioner and Delek Israel reached an agreement (in this subsection: "the Agreement"), which was filed for approval of the Antitrust Tribunal (in this section: "the Tribunal") in which the Commissioner narrowed the scope of his decision of June 28, 1993 ("the Original Decision"), under which the exclusive long-term delivery arrangements between the fuel companies and the gas stations which are not owned or under primary lease from the ILA, are cartels, so the original decision will only apply to gas stations where Delek Israel does not have an accepted lease agreement, (i.e. a lease agreement under which the lease fees paid exceed a certain amount, as defined in the agreement with the Commissioner). The agreement also set terms for Delek Israel's future contract with gas stations when engaging in exclusivity fuel supply agreements of between one and 14 years, based on the circumstances of each contract. These conditions include an obligation for Delek Israel to submit an application for approval of these agreements to the Tribunal. The agreement also prescribes that it is inapplicable to contracts with IDF veterans, which will be prescribed in special terms. The Commissioner announced that he would recommend that the Tribunal approve exclusive supply agreements for limited periods of between one and 14 years, depending on the special circumstances of the station for which the approval of the agreement is requested. It is noted that special terms have not yet been prescribed regarding IDF veterans On April 28, 1998, based on the agreement, Delek Israel filed an application with the court for approval of the supply agreements, which partially acceded by approving the exclusive fuel supply agreements for certain periods of between three to six years. On July 1, 2002, Delek Israel reached an agreement with the Commissioner concerning a

consensual order under section 50B of the Restrictive Trade Practices law, 1988 ("the Consensual Order"), which was approved by the Tribunal.

The key point of the Consensual Order is that Delek Israel's lease of gas stations for a period of longer than seven years, under the circumstances described in section 17 of the Restrictive Trade Practices Law, would be viewed as a merger. This means that in those cases, the transactions requires the consent of the Commissioner.

(2) Commissioner approval for the merger of Pi Glilot and Delek Israel - As part of the acquisition of the three storage and supply depots by Delek Israel, the Commissioner issued approval for this merger, with the following main points:

(A) Delek Israel and any person controlling it, any company controlled by it and any company controlled by any of them (jointly in this sub-section 1.8.20(E)(2): ("Delek Israel"), will not unreasonably deny distillate supply services to anyone requiring them from the Ashdod and Jerusalem supply depots, under usual terms at Delek-Pi Glilot facilities prior to the merger, and shall not make provision of supply services contingent to conditions which, by their nature or under acceptable trading terms, are unrelated to the subject of the arrangement. Delek Israel will not set different terms of engagement for similar transactions to provide supply services, discriminate among its customers, and make the provision of supply services or grant any benefits contingent to purchasing or receiving other products or services.

(F) Throughout operation of the Ashdod supply depot, Delek Israel will allocate storage tanks at the Ashdod depot to a third party for operational storage, as provided in the appendix to the privatization agreement, unless permitted otherwise in advance and in writing by the Commissioner. During the lease term of tanks set out in this section, Delek Israel will be responsible for their operation and proper maintenance so as to ensure continuous service and maintenance as provided by Pi Glilot prior to the merger.

(G) Delek Israel will not contract, directly or indirectly, with another person in an arrangement conferring upon it rights in infrastructures necessary for importing or refining operations or in land designated for the construction of infrastructure facilities, without the prior written consent of the Commissioner. The provisions of this section will not apply to agreements in effect prior to this decision, between Pi Glilot and another person holding or operating fuel product or LPG storage or piping infrastructure, which are necessary for ensuring regular operation of the national pipeline network, or to the extension of such agreements.

(H) Unless otherwise authorized by the Commissioner, any restriction applicable to any corporation by virtue of the Commissioner's approval also applies to any officer, agent or consultant of a corporation and to any agent or substitute of any of them, all by statue or agreement or in practice.

(I) Recognized Ministry of Defense Supplier

(J) Delek Israel participates in tenders published by the Ministry of Defense containing standards and preconditions, and complies with all of them. Delek Israel and Delek Industries are approved suppliers, recognized by the ministerial committee for the approval of suppliers for the Ministry of Defense.

(K) Standardization

Israel has standards for the fuels that are marketed in Israel. Delek Israel markets only products that comply with these standards. Delek Industries has permits from SII with respect to ISO 14001 (environmental protection), ISO 9001 (quality management) and Israeli Standard SI 18001 (safety management) standards. These permits were valid through February 20, 2016, March 31, 2016 and February 20, 2016, respectively. Delek Israel has also received international safety standard marks in the storage and supply segment. In October 2006, the Fuel Administration published service standards designated as a normative code of conduct for the fuel infrastructure segment to improve service and bring it up to par with developed countries. Delek Israel complies with these service standards.

(L) The Law for Promotion of Competition and Reduction of Market Concentration, 2013 - For information regarding the implications of this law for Delek Israel, see section 1.20 below.

1.8.21 Material agreements

(A) Most of the fuel products sold by Delek Israel are purchased from Bazan (for details, see section 1.8.14(B) above). Therefore, the agreements between Delek Israel and Bazan are material for Delek Israel.

(B) In December 2013, Delek Israel entered into an agreement for the supply of natural gas with the Tamar project partners, including Delek Drilling Limited Partnership and Avner Oil Exploration Limited Partnership. Delek Israel's operation in the natural gas segment depends on this agreement. Therefore it is material for it.

(C) Generally, the gas station and commercial compound segment has no single material agreement concerning title and manner of operating the gas stations, but the entire set of agreements in the segment is material for Delek Israel.

(D) In general, the fuel storage and supply operations have no single material agreement which is not in the course of Delek Israel's regular business.

(E) Pi Glilot privatization agreements

On July 31, 2007, Delek Israel entered into an agreement with Pi Glilot to acquire the depot operations ("the Depot Acquisition Agreement"), whereby Delek Israel acquired all rights in movable goods, title and the remaining rights and liabilities, including with regard to staff employed at the depots, as set forth in the appendices to the agreement ("the Property Being Sold"), in return for NIS 806 million, after fulfilling provisions of the sale procedure and obtaining the approval of the Antitrust Commissioner (for a description of main points of the Commissioner's approval, see section 1.8.20(E)(2) of the report). Delek Israel undertook to operate the Property Being Sold for periods defined by the State and within limits set by the State as follows: (1) Delek Israel undertook to operate the Ashdod depot as a storage and supply depot for at least 10 years from the acquisition date. Delek Israel may, with consent of the Fuel Administration Director at the Ministry of National Infrastructures, Energy and Water, sell the depot to a third party, provided that the latter commits to comply with the same requirements. At any time after this 10-year period, depot operations may be cut back or discontinued, provided that the Fuel Administration is given at least two years' notice. The agreement further stipulates that throughout operation of the Ashdod depot, five transit tanks would be leased to FPL, which is responsible for the fuel piping array in Israel, or to any successor or anyone designated by the Fuel Administration, in exchange for a price that would be set in an order; (2) Delek Israel undertook to continue operating the Beer Sheva depot and preserve its storage and supply capacity to ensure continued regular supply of fuel products to the Air Force base being supplied by pipeline from the depot, unless the Fuel Administration Director confirms that an alternative arrangement is in place. Notwithstanding the above, the buyer may discontinue operation of this depot, provided that the Fuel Administration Director is given at least one year's notice. Delek Israel informed the Fuel Administration Director on November 17, 2007 of discontinuation of operation of the Beer Sheva depot. Following negotiations with the Fuel Administration Director, it was agreed that Delek Israel will withdraw its discontinuation notice subject to the Fuel Administration Director's undertaking to store emergency supplies at the Beer Sheva depot. As of the reporting date, the Fuel Administration Director fulfilled its undertaking and Delek Israel withdrew its notice concerning the discontinuation of operations at said depot.

Notwithstanding the above, the closing of any depot by order of competent authorities would exempt the buyer from its undertakings, provided that the closure order was not given due to an act or omission by the buyer. Delek Israel made an irrevocable undertaking to Pi Glilot and the State of Israel that it would not take any action in the Property Being Sold which is not in keeping with the foregoing, and that should it decide to transfer or pledge its rights in the Property Being Sold to any third party, the transferee would undertake to act in accordance with Delek Israel's undertaking.

1.8.22 Legal proceedings

For a description of legal proceedings (including motions for class action status) to which Delek Israel is party, see Note 31 of the financial statements.

1.8.23 Business strategy and objectives

Delek Israel reviews its strategic and business plans from time to time and updates them according to developments in the energy market, the gas station and retail roadway segment, the competitive environment and the economic situation. Delek Israel's operations in the coming years are expected to focus on the following activities:

(A) Delek Israel will direct its different systems toward a business focus and comprehensive specialization. The Company's structure will be tailored to this focus and specialization, with emphasis on a narrow, effective organizational structure and improvement of the professional capabilities of the different entities.

(B) Improvement of appearance and externalization of services of the different gas station compounds, including optimization of the refreshment services to customers.

(C) Professionalism of the employees operating the gas station compounds, with emphasis on improving the proficiency of the procedures required in operating the compound and auxiliary services, such as postal, parcel and payment services, preparation of food and beverages, etc.

(D) Analysis of the competitive environment in the different regions and targeted reference for each gas station compound or group of compounds, respectively.

(E) Expansion of LPG marketing to 10 additional gas station compounds in the next two years.

(F) Natural gas operations - to continue marketing the LPG installation to other companies and entities involved in the compressed natural gas segment. The LPG installation is expected to commence operation at the Pi Glilot Ashdod plant in the forthcoming year. Similarly, conversion of industrial plants for use of natural gas.

(G) Strengthening of relations with large heavy-vehicle fleets (such as heavy trucks and buses) which Delek Israel believes are an initial potential for the transition to refueling with natural gas.

(H) Deletion of operations that are unprofitable and not in Delek Israel's core area of operation.

(I) Renewal of rental agreements with station owners, with emphasis on economic viability and profitability of the Company, irrespective of the geographic location of the gas station.

(J) Exploration of options for development of a marine connector to unload tankers directly to the Pi Glilot Ashdod depot, a move which could be a real competitive advantage in the forthcoming years, if achieved.

(K) Marketing the storage capacity of the storage and supply facilities.

(L) Development of the retail roadways segment, while leveraging the wide geographical deployment and converting some of the gas stations into retail compounds containing a variety of businesses. In this framework and as part of other operations, Delek Israel aspires to significantly increase the volume of sales from operations not originating from fuel.

(M) In the coming years, Delek Israel intends implementing a plan to substantially reduce the scope of its financial liabilities. The plan is based on resources derived from its ongoing operations, the sale of properties and investments which are independent of its core business, repayment of the loans extended to Delek Group companies and reduction of the extent of credit provided mainly in direct marketing.

(N) The information in section 1.8.22 includes forward looking information, as defined in the Securities Law, based on information in Delek Israel's possession as of the report date. This information, including Delek Israel's above estimations and intentions may or may not materialize, partially or fully. The factors which could affect it are, inter alia, changes in Delek Israel's work plan, market conditions, competitors entering the market, occurrence of events contrary to Delek Israel's expectations and intentions and/or materialization of any of the risk factors described in this report.

1.8.24 Risk Factors

Besides the risk factors set out in section 1.28 below, the Group's operations are also exposed to the following risk factors in the fuel product segment in Israel:

(A) Changes in prices of oil and petroleum products – Instability in global fuel prices, which are likely to lead to high volatility regarding decreases in value of fuel inventories within a short space of time.

(B) Construction of additional gas stations – In recent years, there is a trend of constructing dozens of new gas stations annually. Continuation of this trend will strengthen competition in the fuel market. Approval of the proposed changed to the provisions of NOP 18 could aggravate this trend. See section 1.8.20(D)(1) above. The trend of constructing new competing gas stations adjacent to Delek Israel gas station compounds is also continuing.

(C) Fuel taxation – Since the credit terms which Delek Israel receives from the fuel suppliers to pay the price of fuel product (include the excise) is far shorter than that offered to its customers, its financial exposure will increase with any rise in excise rates (including on diesel fuel), which could impair its business results. An increase in excise taxes could also lead to a decline in demand for the products sold.

(D) Changes in maintenance of civilian inventory requirements – As stipulated in section 1.8.20(A)(1) above, the State is permitted to change the interim arrangement requiring maintenance of emergency security inventory only and to demand maintenance of a civilian inventory as well. The significance of having to maintain a civilian inventory, if any, is an increase in financing cost for Delek Israel and an growth in credit volumes, and on the other hand, could lead to a growth in

demand for storage of inventory at its storage and supply facilities which could have a positive effect its business. However, it is noted that such change is likely reduce its available storage capacity for provision of storage services at economically viable prices for Delek Israel

(E) Dependence on infrastructure facilities – The fuel industry is limited in infrastructure facilities and therefore, termination of operations at an infrastructure facility could impair the proper operation of the refineries and fuel companies. Damage of fuel pipelines to Delek Israel's storage and supply facilities may also impair its operation in the fuel storage and supply segment. Delek Israel estimates that because of its fuel storage and supply operation, it is more exposed than other fuel companies which have no such infrastructure facilities.

(F) Marketing margin changes – Since the maximum profit margin on 95 octane gasoline is a fixed amount (due to governmental control), and not materially affected by Bazan ex-refinery fuel price fluctuations, excise tax value changes and infrastructure prices, under circumstances in which the global market prices and the tax applicable to them increase, a situation arises where there is no built-in compensation for credit risk costs when customer credit increases. It is also noted that the lack of correlation between the increased returns with respect to operating a gas station and the marketing margin fluctuations may decrease the profit.

(G) Exposure to legal proceedings for hazardous and toxic materials – Since Delek Israel deals in hazardous and toxic materials, it is exposed to damages which may be caused by these materials. Claims for these damages could impair its business results and goodwill. Delek Israel is also exposed to legal, civil and criminal proceedings due to alleged environmental pollution caused in the past and which could be caused from its operations in future, and as part thereof, tests and investigations are carried out by the enforcement authorities. There is risk of indictments being filed against Delek Israel and its officers if soil and water pollution is discovered in additional stations other than those specified in section 1.8.19 above. Rehabilitating the surroundings of a station where pollutions was caused to groundwater is likely to lead to substantial expenses, which cannot be estimated. Delek Israel also has 129 old public gas stations, which were constructed in the standards that were acceptable in the past, but it is now known that they do not guarantee that there was and shall be no leak from a tank or pipes.

(H) Development of alternative energy sources – Transition to using alternative energy sources is likely to affect Delek Israel's fuel product sales and compel it to invest substantially in adapting its stations to new customer requirements and may also create competition beyond gas stations.

(I) Dependence on refineries – As stipulated in section 1.8.14 above, companies operating in the oil distillates segment are almost completely dependent on the Bazan. Due to the acquisition of the Pi Glilot storage and supply facilities in late July 2007, Delek Israel is slightly less dependent on the refineries.

(J) Universal Refueling Device Regulations – Delek Israel estimates that the universal refueling device provisions may lead to expenses being incurred (the extent of which cannot currently be determined) and a reduced number of customers purchasing fuel products through its automatic refueling system. The lack of clarity with respect to operation of the universal device is also likely to develop fierce competition between the different fuel companies, with higher levels of risk than the current situation.

For further information, see section1.8.20(A)(8) above.

(K) Storage and supply - In the fuel economy, a small number of companies other than Delek Israel operate in the distillate storage segment, the main ones being EAPC, Paz and Bazan. An increase in their distillate storage capacity and/or expansion of their fuel supply capacity poses a real threat to Delek Israel's advantage of holding its own storage and supply facilities.

(L) Failure to obtain required gas stations operation approvals and licenses – At some of its stations, Delek Israel does not have all the required approvals and licenses to operate a gas station, while in other cases these have expired and require renewal. If Delek Israel fails to obtain these approvals and licenses, this could impair its operating results.

(M) Credit risk (credit score) – The fuel industry is characterized by extending a great deal of credit to customers. Most customer credit offered by Delek Israel not secured by any collateral or guarantees, thereby exposing it to credit risks. As of December 31, 2014, December 31, 2013and December 31, 2012, Delek Israel had trade receivables amounting to NIS 1,210, NIS 1,329 million and NIS 1,393 million, respectively. As of December 31, 2014, more than 95% of these debts are not secured with any collateral or guarantees. An economic slowdown and stricter regulation of the banking system exposes companies operating in the industry, because such credit will not be fully repaid.

(N) Developing environmental regulation - which may impose heavy financial expenses under additional requirements from time to time and impair the proper course of conduct of the gas station compounds.

(O) Non-renewal of UNEX's agreement with Haifa port for marketing of fuel products to ships – Delek Israel, through UNEX, provides refueling services (diesel fuel and fuel oil) to vessels at the sea ports. As of the report date, the mandate to provide refueling services to vessels at Haifa Port is until May 31, 2014, and includes the option to extend the validity for another two years and all in all until May 31, 2016. If the lease periods are not extended, this could significantly impair Delek Israel's business.

(P) Ownership structure of gas stations – Due to the ownership structure of gas stations, some of which are rented by Delek Israel and some with which it only has a fuel supply contract, there is a risk that these stations will switch to marketing the products of other fuel companies at the end of the rental/supply contracts period. At stations that it neither owns nor operates, Delek Israel is also exposed to greater pressures from operators/owners, and therefore, the profitability of such stations is eroded. The rental contracts, which at some of the stations are long-term, do not include an adjustment component between the rent and the marketing margin changes, which may lead to substantial losses for Delek Israel.

Following is a summary of the risk factors described above, by type (macro risks, industry-wide risks and segment-specific risk in the Israeli fuel product segment), rated by extent of impact on Delek Israel's business (major, moderate, minor):

	Impact of risk factors on the Group's business in the Israeli fuel product segment		
	Major	**Moderate**	**Minor**
Segment-specific risks			
Establishment of additional service station		X	
Fuel taxation		X	
Dependence on infrastructure facilities		X	
Exposure to legal proceedings for hazardous and toxic materials and environmental pollution (including environmental regulation)		X	
Changes in civilian inventory requirements		X	
Marketing margin and fuel price changes	X		
Dependence on Bazan	X		
Transition to universal refueling devices		X	
Development of alternative energy sources		X	
Substantial increase in the competition's distillate storage capacity		X	
Risks specific to Israel's fuel product segment			
Non-renewal of UNEX's contract with Haifa port		X	
Failure to obtain permits and licenses for stations		X	
Credit risks (credit score)		X	
Ownership structure of gas stations		X	

The above information regarding the risk factors and their impact on Delek Israel is forward looking information, as defined in the Securities Law. This information relies on Delek Israel's estimations, which are based on past experience and knowledge of the markets relevant to its operating segments, public information published by competitors and information on the regulatory developments relevant to its operations. Delek Israel may in future be exposed to further risk factors and the effect of any risk factor, should it materialize, may be different from these estimations, since forward looking information is based on such information available on the report date. The actual results may be materially different from those estimated or implied by this information.

1.9 Insurance and Finance Segment

1.9.1 General Information about the Operating Segment

(A) Structure of the operating segment and changes therein

The insurance and finance sector is covered under The Phoenix Holdings Ltd. ("The Phoenix")[1], which, at the date of the report and the date of publication of the report, holds about 52.31% of the shares and about 53.29% of its voting rights[2]. In view of the entering into effect of the Market Concentration Law, which determines, inter alia, that it is mandatory to separate between the holdings in real significant activities and the holdings in significant financial activities, the Group is required to sell its means of control in financial entities in Israel, within a period of six years from the date of application of the Concentration Law. On January 27, 2015, the Delek Group signed a nonbinding Memorandum of Understanding (MOU) with Forsun International Ltd., a traded foreign company that also has insurance activities abroad. The MOU outlines the principles for the consolidation of a binding agreement to sell the control of The Phoenix by the Group (42% - 52.3% of The Phoenix share capital)[3]. The transaction is subject to due diligence, to a successful completion of the negotiations between the parties, and to the execution of a binding agreement, which will be subject to all regulatory and legal approvals. For additional details, see Note 14(F)(1) to the financial statements.

The Phoenix was incorporated in 1949 as a private company and became a public company in 1978. At the date of the report, most of The Phoenix's activity is in the various insurance, which is carried out through the subsidiary, The Phoenix Insurance Company Ltd. ("The Phoenix Insurance"). The Phoenix Insurance also holds The Phoenix Agencies, which coordinates the hold on participating agencies and on the other insurance agencies of The Phoenix. Furthermore, The Phoenix engages in the management of provident funds, mainly through Excellence Investments Ltd. ("Excellence")[4] and pension funds, as well as various finance-related activities on the capital markets. Alongside its insurance and finance operations, The Phoenix provides nonbank credit, and engages in investments in companies, investments in real estate, artworks, and other investments. The Phoenix's noninsurance investments and investment management activity take place mainly through the subsidiary, The Phoenix Investments and Finances Ltd. ("The Phoenix Investments").

The Phoenix is active in four principal segments: Life insurance and long-term savings, general insurance (including three insurance sectors: compulsory vehicle insurance, vehicle property insurance, and other general insurance), health insurance, and financial services (through the Excellence Group's activities, and consists mainly of financial asset management services). For details about each of the aforementioned fields of activity, see Section 1.1.1 below.

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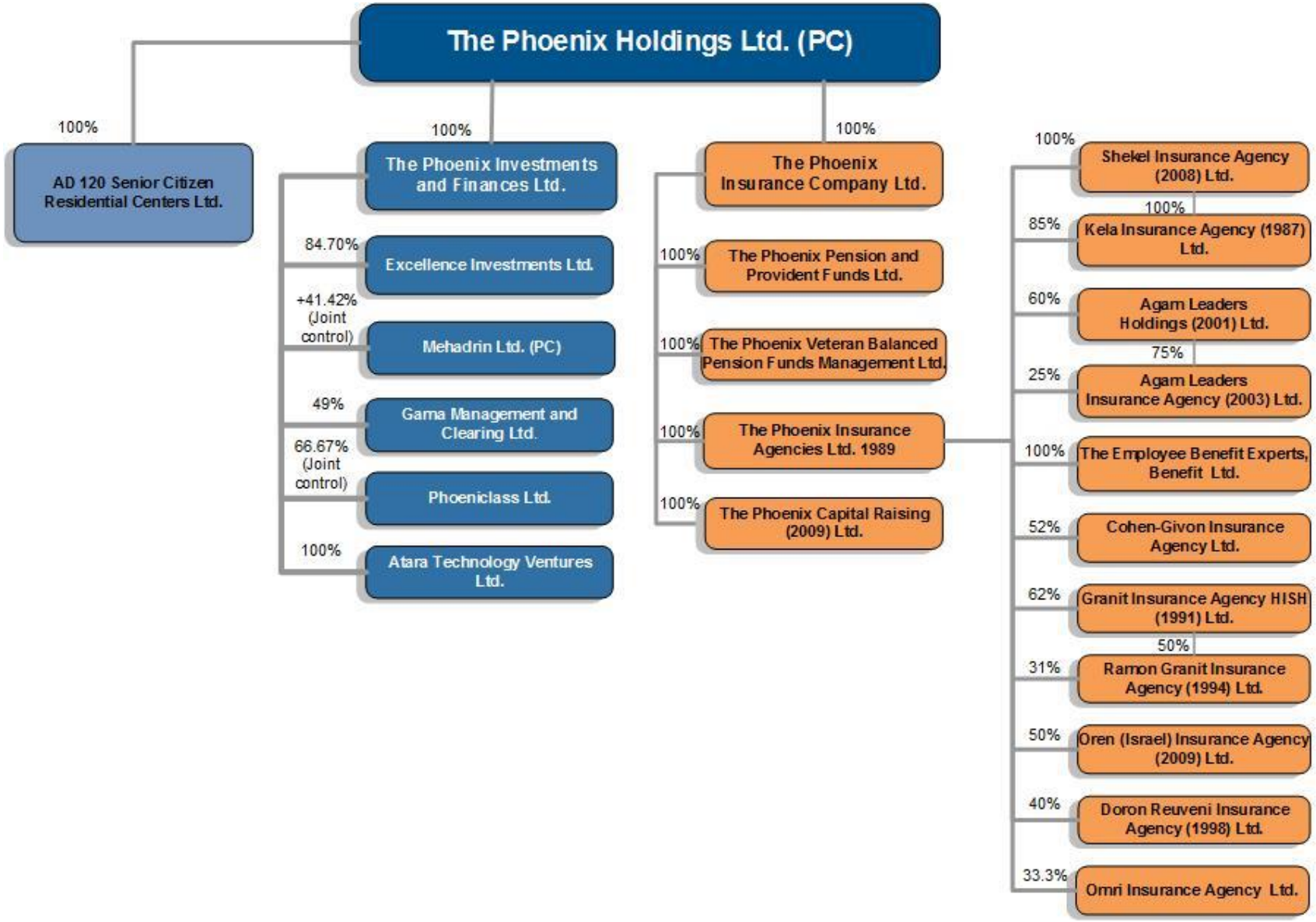
1 In this section, The Phoenix is The Phoenix Holdings Ltd., and all companies consolidated in its financial statements.

2 It is noted that pursuant to the agreement with the Mayer Group, which was signed upon the acquisition of control from the Mayer Group, for as long as the Mayer Group holds shares of The Phoenix that assign 20% or more of the capital and voting rights in the Company ("Holding A"), or less than 20% but no less than 10% ("Holding B"), the Group will use their control mechanisms so that two directors hold office on the Board of Directors of The Phoenix in the case of Holding A, or one director in the case of Holding B, who will be recommended by the Mayer Group and accepted by the Group. To date, out of eight directors (including two external directors), four directors recommended by the Company hold office on the Board of Directors of The Phoenix.

3 Prior to the foregoing, in 2014 the Group engaged with another third part in a non-binding memorandum of understanding in which criteria were set out for drawing up a binding contract for the sale of the means of control in The Phoenix (47% of the share capital). This memorandum of understanding included a number of fundamental conditions for the transaction in the binding agreement. The parties to this memorandum of understanding failed to reach an agreement to sign a binding contract. For further information, see Note 14 (F)(1) to the financial statements

4 At the date of the report, The Phoenix holds 89.81% of Excellence's issued share capital..

Structure of the principal holdings in the insurance and finance sector in Israel:



(B) Legislative limitations, standards and special constraints

Insurance activities are subject to comprehensive regulation under law, as well as to supervision by the Capital Market, Insurance and Savings Commissioner ("the Commissioner" or "the Supervisor"). The extensive regulation is a factor that has considerable influence on the activity. For details about regulation, see Sections 1.9.3(A)(2), 1.9.3(E)(5), 1.9.3(F)(2) and 1.9.16 below.

(C) Changes in the scope of operations and profitability of the segment

The most material changes in the insurance business are taking place in life insurance and long-term savings. This is due, inter alia, to a series of far-reaching regulatory initiatives, including the expansion of transparency about financial products; encouragement of pension savings; increased awareness by consumers and increased competition; and increased enforcement by the Capital Market Division. In addition, operating results are materially affected by the economic situation and the capital markets in Israel and abroad. 2014 was a positive year for the US stock market, and less successful for the local stock market. While the Tel Aviv-25 index increased by more than 10%, the increase concentrated in a small number of shares. The Tel Aviv-75 index lost more than 10% in the reporting year. Furthermore, the trend by the public to increase the share portion of its assets portfolio continued, with the favorite market for investment being the United States. Another trend, which accelerated towards the end of the year, was the increase in investments by Israelis in bonds abroad (an increase of 35%). It should be noted that the depreciation of the Shekel compared with the Dollar in the framework of a global trend increased the demand for investments overseas. In the government bonds market, 2014 was a positive year. Capital yields in the fixed-interest, long-term Shekel government channel reached more than 10%. The linked channel was characterized by significantly lower yields compared to the Shekel channel, due to the very sharp decrease in the expectations of the inflation, which is partly explained by a negative inflation of 0.2% in 2014. The year 2014 was also characterized by a lower rate of growth compared with 2012 (3.3% and 2013 (3.4%). As to the date of publication of the report, the estimate for product growth is 2.6%. The main harm was caused by the Protective Edge operation in the summer, which, inter alia, affected Israel's economy. In 2014, the private consumption component constituted the 'backbone' of growth in Israel, whereas the 'Achilles heel' were exports and investments in fixed assets. In 2014, there was a substantial improvement in the United States' macro data. Notwithstanding, the sharp decline in oil prices as of the second half of 2014 led to a true crisis in Russia and to instability in world markets. Throughout the year, the yield of the 10-year government benchmark bond in the United States decreased from 3.0% to a low level of 2.17%. Yields in the local market were similar. The continued decrease in the consumer price index, alongside the revaluation of the Shekel at the beginning of the year and the deceleration of both local and international economic activities increased expectations for a further reduction in interest rates by the Bank of Israel, and reduced even more local yields, which diminished the gap between the bonds of Israel and the United States to an all-time low of 0.13% for the long-term bonds and to 0.37% and 0.44% for the mid-term. The volume of tradable bonds that was traded at a margin higher than 10% amounted to NIS 10.8 billion, which represents 4.2% of the entire tradable concern market. 2014 was a year in which many bonds were issued. In total, NIS 42 billion were raised, out of which NIS 8 billion were private issues. In the reporting period, the share of the financial companies (banks and insurance) in the raising of debt increased significantly compared with last year, in addition to the arrival of American real-estate companies that came to raise debt in the market.

(D) Critical success factors in the field of activity

The critical parameters for success in the area of activity of The Phoenix are: economic, employment and capital market conditions; regulation, including supervision on prices; market competition; customer loyalty and portfolio retention; investment management quality; financial risks management quality; distribution channels, including their ability to increase demand and create new markets; the range of products and the ability to adapt products to market conditions and customer needs; quality of service to policyholders, members, and agents; The Phoenix's positioning as a leading company while creating a brand that will strengthen its competitive standing; recruitment and retention of quality human capital; IT and technological resources; operational efficiency and operating, marketing and sales expenses; effective controls; integrity and stability.

Specifically, the following success factors can be named for insurance and pension operations: underwriting quality; management fees permitted by law and actually charged; actuarial quality in determining costs and reserves; the frequency and scope of claims, including disasters; quality of the various aspects of the claims management process; hedges and reinsurance costs; changes in life expectancy; the scope of tax benefits granted to customers (in the life insurance and long-term

savings segment); technological and other developments in medicine, including medical inflation; changes in the health services package.

(E) Principal entry and exit barriers in the segment

The principal entry barriers for the insurance operations are: licensing for The Phoenix, pursuant to the provisions of the Supervision of Financial Services (Insurance) Law and the licensing requirements for provident funds; legislative and regulatory requirements with regard to insurers' equity; expertise, knowhow, and experience required in insurance operations, mainly in the fields of actuary and risk management. Familiarity is also required with segment markets, including the reinsurance market; minimum size (critical mass) - a minimum amount of revenue is required to cover the high fixed operating costs required to operate insurance and investment mechanisms, including the need to meet changing regulatory requirements in the various segments.

The principal exit barriers are long-term liabilities towards policyholders and members, the long period of time required in some sectors for settlement of past claims (runoff), and regulatory requirements.

(F) Substitutes for products in the segment and changes therein

In the general insurance segments, substitutes for The Phoenix's products are being offered by other insurance companies issuing similar products. The principal differences between the products in these fields are rates and scope of coverage. In the long-term savings segment, there is a relatively high level of interchange among the products in the various areas (except for study funds). This interchangeability of products is due to their meeting similar needs for the same target audience, and in particular between executive insurance and comprehensive pension. A lesser level of substitution exists between segment products and other financial products (such as long-term deposits). In the financial services segment, substitutes include the selection of an alternative investment-management method, financial instruments offered by banks and other investment houses, raising in overseas stock exchanges, and taking loans from banks or nonbank organizations. For more details, see also Section 1.9.3(A)(4).

(G) Structure of competition in the segment and changes therein

The five major insurance groups in the insurance market (which, as set forth above, also hold pension funds and provident funds) are The Phoenix Group, Clal Group, Migdal Group, Harel Group and Menorah-Mivtachim Group. Further details of the competition structure appear in the description of the various sectors below.

1.9.2 Products and services [will be updated in accordance with The Phoenix's financial reports]

The following table includes information with regard to the main areas of operation of the Phoenix in the period 2011-2013 from the financial statements (NIS in thousands):

Year		Life insurance and long-term savings	Health insurance*	General Insurance	Financial services	Other**	Not attributed to segments of operation	Adjustments and offsets	Total**
2014	Total income	5,761,088	1,205,497	1,430,705	-	-	-	-	8,397,290
	Profit (loss) before tax on income	103,907	50,308	340,079	118,936	223,000	(51,305)	(2,062)	782,863
	Total profit (loss) before tax on income	98,556	41,372	286,013	118,936	221,893	(81,134)	(2,062)	683,574
2013	Total income	8,390778	1,422,114	2,086,805	323,525	427,925	211,615	(136,521)	12,726,241
	Profit (loss) before tax on income	372,132	218,904	353,323	71,707	179,798	(14,580)	(3,191)	1,178,093
	Total profit (loss) before tax on income	366,903	218,764	365,780	72,707	180,544	(4,382)	(3,191)	1,197,125
2012	Total income	7,101,292	1,215,807	1,863,079	339,987	381,162	129,149	(128,471)	10,902,005
	Profit (loss) before tax on income	65,120	91,722	131,606	77,945	161,124	(103,036)	(6,466)	418,015
	Total profit (loss) before tax on income	140,840	115,502	233,875	77,945	156,779	(20,448)	(6,466)	698,027

* In February 2013, The Phoenix signed a cutoff agreement with a reinsurer that stipulates that it will cease to act as a reinsurer at a certain percentage in some of the health insurance policies of The Phoenix effective January 1, 2013. In February 2013, The Phoenix signed a reinsurance agreement with another reinsurer, after obtaining the latter's agreement to act as a reinsurer for the insurance business included in the above cutoff agreement effective from January 1, 2013. The execution of this agreement and the cutoff agreement contributed to a one-off increase in the revenues of The Phoenix in the health insurance segment, amounting to NIS 72 million before tax, in The Phoenix's profit and loss statement for 2013.

** Including operation segments that do not meet the quantity thresholds for The Phoenix's report (in particular, the activities of settlement agencies, other consolidated insurance companies, and activities of additional consolidating companies engaged in various subjects).

In 2014, 2013 and 2012, The Phoenix's revenues represented approximately 59%, 60% and 55% of the total revenues of the Group, respectively. For details about the results of the Company's operations in the insurance and financial sectors in Israel, see Section A.6(E) to the Board of Directors' Report.

1.9.3 Segments of operation of The Phoenix:

(A) Life insurance and long-term savings

(1) General: The Phoenix operates in all life insurance and long-term savings segments, including life insurance policies, pension funds and provident funds, and study funds.

Life insurance - Life insurance policy products include the possibility to offer insurance coverage with no savings (for example, death, loss of work capacity, and disability), as well as the possibility to integrate insurance cover with savings that the policyholder can redeem upon retirement or at another time. This enables the policyholder to choose the most appropriate component in these policies from the insurance covers ("Risk") and the financial accrual for retirement ("Saving"). Policies with a savings component are divided into several major types, which are distinguished by the way investments are made by the insurance companies, the types of cover, and the management fees or expenses charged by the insurance companies.

The activity in the life insurance sector includes a combination of sales of new policies and provision of service to holders of existing policies that were sold as of the date of commencement of operations by The Phoenix to date.

Pension sector - Pension funds allow policyholders to save for pension in the long term (old-age pension) and also provide cover for disability (disability pension) and death (survivors' pension). Pension funds are divided into three types: senior pension funds (under special management/ordinary management), new comprehensive pension funds, and new general pension funds. Remuneration fees received from pension fund members are divided into risk components (in the event that insurance coverage was purchased), a savings component, and a management fee component. Companies managing pension funds derive their revenues from management fees (from the contribution fees and from the accrued amounts), and the profit margin is the difference between the net management fees (after discounts, if they are given) and the management company's actual operating and marketing expenses. Pension fund claim payments (including annuity payments) do not directly affect the managing company's profits, as the insurance is mutual insurance and the policyholders bear the risk for claim payments. All yields from the investment of members' money, less management fees from the accumulation, is credited to the members. Therefore, the impact of the results of the investments on the profits of the provident fund's management company diminishes indirectly from the total volume of accumulation in the provident fund and constitutes the main basis for the management fees for the provident fund's management company.

Provident funds - Provident funds offer savers (in this subsection "the Member"), an additional option for long or medium-term savings, entitling them to various tax benefits and an option (under certain conditions) to withdraw money that has been accrued as a lump sum[36]. There are several types of provident funds, which differ in the scope of the investment and in the manner in which the funds are deposited. Companies managing provident funds derive their revenues from management fees that they charge on the assets. Since the management company does not charge fees as a percentage of profits, the effect of the yield on the revenues from management fees is indirect, and derives from the effect of the yield on the volume of assets which forms the basis for the management fees charged. The management company's principal source of profit is the difference between revenues from the actual management fees and the marketing, operating and service expenses incurred by the company.

The Phoenix manages provident funds and study funds through The Phoenix Pension and Provident Fund and through Excellence Provident.

(2) Regulation:

Life insurance and long-term savings activities are subject to two principal legal frameworks:

The first framework includes the Insurance Contract Law, 1981; the Supervision of Financial Services (Insurance) Law, 1981 ("the Supervision Law"); the Supervision of Financial Services Law (Provident Funds), 2005 (the "Provident Funds Law"); the Supervision of Financial Services Law (Activity in Pension Consultancy and Pension Marketing), 2005; and regulations, orders and

[36] Prior to the foregoing, in 2014 the Group engaged with another third part in a non-binding memorandum of understanding in which criteria were set out for drawing up a binding contract for the sale of the means of control in The Phoenix (47% of the share capital). This memorandum of understanding included a number of fundamental conditions for the transaction in the binding agreement. The parties to this memorandum of understanding failed to reach an agreement to sign a binding contract. For further information, see Note 14 (F)(1) to the financial statements.

circulars by the Commissioner of Insurance issued by virtue of those laws.[37] This legal framework governs material issues in The Phoenix's activity in the field of conclusion of an insurance contract, the duties of the parties to insurance contracts, terms and conditions of insurance schemes, due diligence for policyholders, collection of management fees[38], and in the ways of operation for insurance agents, pension marketers and pension consultants. The legal framework also governs issues such as the corporate regime of institutional entities, the rules of investment, reports to policyholders and to the public, and so forth.

The second legal framework deals with the tax benefits of the pension instruments and includes the Income Tax Ordinance and the Income Tax Regulations (Conditions for Approval and Management of Provident Funds), 1964 ("the Provident Fund Regulations"). This legal framework confers a special status on provident funds, which also include pension funds and insurance funds, with regard to tax credits and deductions and exemptions from capital gains tax, with the aim of encouraging the public to save for retirement by means of provident funds and insurance funds. The tax rules that apply to the various pension savings products are unified, such that all products entitle savers to the same tax benefits, so that the public of savers can make decisions based on their pension needs, with no bias due to tax considerations.

(3) Changes in the scope of activity and profitability:

In view of the increase in interchangeability in pension products, there is a trend of acquisition of pension compared with executive insurance. On the other hand, the ban to ensure life expectancy with a pension coefficient in insurance policies marketed as of 2013 helps preserve the policies sold until the end of 2012.

(4) Competition: Supervisory regulations in recent years (cap on the rate of management fees authorized, limitation to market products that include a pension coefficient for members, the inability to condition discounts on the existence of various products in the product for which the discount is granted) led to a reduction in the differences between long-term savings instruments, to an increase in interchangeability between pension products, and to an increase in competition in the pension savings market.[39] In The Phoenix's opinion, these changes will strengthen the trends in the long-term savings segment as follows: (a) Reduction in management fees charged by institutional entities as a result of the reduction in management fees from the accumulation in provident funds, also relative to existing members, and from the reduction of management fees charged for insurance products sold as of January 1, 2013[40]; (b) Concerns about an increase in the rate of cancellation of policies with high management fees that The Phoenix sold in the past and their substitution for or switch to new policies with lower management fees. On the other hand, it is noted that the limitation to market life-insurance policies that include a guaranteed conversion

[37] These include, inter alia, the Supervision of Financial Services (Provident funds) (Transfer of monies between funds) Regulations, 2008, which govern transfers between the various pension savings products: provident funds, life insurance schemes and pension funds. These regulations enable consumers to move from one pension savings product to another at any time and based on their preference, with the aim of encouraging competition and improving the service given to consumers; and the general collective agreement for pension insurance in Israel's economy of 2007 and the expansion order for comprehensive pension insurance pursuant to the Collective Agreements Law, 1957, and another collective agreement from September 2010, that require employers to deposit monies in a pension provident fund on behalf of their employees according to a rate of 17.5% of the employee's salary (out of which 5% are paid by the employee and 12% are paid by the employer), up to a the salary ceiling paid to the employee, or the average salary in the economy, the lower of the two. This rate has increased gradually until 2014.

[38] The Supervision of Financial Services (Provident Funds) (Management Fees) Regulations, 2012 and the Supervision of Financial Services (Insurance) Regulations (Insurance Contracts Conditions) (Amendment) 2012 deal with the maximum management fees that can be charged for pension products. The amendment to the Supervision of Financial Services (Provident Funds) (Management Fees) (Amendment) was published in March 2014. See Section 1.9.3(A)(4).

[39] This trend is accompanied by the position paper published by the Supervisor in January 2015, regarding the payment by an institutional entity to a license holder, according to which the Supervisor opposes the structure of payment of commission to a license holder that encourages a license holder to offer its clients products at higher management fees. It is noted that the Supervisor pointed out that since there is no circular or specific arrangement of the market, the position paper does not indicate the date on which it will enter into effect. Notwithstanding, the Supervisor requested to point out that under the circumstances, and taking into consideration the scope of the current practice and the need to change the existing contracts, it does not intend to exercise any enforcement authority on this matter in respect of clients that joined before publication of the position paper, and even in the adjacent period thereafter. The Phoenix is evaluating the provisions of the position paper of the Supervisor and its repercussions.

[40] In this context, it is noted that most of the provident activity of The Phoenix is managed through Excellence and accordingly, in 2014 and 2013 goodwill attributable to The Phoenix's provident activity was amortized by NIS 7 million and NIS 36 million, respectively.

factor (for longevity) is expected to contribute to the preservation of the portfolio; (c) The effects on distribution channels, both on the structure of the remuneration and on the level of effect and increase of one distribution channel over another, including portfolio managers in The Phoenix Pension and Provident that engage in marketing and service provision; (d) Acceleration of the sale of new pensions compared with the sales of new insurance.

Tax benefits granted to study funds and the minimum savings period in them (six years) are unique reasons to acquire these funds. As a result, study funds do not have a true replacement product. Among the products in the segment and other financial products (for example, long-term deposits), there is very low level of interchangeability, because these products do not usually include two significant components (which exist in the products in the segment), in other words, tax benefits and the combination of risk and savings.

Life insurance - In Israel, there are five principal insurance groups in the life insurance sector that charge 93% of total premiums in this segment in the first three quarters of 2014: Migdal (30.8%), Clal (20.4%), The Phoenix (16.9%), Harel (including the operations acquired from Eliahu Insurance Company) (16.2%), and Menorah (9%), as well as a number of smaller insurance companies.[41] Competition between the groups is manifested mainly by the rate of management fees paid by the insured, the prices of the insurance coverage acquired by them, the quality of service, the yields on investments, the amount and manner of compensation of the distribution channels, and the development of additional distribution channels.

Pension – The pension funds segment is characterized by increasing competition. As public awareness of pension savings rises and the variance between pension products diminishes, the public's focus on investment management quality in the pension funds and on the yields delivered are important factors when choosing a fund, as well as the quality of the service provided. The main players in the pension market (2014 data) are Menorah Mivtachim (29.7%), Migdal Makefet (21.3%), Clal Pension (17.3%), Harel Pension (17.47%), and The Phoenix (8.2%).[42]

Provident funds – In 2014, total assets in the segment increased to NIS 369 billion compared with NIS 347 billion as at December 31, 2013. The following is a list of the management companies, alongside the largest total assets managed in the provident funds segment (2014 data): Psagot (14.7%), Meitav-DS Ltd. (10.5%), Clal Pension and Provident Funds Ltd. (9.8%), Altschuler Shaham Provident and Pension Ltd. (8.7%), Harel Pension and Investments Ltd. (5.7%), Excellence Nessuah Pension Ltd. (5.6%), Yelin Lapidot Provident Funds Management Ltd. (4.3%), Migdal Makefet Pension Funds and Provident Funds Ltd. (4.43%), Menorah Mivtachim Pension and Provident Funds Ltd. (3.9%), Continuing Education Funds for Teachers Ltd. (3.43%).[43]

The cancellation of the possibility to invest in pension savings in a capital channel since 2008 contributed to the fact that, in recent years, there has been a relative decrease in deposits to provident funds for compensation and severance pay and their substitution by pension funds and executive insurance.

(5) Principal segment products: In the life insurance segment, The Phoenix markets executive insurance, individual and group life insurance, loss of working capacity and disability insurance, a range of insurance plans and savings policies. Life-insurance products are marketed in two frameworks: **Policies subject** to the Provident Fund Regulations[44] and policies that are not contingent upon the Provident Funds Regulations[45].

The Phoenix Provident and Pension manages the following pension funds: The Phoenix Comprehensive Pension, which operates several insurance channels differing in their level of coverage, the nature of coverage, and the retirement age, and different investment channels,

[41] Based on Ministry of Finance data.

[42] Data according to the Pensia-Net website of the Ministry of Finance and based on deposits.

[43] Based on Ministry of Finance Data (Gemel-Net).

[44] These policies include **executive insurance**: An insurance that includes a retirement savings component and consists of provisions made by both employee and employer (compensation and remuneration components). Premiums paid on the insurance policies are assigned to the various risks (mainly death and loss of working capacity) and to retirement savings. Executive insurance is approved as an insurance fund under the Income Tax Regulations, and entitles both employers and employees to various tax benefits; **pension insurance for the self-employed**: policies that provide tax benefits at the time of deposit and withdrawal, and are contingent upon the Provident Funds Regulations.

[45] **Personal insurance**: Personal insurance policies not approved as provident funds, which do not enjoy tax benefits, except for a 25% credit for the premium paid for risk coverage in case of death.

including an investment channel in The Phoenix Method.[46] The Phoenix Supplementary Pension, which operates together with the comprehensive pension fund and any deposits above the aforesaid maximum amount, are made to this fund. Furthermore, the Amit Basic Pension Fund, a veteran balanced fund that is closed to new members, is managed by The Phoenix Pension Company for Managing Balanced Pension Funds Ltd.

As at December 31, 2013, Excellence Provident and Pension managed the following two pension funds: Excellence Nessuah Pension, a comprehensive pension fund that includes the three pension components (old-age, disability, and survivors) and offers, in addition to its savings component, a variety of pension channels, including insurance coverage for disability and death; a basic-type (savings) new general pension fund that does not include the insurance components, and so allows greater accumulation of monies for savings. As indicated above, these pension funds have been merged into the pension funds of The Phoenix Comprehensive Pension of The Phoenix Pension and Provident Funds as at January 1, 2014.

The main provident fund products are personal provident funds for rewards and compensation, which serve for reward and compensation payments for salaried employees and self-employed individuals; study funds, which are medium-term provident funds; principal provident funds for severance pay, for employers who wish to accumulate funds and ensure the payment of severance pay to their employees;[47] individually managed provident fund/study fund - in these funds, members can manage their savings independently and/or through an investment manager of their choice, under investment restrictions to be monitored by the company managing the savings. At the date of the report, The Phoenix Pension and Provident Funds manages five provident funds. On January 1, 2014, Excellence completed a merger process of provident funds, study funds and principal severance pay funds, which merged the investment channels of the funds that operated in the various banks, and which were implemented in provident funds operated by Bank Mizrahi-Tefahot Ltd. As a result, Excellence manages, through Bank Mizrahi-Tefahot Ltd., one provident fund of each type: Excellence Provident Fund (with 11 tracks), Excellence Study Fund (with 11 tracks), and Excellence Principal for Severance Pay (with five tracks).

(6) **"The Phoenix Method" for investment management ("the Phoenix Method")** – A method for managing savings based on the establishment of a personal pension savings portfolio using the Lifecycle method, which is customized to the preferences and characteristic of each particular client; upon selection, the following characteristics are taken into consideration: desired level of savings - level of exposure of the investment in high-risk channels (for example, shares and foreign currency); the term of the investment; the desired exposure to foreign markets; the length of the term for taking advantage of severance pay funds. The longer the saving period, the higher the component of risk elements in the customer's portfolio, for example, shares and foreign currency, which will decrease as the customer reaches pension age. At the same time, the customer can modify the personal risk preferences from time to time. The assets are allocated according to a statistical model. The Phoenix is evaluating how to adapt the method to the guidelines of the Circular for Investment Tracks in Provident Funds, according to which the management of money in insurance and pension products subject to the Provident Funds Regulations will be based on the characteristics of the age of the insured only. In individual and study fund products, it will be possible to continue to adapt the savings investment to the risk preferences of the members.

Customers: The Phoenix markets its products to a wide range of customers, which are divided into three main groups – salaried members, individual and self-employed members, and collectives. In 2014, the breakdown of life insurance premiums was as follows: salaried members 55%, individuals and self-employed 43%, collectives 2%. In the pension segment, the number of members in The Phoenix Pension and Provident grew by 26% in 2014 compared to 2013, following a 14% increase in the number of members in 2013 compared with 2012. The accelerated increase was substantially affected by the fact that the public preferred pension to executive insurance, and by the merger of Excellence Pension with The Phoenix Pension in 2014.

In 2014, members in The Phoenix Pension and Provident and in Excellence Nessuah Provident were distributed according to the following types: in study funds: employees - 84% and 81%, respectively; self-employed - 16% and 19%, respectively; in funds for compensation and remuneration: employees – 72% and 33% respectively; self-employed – 28% and 67%, respectively.

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[46] The Phoenix Method is described in Section 1.9.3(A)(6) below.

[47] These funds are closed to new members as of January 1, 2008, and as of January 2011 it is not possible to deposit new moneys in these funds.

(7) Marketing and distribution: The Phoenix life insurance policies, provident funds and pension funds are marketed mainly by agents who receive handling fees and commissions at various rates. The commission rate is determined according to the type of product, the output of each agent, the profitability of the insurance portfolio of the agent, specific negotiations, and other characteristics of each agent.[48]

Furthermore, The Phoenix Pension and Provident signed distribution agreements for its products with most banks. Pursuant to these agreements, pension and provident products are distributed in consideration for a distribution commission at the maximum rates prescribed by the consultancy regulations. The agreements are for an indefinite period of time and can be terminated with prior notification to the other party. The Phoenix Insurance has not yet signed distribution agreements with the banks for the distribution of insurance products.

It should be noted that as indicated in the draft regulations submitted in this respect, the Insurance Commissioner intends to place a limit on the size of the commissions, bonuses and prizes linked to sales targets that are paid to insurance agents. The Commissioner is also assessing the possibility to increase distribution fees paid to pension consultants, including banks, from pension products.

(B) Compulsory vehicle insurance

(1) General: Compulsory vehicle insurance is required of every person using or allowing others to use a motor vehicle, pursuant to the Motor Vehicle Insurance Ordinance (New Version), 1970, and covers the vehicle owner and the driver against any liability they may incur under the Compensation for Road Accident Victims Law, 1975 ("the Road Accident Victims Law"), and against any other liability they may incur on account of physical injury caused by or as a result of the use of a motor vehicle to the driver, passengers, or pedestrians who were injured as a result of the use of the vehicle.

Pursuant to the Motor Vehicle Insurance Regulations (Establishment and Management of Databases), 2004, a database operator has been established in the compulsory vehicle insurance field, who is responsible for managing the database and producing user reports, inter alia, to assess the risks in the compulsory vehicle insurance sector and determine the pure risk cost on the basis of which the compulsory insurance tariffs are determined.

Circulars issued by the Commissioner of Insurance establish various parameters that the insurer may use in setting the tariffs, such as engine capacity and driver age and/or sex, and driving experience, and the procedures according to which the insurer is required to act in all matters relating to approval of premium and maximum tariffs that may be collected by the insurer. The insurance companies have been permitted to use different tariff formulas for vehicle fleets and collectives with approval from the Commissioner of Insurance.

The compulsory vehicle insurance segment is characterized by the obligation to insure (as aforementioned) with a unified coverage, absolute liability without having to prove guilt, limit of compensation, entry of the insurance into force only after full payment of the premium, and separation of grounds (persons granted grounds for claims under the Road Accident Victims Law, must sue for damages strictly and only under this law).

(2) The following entities are also active in compulsory vehicle insurance: (a) residual insurance ("the Pool") - the Pool provides cover for compulsory insurance for the insured and for motor vehicles for extraordinary risks that commercial insurance companies have no interest in insuring (mainly motorbikes and ATVs), as these are generally loss-making items. The Pool is an arrangement based on insurance shared by all the insurers and is regulated in the Motor Vehicle Insurance (Residual Insurance Arrangement and Mechanism for Setting the Tariff) Regulations, 2001, by virtue of which a joint corporation of the insurers was established that manages the Pool. The Pool operates as an insurer and its tariffs are set by the Commissioner of Insurance, and they are higher than the tariffs of the other insurers. In 2014, the relative share of The Phoenix in the Pool's losses

[48] In September 2014, an additional draft of the Supervision of Financial Services (Insurance) (Commissions) Regulations 2014 was published. The draft outlines provisions for settling the payment of commission to insurance agents, such that it will not be possible to remunerate them through prizes or gifts. Furthermore, according to the draft, payment of commission to an agent will not be contingent upon the amount of management fees paid by the customer for the product. The draft also proposes that in cases in which the relationship with the customer is discontinued or the customer passes away, payment of commissions will cease, and that two agents should not receive commission in parallel. It is also noted that in June 2014, another draft was published of the Supervision of Financial Services Regulations (Provident Funds) (Distribution Commissions) Amendment 2014, which proposes to determine that an institutional entity is entitled to pay distribution commission to a pension consultant for a rate of 1.6% of the deposits of the member, and for 0.2% from the accumulation amount in the provident fund, but not higher than 40% of the management fees charged by the institutional entity.

decreased from 9.6% in 2013 to 9.4% in 2014; (b) Karnit – The Fund for Compensation of Road Accident Victims – a corporation established under the Road Accident Victims Law to pay compensation to road accident victims who are entitled to compensation under the law but cannot claim compensation from the insurance companies.

(3) Customers: The Phoenix's customers in the segment are private customers, business customers, collectives, large vehicle fleets, and Israel Railways. In 2014, the distribution of (gross) insurance premiums paid by The Phoenix's customers was 8.9% by vehicle fleets, collectives and Israel Railways (compared with 10% in 2013), and 91.1% by the remaining policyholders (mostly individual policyholders) (compared with 90% in 2013).

(4) Competition: All insurance companies offer compulsory vehicle insurance. As the insurance coverage is uniform and market volume is limited, competition in compulsory vehicle insurance focuses on insurance tariffs, service provided to the policyholders, the percentages of commissions paid by the various companies to their insurance agents, and correct segmentation of the population groups of drivers and pricing of the policies offered to them. According to data from the Ministry of Finance for the first nine months of 2014, The Phoenix's share of the compulsory vehicle sector in the mentioned period was 9.4% for gross insurance premiums for the sector (identical to its shared in 2013), and it ranks sixth after Menorah (17%), Migdal (11.9%), Clal (11.5%), Ayalon (10.5%) and Harel (10.3%). The Phoenix is working to increase its market share, taking care to maintain the quality of its portfolio and profits on the one hand, and to apply command and control instruments on the other.

(C) Property vehicle insurance

(1) Property vehicle insurance (known as CASCO) is the most common optional insurance in the field of general insurance, and includes cover for property damage to the insured vehicle ("Comprehensive Insurance") and for damage caused to third parties due to the use of the vehicle of the insured ("Third-Party Insurance"). The insurance policy for a private vehicle and a light commercial vehicle up to 3.5 tons (the "Light Commercial Vehicle") is based on the terms of the standard policy, which are determined in the Supervision Regulations of Insurance Businesses (Terms of a Private Vehicle Insurance Contract) 1986. The wording of the standard policy is binding and it is possible only to improve its terms and add expansions in respect of the scope of cover, risks, property and liabilities of policyholders. Standard policy terms include coverage in case of accident, theft, fire, malicious damage, damage by natural elements, property damages caused to third parties, etc. The Phoenix Insurance offers various expanded coverages, such as coverage for earthquake risks, riots and strikes, as well as ancillary services like towing, replacement vehicle in case of accident or theft, and glass breakage insurance. The Phoenix also offers a variety of expansions and coverage for commercial vehicles that are not light commercial vehicles.

(2) Customers: Most of The Phoenix's clients are individuals, corporate clients, collectives and vehicle fleets. The bulk of The Phoenix's (gross) premiums in this sector are derived from individual and corporate clients (94.8% in 2014 and 94.7% in 2013), while the remaining premiums (5.2% in 2014 and 5.3% in 2013) come from large vehicle fleets and collectives.

(3) Competition: The property vehicle insurance sector is characterized by fierce competition, mainly due to little difference in the insurance covers offered by the various companies. The competition is principally focused on insurance tariffs, service, the percentages of commissions paid by the various companies to their insurance agents, and correct segmentation of the population groups of drivers and pricing of the policies offered to them. According to data from the Ministry of Finance, in the first nine months of 2014, The Phoenix's market share, based on gross premiums, is 12.1% (third place in the sector) after Menorah (18.7%) and Harel (14.9%).

(D) Other general insurance:

(1) General: Other general insurance includes a wide range of insurance cover, which may be divided into three principal sectors:

Property insurance: The Phoenix provides mainly insurance for residences, engineering insurance and insurance of various types of business premises. The residence insurance policy is based on the standard policy, and includes coverages beyond those required by law[49]; it enables The Phoenix's clients to select multiple coverages; business premises insurance is aimed at providing

[49] In January 2015, an amendment was published to the Supervision of Insurance Business Regulations (Conditions for Insurance of Apartments and their Content) 2015. This amendment covers many changes aimed at improving the conditions of a residence insurance policy for the insured. The amendment will become effective in July 2015.

insurance coverage for the property, building and contents of the property of the policyholder, or that the policyholder has a relationship with, which are used for business needs and cover loss or physical damage against fire and other related risks. Moreover, it is possible to acquire coverage for consequential damage. Usually, The Phoenix offers this insurance in an insurance package that includes, inter alia, the possibility to acquire liability insurance and accidents insurance. These plans are characterized as jumbo plans (in other words, plans that combine different types of insurance coverage).

Liability insurance: In the case of liability insurance, the insurer indemnifies policyholders for their financial liability towards third parties, up to the limit of liability stated in the policy. Liability insurance includes employers' liability insurance, which covers the employer's liability (the insured) towards its employees for bodily injury incurred by the employee of the insured as a results of an accident or disease during and due to the execution of their job over the insurance period; third-party liability insurance, aimed at protecting the insured against the legal liability it may incur towards a third party for bodily injury or property damages caused as a result of the insured negligence, including consequential damage, and which occurred during the insurance period; other insurances, including professional liability insurance, directors' and officers' liability insurance, and product liability insurance. As opposed to the liability insurances indicated above, the coverage in these products is provided for claims filed (but which did not necessarily occurred) over the lifecycle of the policy, although usually the policy only contains a reference to the date the event occurred.

Other insurance: In addition to property and liability insurance, The Phoenix Insurance also markets short-term personal accident insurance (long-term insurance is included in the health insurance operations), contractor work insurance, engineering-mechanical equipment insurance, mechanical breakdown insurance, refrigerated inventory insurance, cargo in transit and transporter liability, money in transfers and in safety boxes, employee loyalty insurance, agricultural insurance, electronic equipment, bodily injury of people that participate in clinical trials, production and cancellation of events, trust, funds, merchandise in transit, fine art, maritime, aerial and terror insurance.

(2) Clients: In 2014, most of The Phoenix's clients in the other general insurance sector (in terms of gross premiums) were private policyholders and business clients (96%) compared with 4% of large corporate clients, compared with 96.3% of private and corporate clients and 3.7% large corporate clients in 2013.

(3) Competition: The other general insurance sector is characterized by fierce competition, which is reflected in the adaptation of the insurance policies to clients' needs, entry into specific insurance niches, reduction of tariffs and special discounts. The Phoenix's competitors in the general insurance sector are most of the insurance companies. According to data from the Ministry of Finance for the first nine months of 2014, The Phoenix is in third place in this field with 14% of the market in Israel (compared to 13% in 2013) after Clal (17.5%) and Harel (20.9%).

(E) Health insurance

(1) General: Health insurance policies are intended to indemnify or compensate policyholders for medical expenses in cases of harm to their health. This segment also includes nursing care insurance, insurance for serious illness, dental insurance, sick-day insurance, travel insurance, insurance for Israelis overseas, personal accident insurance (for a period that exceeds one year), and insurance for foreign workers living in Israel. Health insurance in Israel is divided into three layers: first layer - state-subsidized health services by virtue of the National Health Insurance Law; second layer - additional health services, which expands or substitutes the state-subsidized health services and is provided solely by the HMOs; third layer - private health insurance purchased from insurance companies. The health insurance market is a growing market, which is a part of the total national expenditure on health in Israel, and the percentage of persons purchasing private insurance policies is constantly increasing.

(2) Principal products: The Phoenix markets health insurance and a variety of other services, as indicated in Section 1.9.3(E)(1) above. Health insurance includes compensation or indemnification for expenses related to surgery, transplants and/or special treatments in other countries, cover for drugs that are not included in the state's "health basket", alternative treatments, compensation for serious diseases, medical services using advanced technologies, ambulatory medical services, etc., all according to the insurance schemes purchased for or by the policyholders. Supplementary products are added to the insurance schemes, which offer a wide range of options for expanding the insurance cover in accordance with the needs of the policyholder.

(3) Clients: Health insurance clients can be divided into three principal groups: individual policyholders; group insurance for employees and families and employees, unions and major companies in Israel; members of Israel's HMOs who purchase coverage for additional health services. The Phoenix's additional health service operations include nursing care coverage to Meuhedet Healthcare Services members as part of the "Meuhedet Gold" coverage plan. In 2014, the distribution of (gross) premiums was as follows: 54.6% from private clients; 34.6% from group insurance clients; and 10.8% from members of Israel's HMOs, compared with 53.2%, 35.6% and 11.2%, respectively, in 2012.

(4) Competition: The health insurance sector is characterized by stiff competition. The share of the collective insurance schemes in the segment is growing consistently. In collective insurances, the proliferation of consultants has increased competition which is manifested, inter alia, by an erosion of tariffs. The dominant insurance group in the field of health insurance is Harel, which, at September 2014, held 41.9% of the premiums. Part of this market share is due, inter alia, to Harel's holding 100% of Dikla Insurance Co., which provides group nursing care insurance for the members of the Clalit Health Services HMO as part of that HMO's additional health services. The other main competitors in this area are Clal, Migdal and Menorah, and the supplementary service programs of Israel's HMOs. According to data from a segment report in the Supervisor's website for the first nine months of 2014, The Phoenix was ranked third in this segment from the standpoint of gross insurance premiums, with a market share of 18.2%, after Harel (41.9%) and Clal (19.2%).

The Phoenix copes with competition in the field by pricing its products properly, using reinsurance contracts for the transfer of risks, engaging in aggressive marketing, improving service, and offering attractive products to policyholders.

(5) Regulation: The following are details of publications by the Commissioner in respect of health insurance during the reporting year, which may have an effect on The Phoenix:

(a). In June 2014, the recommendations of the Committee for Reinforcing the Public Health System headed by the (former) Minister of Health, Yael German ("the German Committee) were published. The recommendations of the German Committee included, inter alia, the following: (1) Finding medical procedures with a long waiting period, and revising their prices to shorten the waiting period; (2) Establishing a committee, which will be appointed by Ministry of Finance and Ministry of Health, to evaluate the prices, pricing method, and account settlements in the health system; (3) Expanding the existing selection arrangements between hospitals to obtain hospital health services while evaluating a change in the pricing guidelines and the settlements between the HMOs and the hospitals. (4) Setting up a regulation mechanism to curb and manage the private system, including the prices of additional health services and commercial insurance. (5) Determining mechanisms to curb the increase in the activities of private hospitals by applying a dedicated levy. (6) Disallow privately financed activities in public hospitals (except for those allowed today). (7) Organizing the medical tourism segment within hospitals.

(b). The recommendations of the German Subcommittee for Medical Insurance (Additional Health Insurance and Commercial Insurance) were also published. Inter alia, the recommendations include the following: (a) Additional Health Services will be classified into three independent components with no cross-subsidies between them. The first component includes surgeries and consultation prior to surgery, as well as consultations and a second opinion; the second component includes medications, pregnancy, dental treatments, child development, additional services; and the third component the remainder. (b) Uniform conditions will be adopted (which will be determined and will be subject to modifications by the Ministry of Finance and representatives of the Capital Market Division) to cover the first component, including the rate of the deductible between the Additional Health Services provided by the HMOs and the insurance companies ("the Standard Policy"). (c) The insurance fees for the Standard Policy will be amended according to age groups and will have a mechanism for balancing underwriting risks. (d) The premium will be modified only on specific dates and to all insured. (e) The premium for the first component will be independent from the other products. (f) It will be forbidden to sell coverage to reduce or cover the deductible in the first component. (g) Surgeries and consultations will be provided only by doctors in the arrangement, except in the case of insurance companies with a small market share. (h) The cancellation of services in commercial insurances that are not required will be evaluated. (i) A reciprocal recourse obligation between the HMOs and the insurance companies will be determined for new policies, and for existing policies the aforementioned obligation will be determined subject to a legal review. (j) Insurance companies will be banned from entering into a relationship with the HMO for operations or purchase arrangements for the Additional Health Services. (k) Wherever there is an overlap between the products of the Additional health Services and those of the private insurance, the need to determine standard definitions will be evaluated by the Ministries of Finance

and Health. (l) A mechanism will be formulated to neutralize or reduce the incentives of the HMOs to divert patients from the public to the private sector by transferring the entire cost of Form 17 and the cost of consultations to a dedicated fund based on capitation, for each insured that used the Additional Health Service for the first component or the insurance company. The dedicated fund will be divided between HMOs according to a mechanism for reducing the aforementioned incentive. (m) The coverage of the Additional Health Insurance in the second and third components, including the range of deductibles, will be evaluated by a consulting supervision committee to be appointed by the Ministry of Health. (n) It will be forbidden to enter into exclusivity arrangements with service providers (surgeons, hospitals and institutes). (o) The Supervision of Insurance will review the loss ratio of insurance companies and will intervene if necessary. (p) Removal of barriers for the insureds' transition to new policies based on the recommendations. (q) Assessment of tools to provide premium benefits to populations in areas where there is not a rich offer of private medicine.

At this stage, no legislation proposals have been submitted that anchor the recommendations of the German Committee, with the exception of the information provided in the following section.

(c). In November 2014, the Commissioner of Insurance published the draft Supervision of Financial Services (Insurance) (Conditions of an Insurance Policy for Surgery, Surgery-Substitute Treatment, and Consultations for Surgery in Israel) Regulations, 2014, ("the Standard Policy for Surgery" and "the Standard Policy Regulations" respectively), and the draft of the Circular for the Application of the Standard Policy Regulations. The draft regulations determine uniform conditions for the coverage of surgeries, special treatments and consultations in Israel. They also define that the surgery, surgery-substitute or consultations according to the Standard Policy for Surgery can be carried out only through a doctor that has an arrangement with the insurer to provide these services. Furthermore, it was determined that the insurer must determine uniform insurance fees for each age group defined in the Standard Policy Regulations. Moreover, the draft circular includes regulations that instruct insurers to contact the insureds with surgery policies prior to the application of the Standard Policy to allow them to transfer to the Standard Policy while preserving insurance continuity (without reevaluating the prior medical condition and without waiting periods), relative to the coverages that the insureds had in the policy prior to joining the Standard Policy. Application of the provisions of the draft circular is currently scheduled for May 1, 2015, except for the provisions relative to reporting of premium data, that the insurer must provide until the beginning of April 2015.

In The Phoenix's opinion, at this early stage it is not possible to estimate the implications of this reform in view of the uncertainty relative to the preference of the public as to the scope of insurance coverage of the Standard Policy of Surgery and its price, the preference of holders of existing policies relative to the transition to the Standard Surgery Policy, etc.

(d). In December 2014, the Supervisor published a draft circular relative to a program for individual health insurance. The draft circular proposes individual health policies to be automatically renewable (with insurance continuity) every two years for the entire life. However, the draft determines that the date of the first renewal of the policy will be June 1, 2018. According to the draft, the insurer will be obligated to adapt the policy (every two years) to the provisions of the regulation, and will be entitled to modify the conditions of the insurance every two years. The policy determines that changes to the conditions of the policy is a material change, or a change that does not constitute a benefit for the insured, or that an increase in the premium above 20% will require the agreement of the insured to continue the insurance. Furthermore, the draft determines that if an insured does not agree to the changes to the policy, their policy will be cancelled. It has not yet been determined what will be the formulae for increasing the premiums according to which the prices of the policies will be defined. The application of the provisions of the draft circular is scheduled for December 2015 (except for the section about surgeries, which is scheduled to be applied from February 2016). The insurers must submit their insurance plans for approval in July 2015. The draft circular does not apply to nursery insurance, medical insurance for foreign workers, insurance for foreigners in Israel that is not medical insurance for foreign workers, dental insurance, and loss of earning capacity insurance.

In the Phoenix's opinion, the mechanism for adapting the prices may reduce the risk to the insured, but at the same time may encourage competition, which will decrease the profit potential of products sold. Furthermore, The Phoenix estimates that the mechanism for obtaining approvals outlined in the draft circular may lead to an increase in the rate of cancellation of policies sold according to the mechanism described in the draft circular.

(e). In August 2014, a draft of the Supervision of Financial Services (Insurance) (Collective Health Insurance) Regulations 2014 was published. In the framework of the changes in collective

insurance in new policies following application of the regulations relative to collective health insurance (which is currently in draft form), it was determined, inter alia, that the increase in insurance fees during the insurance period or on the date of renewal of the collective insurance for a rate higher than 20% is contingent upon the explicit agreement of the insured prior to the date of increase of the insurance fees as aforementioned. In this respect, it was determined that even a reduction in the scope of insurance coverage will be considered a substitute for the increase in the insurance fees. The draft regulations further stipulate cases in which it will be required to obtain the insureds approval for the collective policy or changes therein.

(f). In October 2014, a draft of the Supervision of Financial Services Regulations (Insurance) (Collective Nursing Insurance for HMO Members) 2014 was published. The draft proposes to determine uniform conditions for collective nursing insurance policies for HMO members, including conditions relative to joining and terminating these plans. In parallel, in the same month, a draft circular relative to collective nursing insurance for HMO members was published that includes, inter alia, provisions relative to the principles according to which the insurance company can prepare a collective nursing insurance for HMO members, as well as principles about how to manage the money of the insured in a special sinking fund, such that it is possible to transfer the money accumulated in the fund for the insured between insurance companies at the end of the contract.

(F) Financial services**:**

(1) General

The Phoenix operates in the financial services segment through Excellence, a public company whose shares are listed for trading on the TASE. Excellence, through companies under its control (jointly, "Excellence"), is involved in a variety of activities in the capital market as indicated below, and is also engaged in the management of provident funds[50].

(a). Marketing and management of investments for customers – include the following activities: provision of marketing and investment management services in Israel and abroad; management of mutual funds, and the management of a real estate investment trust (REIT). Investment portfolio marketing and management operations are carried out through Excellence Nessuah Investment Management Ltd., which is licensed to manage and market investments under the Consultation and Marketing Law. As at December 31, 2014, the total assets managed by Excellence in investment portfolios (including holdings in ETNs and trust funds) amounted to NIS 10.4 billion (compared with NIS 10.3 billion as at December 31, 2013).

Trust fund management operations are carried out through Excellence Nessuah Trust Fund Management Ltd., which, near the date of publication of the report, manages 123 mutual funds in in most of the existing investment management channels. As at December 31, 2014, the total assets managed in trust funds amounted to NIS 24.02 billion (compared with NIS 21.7 billion as at December 31, 2013).

(b). Underwriting and investment banking – Excellence, through Excellence Nessuah Underwriting (1993) Ltd., provides services in underwriting, management, consultancy and distribution for public and private offerings in Israel, and in securities transactions (including offers of sale) and their distribution, brokerage and consultancy in securities and financing transactions. The company engages in securities transactions (including offers of sale) and distribution of securities, brokerage and consultancy in securities and financing transactions.

(c). Issue of financial instruments – Excellence, through a number of KSM companies and their subsidiaries, is involved in the issue of index-linked certificates, composite certificates, short certificates, commodity certificates and coverage options for the public. Each of the series of index-linked certificates was issued through a company with just one commercial activity, the issuing of index-linked certificates and dealing with assets mortgaged in favor of those holding the certificates. The KSM companies specialize in the management of index-linked products. Furthermore, Excellence issues certificates of deposit through KSM Jambo, Paz Foreign Deposit Ltd., Paz Foreign Deposit 2 Ltd. and KSM Currencies Ltd. All certificates of deposit are issued through a company with just one commercial activity – the issuing of certificates of deposit and dealing with assets mortgaged in favor of those holding the certificates of deposit. Most certificates

[50] Upon transfer of Excellence's pension activities to The Phoenix on January 1, 2014, all The Phoenix Group pension activities are centralized under The Phoenix Pension and Provident. It is noted that in 2013, Excellence also began operating in mortgage consultation and sale of ancillary products, including through insurance agencies that it established.

of deposit are linked to the rate of exchange for a variety of currencies against the Israeli shekel (excluding KSM Jumbo) and bear interest.

(d). Brokerage and trading services – Excellence, through a TASE member company, is involved in marketing of investment services and brokerage services (trading in securities and derivatives) for local and foreign customers in Israel and abroad. Excellence specializes in all trade channels including shares, bonds in Israel, bonds abroad, derivatives, foreign securities, issues and distributions. Excellence Nessuah Brokerage Services Ltd. ("Excellence Nessuah Brokerage" or "the TASE Member") is licensed to market investments pursuant to the Regulation of Engagement in Investment Consulting, Investment Marketing and Investment Portfolio Management, 1995 ("the Consultancy Law"), and it has been a member of the stock exchange since August 1978.

(2) Limitations, legislation, standardization and special constraints

Excellence's operations in various areas in the capital market are subject to comprehensive regulation. Portfolio management and investment marketing operations are regulated under the provisions of the Consultancy Law and its regulations. Furthermore, Excellence is subjected to the Anti-Money Laundering Law and the Order Prohibiting Money Laundering (Portfolio Managers' Duties of Identification, Reporting, and Management of Records) 2001, the Privacy Protection Law, and the Regulations for the Regulation of Investment Advice and Investment Portfolio Management (Equity and Insurance), 2000, which, inter alia, require minimum equity and insurance cover. The trust fund management segment is regulated under the provisions of the Joint Investments Trust Law and regulations which specify, inter alia, limitations relative to the holding of control means and market share relative to the trust fund managers. Supervision of entities in this field and the enforcement of legislation are carried out by the Israel Securities Authority. In May 2012, the Corporate Governance for Fund Managers and Portfolio Managers Law (Legislative amendments), 2011 entered into effective, in which context indirect amendments were made in the Joint Investments Trust Law, including an assurance that the fund trustee is independent of the fund manager, clarification of the supervisory obligations that apply to the trustee, and improving the control, supervision and monitoring mechanisms in the fund manager. Furthermore, in recent years, the Securities Authority published several drafts relative to amendments to laws involving, inter alia, the value and the types of assets that must be deposited in a backing account, and the opening of the market to foreign trust funds. In May 2013, the Joint Investment Trust Regulations (Commission Distribution) (Amendment) 2012, entered into effective, which determine the distribution commission that a fund manager will be entitled to pay to a distributor that is a bank for units of the trust funds held through it. The aforementioned regulations unify stock-based funds with non-stock-based funds, which are not short-term assets or monetary into a single residual category, with a maximum and fixed commission rate and reduced commission fees for other funds[51]. In July 2014, Amendment 23 to the Joint Investment Trust Law ("Amendment 23") was published. The amendment lays the foundation for allowing the operation of foreign mutual funds in Israel, and includes a section about offering foreign funds in Israel, which determines, inter alia, the applicability of the provisions of the Joint Investment Trust Law on foreign funds, as well as provisions relative to adaptations and determination of the authorizations relative to the offer of foreign fund units the public. The applicability of the section relative to the offer of foreign fund units as aforementioned is contingent upon the publication of complementary provisions, which will ensure the interests of investors in Israel, including conditions for the offer of foreign fund units to the public. As to the date of approval of the report, the aforementioned provisions have not yet entered into effective. At this stage, The Phoenix cannot estimate the effects of the Amendment on the structure of the competition and on The Phoenix, in view of the lack of clarity relative to the date that the Amendment will enter into effective, and which foreign funds will be actually offered to the public in Israel.

The underwriting and investment banking segment is regulated under the Securities Law, and the regulations made thereunder, and specifically under the Securities Regulations (Underwriting), 2007. In addition, underwriting operations are subject to limitations prescribed under antitrust laws, and are also influenced by the provisions of the law applicable to institutional investors. It should be noted that in September 2011, the Securities Authority published a proposal for comments and responses from the public, involving legislative amendments in the underwriting field, to create the desired structure for the underwriting sector. The recommendations and changes that appear in the proposal are preliminary, fundamental and subject to change. Furthermore, there is no certainty as to which of the recommendations and changes will be implemented and how; however, if the main

[51] Excellence Trust Funds entered into distribution agreements with most commercial banks in Israel for the distribution of units of the trust funds managed by Excellence, in consideration for the payment of a distribution commission at the maximum rates determined by the regulations.

recommendations and changes in the proposal are accepted, they may have a significant effect on the underwriting market in general and on Excellence's underwriting company in particular. Operations in the ETN and deposit certificates segment are subject to the Companies Law, the Securities Law and the regulations made thereunder, and the directives issued by the TASE. Several regulatory changes have been made over the last several years in an effort to increase the supervision of index-linked certificates and deposit certificates. Thus, for example, in July 2012 the Bill of Common Investments in Trust (Amendment No. 21) (Exchange Traded Note and Fund), 2012, passed on the first reading, which deals mainly with the subordination of the ETN sector under the supervision regime of the Common Investments in Trust Law.[52] In view of the difficulty to promote the bill for Amendment 21, which, as at the date of the approval of this report, has not yet been finally approved, and in view of the desire to promote competition in the ETNs and ETFs sector, in February 2015 the Securities Authority published for the public's comments the Draft Regulations for Joint Investments in Trust (ETFs) 2015 ("the ETFs Regulations Proposal"). These regulations are aimed at preparing the offer of ETFs separately from the series of ETNs, and are generally similar to the regulations consolidated in the framework of the bill for Amendment 21. In the opinion of Excellence, the approval of the proposal for Amendment 21 and the ETFs Regulations Proposal increased the competition between ETNs and ETFs. Notwithstanding, since the proposal for Amendment 21 and the ETFs Regulations Proposal have not yet been approved, it is not possible to know at this stage whether they will be approved and what will be their final arrangements. Accordingly, Excellence cannot estimate at this stage the expected impact on its business results.

In July 2012, an amendment to the Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) Regulations entered into effective[53], and the Supervisor's circular in respect of 'direct expenses for performing transactions' entered into effective, which, inter alia, apply a restriction on an institutional entity to collect the management commission charged by the issuer of the ETN from the assets of a provident fund it manages, or from the money held against yield-dependent obligations. In 2014, the regulations were amended such that it is possible to deduct management fees up to 0.1% only from ETNs on indexes of medium and small companies in Israel, and it is no longer possible to deduct management fees for holdings of ETNs on indexes with an exposure of 50% or more to the shares of large companies. It was also determined it will not be allowed to deduct management fees for ETNs on bond indexes in Israel. The regulations contain interim provisions for existing holdings in ETNs on indexes in Israel in 2014, which allow to continue charging management fees of 0.1% until the end of 2014. In respect to the ETNs and trust funds that follow the indexes abroad, it was determined that the existing situation allowing the deduction will continue; however, a general restriction was stipulated for institutional entities relative to a cap to the management fees in products managed by others (for example, trust funds and ETNs) of 0.25% of the total assets of the institution.[54] The amendment to the Direct Expenses Regulations and the circular may have a materially negative effect on the ETN sector. The main risks are that due to the ban to deduct management commission as aforementioned, there may be a wave of long-term savings managers cashing in for amounts of billions of Shekels, and there may be a cessation of new investments of long-term savings managers in ETNs and in the indexes of securities in Israel. It is noted that KSM reduces the risk of the redemption by refunding management fees to institutional entities, such that it enables the institutional entity to comply with the requirements of the regulations and the circulars of the Ministry of Finance. As a result, as of 2015, KSM is not expected to obtain a substantial income from management fees for institutional investments in ETNs on indexes in Israel.

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[52] The amendment to the Common Investments in Trust Law may significantly affect the structure of the competition in the ETN sector due to the requirement to increase equity, the enforcement of restrictions on the market share and penetration of ETFs (Exchange Traded Funds), which are similar in activity to the ETNs traded on the stock exchange. Notwithstanding, at this time it is not possible to estimate the effects of the aforementioned proposed amendment.

[53] The Regulations arrange the types of direct expenses an institutional entity is allowed to deduct from the money of the members it manages for investments made by the entity, beyond the management fees charged from the members.

[54] The restriction will not apply to the old pension funds in the arrangement and to new provident funds, or to a new investment track in a track-based provident fund that is not the default track instructed by the Supervisor. In March 2015, the Commissioner issued a position paper regarding the direct expenses incurred from investment in a fund of the funds. According to the position paper, when investing in a fund that invests in a fund, foreign fund or investment fund ("a fund of Funds") the expenses chard by the fund of the Funds and other expenses charged, if any, directly or indirectly, by the funds in which the fund of the Funds invest, must be taken into account as part of the permitted expenses less 0.25% of the evaluated value of the assets of the provident fund.

The principal laws as they relate to TASE services and trading are the Consultation Law, the instructions of the Securities Authority by virtue of said laws, insofar as they relate to investment marketers, and the provisions of the Prohibition on Money Laundering Law and the Prohibition on Money Laundering Order (duty of identification, reporting, and maintaining records of a TASE member), 2001. Furthermore, the operations of the TASE member are also affected by the rules of investments that apply to institutional entities. The TASE member operates according to the TASE members' statute, and is subject to supervision by the TASE. The TASE member operates, inter alia, through foreign brokers; this activity may be subject to the provisions of the foreign laws that apply to them.

The provisions of the Provident Funds Law, the Supervision Regulations, and the Provident Funds Management Regulations apply to the provident fund segment. Provident funds are subject to supervision by the Commissioner of Capital Markets, Insurance and Savings in the Ministry of Finance.

The Foreign Account Tax Compliance Act was issued in 2010 ("FACTA"), aimed at preventing avoidance of tax by US entities with overseas accounts. Under FACTA, regulations are provided for effective application of its provisions, which are applicable as of July 2014. In June 2014, an agreement was signed between the government of Israel and the US government, to improve international tax enforcement and apply FATCA provisions The Agreement sets out provisions for transferring information to the US tax authorities, via the Israeli tax authority, obtained from from the financial institutions in Israel. Such information includes balances and income originating in accounts of Americans, as set out in the Agreement. The date for first transfer of such information was fixed under the Agreement for September 30, 2015. The Agreement is yet to be ratified in the Knesset. In December 2014 the Commissioner published a draft preparation paper for the application of the provisions of the Agreement. The Phoenix is preparing appropriately, including holding board of directors discussion, registering to the FATCA portal, and for implementing the requirements of the law in Israel, if such will be published.

In addition to these laws, various reforms and legislative amendments that have taken place in recent years affect Excellence's operations.

(3) Changes in the scope of operations and profitability of the segment

Excellence’s operations are affected by developments in the capital markets in Israel and around the world. Changes in the indexes of the various stock exchanges and in the scope of stock-market trade, changes in the expectations and forecasts relative to developments (positive/negative) in the capital market, and changes in trading trends in the stock exchange may affect the business results of Excellence in its various areas of operation. For details about the state of the markets in 2014, see Section 1.9.1(C) above.

In the trust fund management segment, 2014 was characterized by a continuation in the positive trend of raisings, especially in traditional funds. The trend of erosion of management fees that characterized previous years continued in 2014, such that the average management fees in the sector decreased to only 0.69%. The drop in average management fees stems from large raisings in tracking funds at management fees of 0% and from increased competition, which led to a continuation of the trend of erosion in management fees among competitive bodies.

In the underwriting and investment banking segments, the positive trend in the issues market that began at the end of 2012 continued in 2013 and 2014. The principal raising of capital was of bonds, with shares being only a small portion.

The ETN sector is growing continuously, due to the constant increase in the number of ETNs issued by the companies active in the field, as well as to the increase in the volume of assets managed. In 2014, the volume of assets managed by the ETN sector increased by 16.58% compared with 2013, which stemmed primarily from an increase in the value of the assets managed, as a result of an increase in the value of the indexes to which the ETNs are linked and to actual monies raised in the sector; on the other hand, in the stock exchange and trading services segment there was a trend of decline in profitability due to the strengthening of the banks’ hold on the brokerage segment while reducing the rates of commission charged. It is noted that there may be an erosion in the profitability of the ETNs segment due to Amendment 2 to the Supervision of Financial Services Regulations (Provident Funds) (Direct Expenses on Account of Transactions Performed) 2008, as outlined in Section 1.1.1(F)(2).

(4) Customers

Customers in the trust funds, structured products and financial products segments are the general public. Structured products which are not listed for trade on the TASE are sold mainly to institutional customers. Customers in the portfolio management segment include both institutional

and private customers. Customers in the investment banking and underwriting segment are mainly private and public companies seeking to raise capital or offer securities to the public. Customers in the trade and brokerage services segment are mainly institutional entities in Israel and abroad, as well as individual customers, and customers whose moneys are managed by portfolio managers.

(5) Marketing and distribution

In the investment marketing and management segment, portfolios are marketed through Excellence employees, a distributor network of independent agents, and a telemarketing mechanism that recruits customers through cold calling. Mutual funds are marketed mainly to investment consultants in the various banks, as well as through advertising on the various media. The structured and financial instrument issuings segment is subject to advertising restrictions as issuings are made according to a prospectus. Marketing efforts in this segment are concentrated immediately prior to issuing, and include presentations to institutional entities, to investment consultants and to portfolio managers. Investment banking and underwriting operations are marketed through Excellence employees, and targets the management of large-scale enterprises and the managers of their finances. Operations in the trade and brokerage services segment are marketed mainly by Excellence employees, as well as through independent agents who are entitled to commissions for customers recruited.

(6) Competition

Investment management and marketing – There are numerous organizations in Israel specializing in portfolio management and in the provision of investment marketing services. In recent years, there has been a significant increase in the number of organizations operating in this market, which has increased competition. Harel, Peilim Capital Markets, Psagot, IBI, Altshuler Shaham, Meitav-DS, Yelin Lapidot, Tafnit and Migdal Capital Markets are portfolio managers that Excellence estimates to be its main competitors in the portfolio management segment. Excellence estimates that it is among the leading companies in the portfolio management segment in Israel. Excellence believes its main competitors in the mutual fund segment are Psagot Mutual Funds, Harel-PIA Trust Funds Ltd., Migdal Mutual Funds Ltd., Meitav-DS Mutual Funds, Menorah Mivtachim Mutual Funds Ltd., Altshuler-Shaham Mutual Funds Management Ltd., and Yalin Lapidot Mutual Funds Ltd.

Issue of financial products – the ETN sector is characterized by a high level of competition. There are three other organizations that have issued ETNs to the public that compete with Excellence: Tahlit-Index, owned by DS Investment House, Psagot-Mabat, and Harel. As at December 31, 2014, the market share of Excellence in the ETNs segment is approximately 30.1%.

Underwriting – the underwriting and distribution segment in Israel is characterized by the existence of five dominant players (primarily Clal Finance and Underwriting Ltd. and Poalim IBI Underwriting and Issuing Ltd.), and approximately five mid-size issuing managers (including Excellence), and other smaller organizations.

Trade and brokerage services – competitors are TASE members, which, at the date of the report, include 11 TASE members that are Israeli banks, six TASE members that are not banks, three TASE members that are subsidiaries of foreign bank corporations, three TASE members that are foreign banks, and one remote member. Competition focuses on commissions, quality and diversification of services provided to customers.

1.9.4 Marketing and Distribution

In the insurance industry, most marketing and distribution is carried out by insurance agents and agencies. Most of the insurance agents have agreements with a number of insurance companies to provide solutions for the wide range of their customers' needs. The main factors considered by the agents when choosing the insurance company they will work with are the rates of commissions, the quality of service provided by the insurance company, innovative products and services, and the suitability of the insurance products for the agent's customers. The insurance company's principal considerations when choosing agents to represent them are the sectors in which the agent operates, their expertise and relative advantages, the potential for commercial collaboration with the insurance company; commission rates; quality of the agent's selling skills; the agent's portfolio retention; the agent's customer base and the agent's integrity.

The Phoenix Insurance also works through pension arrangement agencies and insurance agencies that employ sub-agents. As a rule, these agencies work with several insurance companies. The Phoenix grants such agencies issuing and underwriting powers, at varying levels. In most cases, when The Phoenix Insurance engages in an agreement with an agency that operates sub-agents, The Phoenix Insurance also signs agreements directly with the sub-agents operating through the agency. For additional information regarding the agents' activities, see section1.9.3(A)(7) above.

The Phoenix also operates a website, customer service call center, Facebook page, and develops new digital tools for communicating using smartphones, enabling receiving personal and marketing information, maintaining customer contact, and that help The Phoenix in its sales efforts.

The Phoenix Insurance owns a number of insurance agencies. As is standard practice in the insurance industry, these agencies do not work exclusively with The Phoenix Insurance and work with a number of different insurance companies.

Agent activities are supervised by the Commissioner of Insurance, and interaction with the activities of the agents are regulated under the Insurance Contract Law, the Supervision Law, and the Pension Marketing Law.

1.9.5 Seasonality

In the life insurance sector, revenue from premiums is not explicitly seasonal. However, as provisions for life insurance benefit from tax benefits, a substantial part of new sales is made at the end of the year. Breakdown of life insurance premiums earned in each quarter in 2013-2014:

	2014		2013	
	In NIS millions	%	In NIS millions	%
1st Quarter	980	25.3	943	24.4
2nd Quarter	1,058	27.4	976	25.3
3rd Quarter	909	23.5	918	23.8
4th Quarter	920	23.8	1,024	26.5
Total	3,867	100	3,861	100

In the general insurance sector, seasonality in premium turnover throughout the year is mainly prevalent in the first quarter. This is mainly because motor insurance policies for employee groups and fleets are usually renewed in January, and also because various policies of businesses are usually renewed in January or April. The effect of seasonality of the premium turnover on profits is mainly offset through the unexpired risk reserve mechanism. It is noted that a severe winter may cause an increase in claims, especially in the property vehicle segment. Breakdown of the general insurance premiums earned in each quarter in the period 2013-2014:

	2014		2013	
	In NIS millions	%	In NIS millions	%
1st Quarter	734	31.5	715	31.5
2nd Quarter	528	22.7	524	23.1
3rd Quarter	562	24.1	547	24.1
4th Quarter	506	21.7	483	21.3
Total	2,330	100	2,269	100

Seasonality does not significantly affect the distribution of premiums in the health insurance sector over the calendar year.

1.9.6 Reinsurance

Insurance companies in Israel generally cover a considerable portion of the insurance risk that they assume through overseas reinsurers Reinsurance has several advantages: 1) it enables the insurance company to spread the risks to which it is exposed; 2) it enables the insurance company to improve its ability to absorb additional risk at higher insurance amounts; and 3) it enables the insurance company to improve its ability to protect its equity from exceptional events. Nevertheless, reinsurance agreements do not derogate from the contractual rights of the insurance company's policyholders and do not exempt the insurance company from its liability towards them. Accordingly, the stability of the reinsurers affects the insurance company. Furthermore, the terms of the agreements with reinsurers affect the profitability of the insurance companies.

A possible deterioration in the situation in the reinsurance market is liable to have several consequences: first, an insurance company that engages in an contract with a reinsurer is directly exposed to the reinsurer's ability to meet with its commitments upon the occurrence of an insurance event; second, deterioration of the stability of a reinsurer could cause the insurance

company to replace it with another reinsurer, which involves additional costs on costs of the original reinsurance and the risk that the original cover terms will not be attainable, and may lead to accounting losses out of concern that the reinsurer will not meet its commitments; third, deterioration in the condition of the reinsurance market could lead to a decrease in the reinsurance capacity in a way that harms the insurance company's ability to provide insurance in the course of its business, and to a rise in the reinsurance tariffs and other terms of the engagement with the reinsurer, in a way that incurs additional costs or harms the quality of the insurance cover. In addition to the foregoing, the absence of reinsurance in the volume required by the insurance company could result in failure to comply with the regulatory capital requirements applicable to it.

2014 was a good year for the reinsurers. The relatively low volume of significant damages in the global market and had a positive effect on the results of the reinsurers. These positive results and the increase in volume of the total equity of the reinsurers led to surplus supply in the reinsurance market shortly before renewal of 2015 agreements, thus affecting the prices for that year.

The Phoenix Insurance has engages with reinsurers rated A- or higher by one of two ratings companies – AM Best and Standard & Poor[55]. The reinsurance market with ratings relevant to The Phoenix Insurance includes more than 200 insurance companies. The Phoenix Insurance works regularly with 75 reinsurers. For information regarding The Phoenix's largest reinsurers see Note 27 to the financial statements.

As a rule, the rate of reinsurance in life insurance sectors is considerably lower than in general insurance. The reason for this is that most of the fees in life insurance include a savings component, for which there is no reinsurance. In addition, the statistics for life insurance are more reliable as to risks. In general insurance there is also a difference in the volume of reinsurance purchased, where in the sectors characterized by a homogenous risk in a widely spread portfolio (such as the automotive sectors – compulsory and property) less reinsurance is purchased, while in sectors characterized by large difference, low spread and a high volume of risk (such as other property insurance), more reinsurance is purchased.

These engagements are for various types of reinsurance.[56] Reinsurance contracts in general insurance are usually made on an annual basis. Reinsurance contracts in life and healthcare insurance are usually for undefined periods and can usually be canceled with prior notice regarding future insurance only. In the life insurance sector, The Phoenix Insurance engages with various reinsurers in relative reinsurance contracts to hedge the risks in the life insurance portfolio only (and not for the savings component). The Phoenix engages in non-relative reinsurance contracts for hedging against bodily injury, loss of life and disability due to catastrophic events. In the compulsory and property motor insurance sectors, The Phoenix engages in "excess of loss" reinsurance contracts. In the general insurance sectors, The Phoenix engages in the following types of reinsurance: relative, excess of loss and quota. In the healthcare insurance sector, The Phoenix engages in quota relative reinsurance contracts to hedge the risk items in the healthcare insurance portfolio. A relative reinsurance agreement has been signed for a number of large-scale collective insurance policies.

For further information about reinsurance, see Notes 27 and 29 to the financial statements.

1.9.7 Suppliers and service providers

The Phoenix engages in agreements with a large number of suppliers and service providers in different insurance sectors, mainly claim settlement. In the provident funds segment, The Phoenix

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[55] In the short tail sectors The Phoenix is permitted to engage with BBB+ rated reinsurers at a rate that will not exceed 10% of the total exposure.

[56] Contractual reinsurance that is drawn up under a reinsurance contract that is signed each year between the insurance company and the reinsurer, under which the reinsurer assumes, in accordance with the agreed terms, all the risks / businesses transferred to it by the direct insurer, without need for approval for each risk / business separately. Contractual reinsurance is divided into relative reinsurance, in which the division between the assumed risks (claims coverage) and the premium is identical, and non-relative reinsurance, in which the risk assumed (claims coverage) by the reinsurer is not directly correlated to its share in the premium. Relative reinsurance is subdivided into quota share contracts, in which the reinsurer undertakes coverage at a fixed portion of each claim in a certain segment for an identical fixed portion of the premium, and surplus contracts, in which the reinsurer undertakes coverage at a variable portion of any claim up to a predetermined limit for an identical portion of the premium. Non-relative reinsurance is sub-divided into excess of loss contracts, in which insurance is granted for single claims, where up to a certain predetermined residual amount the direct insurer incurs the cumulative damages, and above that amount the excess loss is incurred by the reinsurer, and into stop loss contracts, where the reinsurer indemnifies for a portion/ amount of damages in excess of the predetermined portion/ amount. In addition to contractual reinsurance, there is also facultative reinsurance, which is divided across a number of reinsurers.

has agreements with two banks for providing operating services for the accounts of members, for monthly operating fees. Furthermore, The Phoenix has agreements with various service providers to obtain services for some of the insurance plans it offers (for example, towing services, substitute vehicle in case of accidents or theft, replacement of vehicle windows, etc.). The Phoenix also has IT agreements with several hardware and software suppliers that provide hardware, software and maintenance services. Supplier agreements are by fixed price per project, hourly rate, or unit price. The Phoenix also has agreements with several suppliers for the development, maintenance, operation, storage and processing of data or information systems or infrastructure, on a random and/or ongoing basis. Due to the knowledge accumulated by suppliers in the course of providing services, a short-term dependence may develop on a particular supplier, as the replacement of IT service providers requires time and money

1.9.8 Actuary and Risk Management, including Solvency II guidelines

The Group's risk management is intended to support and protect the Group against unexpected losses which could prevent it from achieving its business goals. The existing risk management system is based on fundamental principles for risk management and control, which include, inter alia, proper involvement in and understanding of risk management by the board of directors, provision of tools for the evaluation and measurement of risks, and arranging for means of supervision and control of those risks. The Control Law specifies that insurers, including insurers that are pension fund management companies, are required to appoint an actuary for each insurance sector in which they operate, whose duties include advising the board of directors and the CEO regarding the insurers' insurance liabilities or the actuarial balance of the pension funds they manage, accordingly. In 2014, the provisions relating to risk management came into force, replacing the original circulars. Institutional bodies are required to appoint a risk manager and to set up a risk management unit. The provisions define the qualification conditions of the risk manager, the risk manager's powers, rights, resources, methods of working and duties, which include recognizing significant risks, quantifying and assessing their effect and reporting to the board of directors. For further information regarding actuary and methods for calculating insurance liabilities, see Note 29 to the financial statements.

Solvency II is a regulatory directive, defining capital requirements and risk management in insurance companies. ("the Directive"). The directive is expected to be implemented in Europe as from the beginning of 2016. The Commissioner of Insurance in Israel proposed a risk-based solvency governance system in the spirit of the directive and promoted a business culture that takes into account risk management considerations and allocation of capital when making decisions based on the principles of the directive, with the required adjustments for Israel. In circulars and letters sent to the market regarding Solvency II preparations The Commissioner of Insurance requires insurance companies to start a process to ensure organizational preparation for implementing the proposed directive. As at reporting date, The Phoenix is preparing to implement the directive. In addition, to calibrate the standard models for calculating capital adequacy, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) issued a series of five quantitative impact surveys (QIS), of which the Commissioner of Insurance required that the last two quantitative surveys and two additional quantitative surveys, with a number of adjustments to Israel (IQIS), be conducted for December 2011 and 2012. The Phoenix completed these surveys and reported the results to the Commissioner. Implementation of Solvency II, according to the current IQIS model, may result in a significant increase in capital requirements, together with the existing increase in capital. At the current stage, the model is highly sensitive to changes in market and other factors and therefore the capital requirements reflected by these changes might be highly volatile. Furthermore, implementation of the final recommendations could affect the nature of the business operations. The model has not yet been approved, and there are fundamental issues which are being discussed in Europe as well as in Israel. For further information regarding the preparations for implementing the Commissioner's directive and circulars relating to it, see Note 34 to the financial statements.

1.9.9 Property, plant and equipment

The Phoenix's IT system serves its employees throughout the country and provides its pension funds with computer services and work environments using The Phoenix Group’s computer systems. The IT system also supports the network of agents and their employees spread throughout the country and who use the various telecommunications infrastructures. In 2014, The Phoenix invested NIS 221 million in software and computers. The Phoenix's information systems-related operating expenses totaled NIS 230 million in 2014.

The Phoenix also owns various real-estate properties, including The Phoenix’s offices at Hashalom Road, Givatayim, the value of which is not material for the company.

1.9.10 Intangible assets

"The Phoenix" name is a registered trademark. The Phoenix has registered trademarks for its logo and name, and for a number of brands and insurance products and operates databases that are essential to the running of its businesses, as required by the Privacy Protection Law, 1981. The Phoenix develops software, through its employees and software vendors, for in-house use and holds copyright for that software. Under an agreement from August 2006 between The Phoenix Insurance and Excellence, Excellence granted The Phoenix Insurance the right to use the "Excellence" name for its "Excellence Invest" policies, for management fees, for as long as the management agreement for management of the investment portfolios for the foregoing policies remains valid. Furthermore, at December 31, 2014, The Phoenix has recorded goodwill and surplus costs in a net amount of NIS 1 billion, net of amortization

1.9.11 Human resources

(A) Organizational structure

The Phoenix is a holding company that does not retain salaried employees. The Phoenix employees are employed by The Phoenix Insurance and some are employed by the other subsidiaries. The CEO of The Phoenix also serves as CEO of The Phoenix Insurance and other The Phoenix Group subsidiaries, and reports to The Phoenix's board of directors. The board of directors outlines Company policy and supervises the performance and activity of the CEO.

The Phoenix has the following main units: insurance segments - long-term savings and life risk segment (the includes The Phoenix Pension and Provident); the general insurance and healthcare segments; the customers division; and the administration and finance division. In addition to these divisions, The Phoenix operates the claims department; investments department; IT division; marketing unit; The Phoenix's agency operations, which coordinates the activities of The Phoenix owned agencies and the Company's secretariat, which provides administrative services for The Phoenix as well as The Phoenix Insurance, and other The Phoenix Group companies.

The Phoenix's financial services operations are carried out through Excellence, a public company controlled by The Phoenix, which operates independently.

(B) The Phoenix workforce

Breakdown of The Phoenix workforce as at December 31, 2014 and December 31, 2013:

	December 31, 2014	December 31, 2013
The Phoenix Management	16	16
Customer Division	1,176	1,145
General Insurance	64	66
Long-term Savings and Life Risk	147	120
Phoenix Pension and Provident	84	77
Healthcare	43	48
Claims Department	274	267
Functional Administration, Administration and Finance Division and other Administrative functions	500	467
The Phoenix Investments	39	34
The Phoenix Insurance Agencies	1	1
Total employees for The Phoenix, excluding The Phoenix agencies and financial services (Excellence)*	2,344	2,241
Financial Services (Excellence)**	588	585
The Phoenix controlled Insurance Agencies***	637	662
The Phoenix Total	3,569	3,488

* The increase in The Phoenix workforce in 2014 was primarily for improving the quality of services provided to The Phoenix policyholders and agencies, including, due to the increase in sales volume and operations, and due to the need to address the regulatory requirements and increased control procedures.

** Following the establishment of the central customer division at Excellence, which coordinates sales support, customer services, customer retention and contact in the provident segment; portfolio management and in other segments where in 2014, Excellence's financial services segment staff could not be separated from Excellence's provident segment staff.

*** The decrease in the insurance agencies workforce is mainly due to streamlining of operations in some of the agencies.

**** The figures for 2013 were reclassified according to shifting of units/positions between the units in 2014. The adjustment was made for the purpose of proper comparison between 2014 and 2013.

(C) **Benefits and types of employment agreements**

Under The Phoenix previous policies, veteran employees did not have signed employment agreements. As of 2002, subsequent to the Notice to Employee Law (Employment Terms), 2002 coming into effect, new employees are given a form setting out the terms of their employment as required by law. As of 2004, the labor relations were anchored in personal employment agreements that set out the terms of their employment and the ancillary benefits, such as social benefits and the employee's rights and duties. About 32% of The Phoenix's employees receive holiday bonuses (of half of their monthly salary), paid twice a year. Some of the company's employees are entitled to a company car. Salary increases and employee bonuses are determined in accordance with The Phoenix's overall remuneration policy, which is determined by The Phoenix's board of directors.

The Phoenix conducts training programs aimed at maintaining its employees' expertise. Furthermore, The Phoenix and The Phoenix Insurance have multi-annual remuneration programs to compensate investment employees, in accordance with the circulars issued by the Commissioner of the Capital Market, who ordered that such compensation policy be instituted, for the purpose of balancing the fixed and variable compensation components, and reflects the risk involved in the yields achieved in the various investment channels.

It is noted that The Phoenix Insurance is a member of the Israel Association of Life Insurance Companies Ltd., which in turn is a member of the Coordinating Bureau of Economic Organizations, and consequently, all the collective labor agreements that are signed by the Bureau apply to it.

In 2014, the unionizing of The Phoenix employees began. Negotiations are underway between The Phoenix management and its employees' action committee, aimed at reaching agreement and signing of the first collective agreement. In November 2014, The Phoenix Insurance received notice announcing a labor dispute and strike beginning on November 27, 2014 onwards, in accordance with the Labor Dispute Settlement Law, 1957. According to the notice, the issues under dispute are the employees' demand to sign a specific collective agreement, safeguarding job security and anchoring their demands for financial rights due to the projected sale of the Company to new owners, if such sale is concluded.

(D) Officers and senior management and option plans for employees and officers

The Phoenix senior management staff are employed under personal employment contracts. In addition, the senior managers and other officers at The Phoenix, who are not directors, receive a variable annual bonus and other benefits as set out in the individual contract signed with them. The senior managers are also eligible for variable compensation in accordance with the compensations policies of The Phoenix and/or The Phoenix Insurance[57].

Under a circular with regard to compensation policies for financial institutions issued in April 2014, The Phoenix and The Phoenix Insurance have drawn up compensation plans for officers and senior employees, which are primarily based on multi-annual performance, return on capital achieved by The Phoenix Group and a set of personal criteria adapted for the officers, which are based on the work schedule set by the board of directors each year. The Phoenix also has an exclusive compensation plan for the investment staff, in accordance with the circular issued by the Supervisor of the Capital Market (ordering compensation policies to be drawn up for investments staff) and based on the compensations policy of The Phoenix.

Options plans for employees and officers The Company adopted a compensation policy for employees and officers, according to which it may award options, free of charge, to the employees and officers of the Company and its investees. The Phoenix administers an options plan for employees and officers, under which it may award, free of charge, to its and its investees' employees and officers, unlisted options exercisable ordinary shares of NIS 1 par value each.

The Phoenix acquired a directors and officers liability insurance policy and issued letters of indemnification and exemption to the officers (excluding directors who are also officers and/or

[57] On November 9, 2014 the general meeting of The Phoenix approved a revised compensation policy for officers of the Company.

service providers of the controlling shareholder of The Phoenix and/or for whom the controlling shareholder has a personal interest in granting them a letter of exemption).

1.9.12 Investment management

All types of The Phoenix's insurance liability moneys are invested in various assets according to the nature and type of liability, subject to the prescribed investment method regulations, inter alia, provisions concerning the types of assets an insurer may hold against its various liabilities as well as various restrictions and frameworks adjusted to the nature and type of the various liabilities.

The Control Law and investment regulations stipulate, inter alia, that an insurer's board of directors must appoint two investment committees. One, a committee for the management of investments of funds to cover performance based liabilities (fund member and policyholder money in the insurance companies' participatory portfolio), ("the Participatory Investments Committee"); ı and the other, a committee for the investment of the insurer's equity and for the investment of funds to cover non-yield-dependent insurance liabilities (general insurance, yield-guaranteed life insurance, equity and surplus capital), ("the Nostro Investments Committee").

The Provident Fund Law and Provident Fund Regulations govern the manner for managing investment of the savings moneys under the pension and provident operations, including the types of assets, restrictions and various frameworks for investment[58].

The Phoenix Group's investment management services are primarily consolidated through The Phoenix Investments. Accordingly, there are management agreements, for the investment management of fund members accounts and nostro accounts in return for management fees, between The Phoenix Investments and The Phoenix Holdings, The Phoenix Insurance, The Phoenix Pension and Provident and The Phoenix Balanced. Investments are managed through several designated investment managers - an investments manager for managing the nostro accounts of The Phoenix's companies and an investments manager for managing the money of policyholders and of fund members (of The Phoenix Insurance and The Phoenix Pension and The Phoenix Provident). The investment managers are supported by an internal audit department and several other professional departments, and make use of analyst surveys and analyses from banks and investment houses in Israel and abroad.

The Phoenix also engages in a variety of types of financing, including types of business credit (non-negotiable bonds and loans), with or without collateral, structured finance including asset backed bonds, other structured products, financial derivatives and compound assets, deposits and capital notes. The Phoenix administers credit policies in which criteria were set with regard to credit risk exposure, such as scope of credit risk exposure and various types of borrowers, as well as for ensuring compliance of the management, supervision and control mechanisms for managing these risks. A debt forum also exists for discussing the debts found to be problematic and suspected of being problematic, for ongoing monitoring of them and recommending how to act regarding them. The Commissioner is currently working on how to implement the recommendations of the committee for review of investments by financial institutions in tailor made loans ("the Goldschmidt Committee), and the recommendations for treatment of debt settlements ("the Endorn Committee"); new provisions are included under the Regulation Codex and various circulars concerning the following issues: (1) provisions concerning corporate governance that refer, among other things, to the functions of the board of directors, the investments committee regarding tailor made loans and concerning the appointment of a subcommittee for credit. Appointment of an internal credit committee - composition and functions; the rules that will apply to institutional bodies that participate in syndicate or consortium transactions, which include the information that the institutional body receives from the coordinator and reference to issues of the coordinator's conflicts of interest. Disclosure concerning past practices of the controlling shareholders or a company under their control that were in financial difficulties. The temporary options is given, with the Commissioner's approval, to hold more than 20% of the means of control in a company when shares of the company are received due to debt settlement arrangements. (2) provisions concerning rules for extending credit that deal with, inter alia, the following issues: leveraged loans provided by an institutional body; limitations of extending credit to borrowers; underwriting procedures for extending tailor made loans; reliance on guarantors in transactions; duty of disclosure regarding credit taken for the purpose of financing acquisition of controlling shares in a company or holding them; duty to decide regarding breach of a covenant for immediate repayment. (3) provisions concerning holding of more than 20% of the means of control in a company relating to obtaining means of control under a debt settlement, from a company that issued the debt in the settlement, so that in practice the holding of the institutional body will exceed the permitted 20%

[58] For managing some of the portfolios management services are also purchased for specific investments.

pursuant to the investment regulations. In January 2015 draft circulars were issued, a circular regarding rules for credit provided by institutional bodies and a draft circular with regard to reporting to the Commissioner concerning debt settlements to which an institutional body is party,. These drafts, which were formulated in collaboration with the Supervisor of Banks, supplement previous provisions established with regard to tailor made loans, and that regulate for the first time leveraged loans. The drafts also regulate reporting to be submitted to the Commissioner, relating to debt settlement arrangements to which an institutional body is party. The purpose of the provisions is to reduce risks when providing credit and throughout the life of the debt, and to minimize solvency risk.

1.9.13 Investments

The Phoenix has investments in real estate, investees and various assets. The Phoenix's main investments include holdings in arrangements agencies and other insurance agencies[59] held by Phoenix Agencies, a 41.42% holding in Mehadrin, a public company operating mainly in the agricultural sector, and a holding 49% of the issued and paid up share capital of Gama Management and Clearing Ltd., whose main operation is credit card discounting services. In addition, The Phoenix holds the wholly owned Ad 120 chain of Residence Centers for Senior Citizens, which plans, establishes and manages protected residence centers in the prestigious market sector; a 50% holding in HFN Tao Holdings Limited Partnership, which has a 50% holding in the Mall HaYam shopping center in Eilat, and a 67% holding in Phoeniclass Ltd., which engaged in an agreement with the Kibbutzim College of Education for a combination transaction between Phoeniclass and Kibbutzim College for land belonging to Kibbutzim College in north Tel Aviv.

1.9.14 Financing

(A) The Phoenix finances its operations, among other things, from external sources including by issuing subordinated notes and debentures, and by assuming short and long term bank and ex-bank loans (total financial liabilities as at December 31, 2014 amounted to NIS 3,584 thousand compared with NIS 3,595 million at December 31, 2013). Breakdown of average interest rate on loans from bank and ex-bank sources in 2014 and which are not earmarked for specific use by the Company:

	Average interest rate on non-earmarked loans			
	Average rate	**Subordinated notes**	**Long-term loans**	**Short-term loans**
Banking sources* - linked to CPI	5.05 %	-	5.05 %	5.05 %
Banking sources* - linked to USD	2.29 %	-	-	2.29 %
Banking sources - unlinked	1.9 %	-	2.86 %	1.78 %
Ex-banking sources** - linked to CPI	4.33 %	4.05 %	4.50 %	-
Ex-banking sources** - linked to CPI	4.84 %	4.84 %	-	-

* Including deferred subordinated notes and debentures issued to banks in February 2008 and September 2009.

** Including debentures issued in 2007 to financial institutes, and subordinated notes issued by The Phoenix Capital Raising.

[59] The Agencies include Shekel and Agam, which are large-scale leading arrangement management agencies in Israel for life insurance and long-term savings products and financial products. The Agencies are held through The Phoenix Agencies which is wholly owned and controlled (100%) by The Phoenix Insurance. For information regarding the agents' activities, see section **Error! Reference source not found.**above.

(B) Debt raising in the reporting year:

Linked (principal and interest)	Principal maturity dates	Interest payment dates	Interest rate	Issue date and quantity (in NIS par value)	
--	Lump sum on January 31, 2026	Semi-annual installments on January 31 of each year from 2015 through 2026 (inclusive) and on July 31 of each year from 2015 through 2025 (inclusive).	3.85 %	400,000,000* 50,000,000 **	Debentures (Series D)

* Issued under a shelf offering memorandum for proceeds amounting to NIS 348.8 million.

** Allotted to a classified investor under a private placement for proceeds amounting to NIS 49.5 million.

(C) Credit rating

On March 23, 2015 Midroog ratified the ratings for The Phoenix Capital Raising deferred subordinated notes Series A as Aa2 with stable outlook, for The Phoenix Capital Raising debentures Series B and C as Aa3 with stable outlook and for debentures Series D as Aa2 with stable outlook.

On January 18, 2015 Maalot announced ratification of the ratings of The Phoenix Holdings (+ilA) and The Phoenix Insurance (+ilAA). The rating outlook is stable.

At the same time, Maalot ratified the rating for The Phoenix Capital Raising deferred subordinated notes Series A as +ilAA, for The Phoenix Capital Raising debentures Series B and C as -ilAA and for the Company's debentures Series 1 as +ilA.

On November 12, 2014 Midroog ratified the rating for The Phoenix debt (The Phoenix debentures 1, security no. 7670102 and The Phoenix debentures 2, security no. 7670177) as Aa3 with stable outlook.

On October 6, 2014 Midroog ratified the ratings for The Phoenix Capital Raising deferred subordinated notes Series A as Aa2 with stable outlook, for The Phoenix Capital Raising debentures Series B and C as -Aa3 with stable outlook and for debentures Series D as Aa2 with stable outlook.

(D) Credit limits

Under the deed of trust for The Phoenix's debentures (Series 2), The Phoenix undertook that as long as the debentures (Series 2) are unpaid in full, it will not create a general floating charge on its assets, unless at that date, a charge of the same rank is also created in favor of the holders of debentures (Series 2). In addition, for the debentures (Series 2), The Phoenix also assumed restrictions on distribution of dividends (dependent on compliance with the financial ratios set) and expansion of the debenture series (Series 2), and undertook to comply with various financial covenants.

1.9.15 Taxation

See Note 41 to the financial statements

1.9.16 Restrictions and Supervision of the Corporation’s Operations

As described above in this report, The Phoenix Group's operations in its various segments are subject to general legal provisions as well as to specific legal provisions applicable to each of its operating segments. The Phoenix Group companies are under the supervision of various authorities, among them the Supervisor of Insurance who is the Commissioner of Capital Markets, Insurance and Savings who oversees the operations of The Phoenix Group's institutional bodies and insurance agencies. Furthermore, as a public company issuing securities to the public, The Phoenix Group is subject to the provisions of the Securities Law and is supervised by the Securities Authority, and the provisions of the Companies Laws and regulations applicable to public companies. For further information regarding regulation pertaining to the financial services provided through Excellence, see section 1.9.3(F)(2) above.

Breakdown of additional regulatory restrictions applicable to The Phoenix that have not been described above.

(A) The Insurance Contract Law, 1981 primarily governs the relationships between the insurer and the policyholder, including the status of the insurance agent.

(B) The Control Law and its Regulations - govern, inter alia, the powers of the Commissioner of Insurance, business licensing for the various insurance sectors, holdings of means of control[60] and supervision of the insurance business and provisions regarding protecting the affairs of the policyholders. The Control Law contains a series of provisions for which violation is considered a criminal offense and expands the responsibility of an officer for preventing offenses. Pursuant to the Control Law, the Commissioner may also impose financial sanctions and civilian penalties in substantial amounts without having to file an indictment.

The main Regulations, among others, regulated under the Control Law are:

(1) Control of Insurance Business Regulations (Minimum Equity Required of an Insurer),1998 regulates the minimum equity required by an insurer. The insurer's equity is meant to serve as a safety net for absorbing losses arising from occurrence of unexpected risks to which it is exposed and that it does not recognize specifically or was insufficiently assessed. The purpose of this safety net is to enable the insurer to continue operating as a going concern and to meet its liabilities to its policyholders and other creditors, also when in liquidation. The Phoenix Insurance required capital as at December 31, 2013 pursuant to the Commissioner's orders, is NIS 2,796 million. The equity at that date, calculated according to the equity regulations standards, amount to NIS 3,970 million (NIS 2,651 million tier 1 capital, NIS 776 million tier 2 capital and NIS 543 million subordinated tier 2 capital). Surplus capital is NIS 1,174 million of which NIS 454 million are non-distributable surplus. For further information concerning the minimum equity required of an insurer, see Note 34 to the Company's financial statements.

(2) The Control of Insurance Business Regulations (Ways of Investing the Capital and Reserves of an Insurer and Management of its Obligations), 2001 includes, inter alia, provisions concerning the types of assets an insurer may hold against its various liabilities, restrictions relating to an insurer's investment in a subsidiary or investee, in the holder of its means of control, in an interested party, in another insurer, or in any other entity operating in insurance brokerage.

(3) Control of Insurance Business Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984 that regulate, inter alia, the insurer's duty to maintain insurance reserves and methods for calculating them, as well as provisions concerning provisions for contingent claims.

(4) The Control of Insurance Business Regulations (Particulars of Report) 1998 that govern provisions concerning the content, details and accounting principles for drafting of financial statements of insurance companies.

(5) The Control of Insurance Business Regulations (Ways of Separating Accounts and Assets of an Insurer in Life Assurance), 1984 which prescribe guidelines concerning the ways for separating life insurance business accounts and assets from an insurer's overall insurance businesses and for separating the assets of profit sharing life insurance businesses from other life insurance businesses.

(6) The Control of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Institutional Bodies), 2012, which came into force in July 2012 and which together with the final version of the "Investment Rules Applicable to Institutions" circular, constitute rules applicable to all institutional, insurance, pension and provident investors.

(7) Other than the minimum equity regulations described above, new pension fund and provident fund management companies are also required to meet minimum equity requirements. In February 2012, the Control of Financial Services Regulations (Provident Funds) (Minimum Capital Required of a Provident Fund or Pension Fund Management Company), 2012 were issued, together with the Income Tax Regulations (Principles for the Approval and Management of a Provident Fund (Second Amendment), 2012 (hereunder in this subsection: "the Regulations"). These regulations expanded the capital requirements from management companies and also include capital requirements based on the scope of managed assets and annual expenses, but no less than initial equity of NIS 10 million. The regulations contain interim provisions for gradually supplementing the difference between the capital required required immediately prior to publication of the regulations and the capital required under the regulations. The Phoenix Insurance undertook to complement, at any time, the shareholders' equity of The Phoenix Pension and Provident to the amount set in the

[60] With regard to the permit to control granted to Yitzhak Tshuva, the controlling shareholder in the Company, see section 1.6.4 above.

Income Tax Regulations. This undertaking will be valid as long as The Phoenix Insurance controls The Phoenix Pension, directly or indirectly.

(C) Guidelines regarding restrictions on insurance companies distributing dividends

A letter of clarification issued in December 2011 concerning criteria for approval for an insurer distributing a dividend stipulates that an insurance company may apply for the Commissioner's approval to distribute a dividend, as from the publication date of the periodic reports for 2011, subject to equity rate of at least 105%, as well as submission of an annual profit forecast for the following two years, an updated debt service plan approved by the board of directors of the holdings company, an operative plan to raise capital approved by the board of directors of the insurance company and the minutes of the meetings of the board of directors of the insurance company in which distribution of the dividend was approved. Distribution of a dividend without requiring prior approval of the Commissioner, will be permitted if the ratio between the total equity after distribution of the dividend and the amount required in the clarification will be 115%. It is noted that, as set out in section 1.9.14(D) above, the Company is subject to restrictions regarding distribution of dividend under the deed of trust for debentures (Series 2).

(D) Buyback of shares:

As part of their regular business, some companies purchase Excellence ETNs and profit-sharing policies in the profits of The Phoenix and of the Company. Such purchases are made as part of the investment permits for the "The Phoenix Method" insurance plan, which was granted by the Commissioner of Insurance at the Ministry of Finance. For further information regarding the provisions of section 309 of the Companies Law relating to this activity, see section 1.4.3 above.

(E) Concentration Law

As set out in section 1.6.4 above, The Concentration Law was published in December 2013. The Phoenix and a few of its subsidiaries (Phoenix Insurance Co., Phoenix Pension and Provident Ltd. and Phoenix Old Balanced Pension Funds Ltd.) are listed in the list of concentrated groups under the Concentration Law as a significant financial institution, as well as a significant non-financial corporation.[61]

(F) Pursuant to the Concentration Law, the pyramid holdings structure is limited to two tiers only. Nonetheless, the Law provides a transition period during which a third-tier company would have to be sold within six years from date of publication of the Law, while fourth and fifth-tier companies are to be sold off within four years. Under the Concentration Law's definitions, The Phoenix is considered a second-tier company that controls Phoenix Capital Raising (2009) Ltd., Excellence and Mehadrin, which are defined as third-tier companies. In addition, corporate governance restrictions apply for third-tier and lower companies, and among others, a majority of the board of directors must be independent directors, and the minimum number of external directors must be half the number of board members minus one (rounded upwards) and no less than two. As of the date of approval of the report, the foregoing corporate governance provisions apply to Excellence and Mehadrin, and with regard to The Phoenix Capital Raising, under the Regulations to Promote Competition and Reduce Market Concentration (Classification of a Company as a Non-Tier Company and Provisions for Attributing Control), 2014, certain concessions apply with respect to its classification as a tier company regarding the required duty to appoint directors from among the public and independent director; furthermore, under the Concentration Law, indirect amendments were made to other laws such as the Companies Law, the Control Law and the Provident Fund Law, which provide, inter alia, additional corporate governance provisions, investment constraints on financial institutions, restrictions on providing credit and restrictions on granting control permits to an organization that holds both an insurer an a provident and/or pension fund management company; and in addition, the Concentration Law may also have impact on the corporate governance rules applicable to The Phoenix as a public company and on The Phoenix Group third tier companies. Such restrictions on investment and providing of credit are liable to also apply to The Phoenix Group companies defined as institutional bodies, as well as the provisions concerning restrictions on granting of control permits to an organization that holds both an insurer an a

[61] The Phoenix applied to the committee for the reduction of concentration to obtain clarification for the classification of Phoenix Group, as set out in the list of concentrated corporations that it issued, and accordingly requested that the list be updated so that Phoenix Holdings would be defined as a significant non-financial corporation only (namely, as a significant non-financial corporation, so long as Phoenix Holdings is part of a group that is controlled by a controlling shareholder that also controls a significant non-financial corporation, as Phoenix Group on its own does not fit the definition of a significant non-financial corporation), and that Phoenix Insurance Company Ltd., Phoenix Pension and Provident Ltd. and Phoenix Old Balanced Pension Funds Ltd., be classified as significant financial institutions only (namely, not also as significant non-financial corporations).

provident and/or pension fund management company, and provisions regarding the control of an insurance company that does not have a controlling shareholder.62 For further information regarding the Concentration Law and its implications on the Company and on The Phoenix, see section 1.23 below.

(G) Control Permit:

In July 2013, the Commissioner of Insurance together with the Supervisor of Banks published guidelines for determining criteria and general conditions for applications for license to control and hold regulated financial institutions. In this document, the Commissioner prescribed a set of guidelines, which form a basis for determining a detailed set of criteria and conditions for granting a control permit, the details of which may differ for each type of regulated institution. The considerations taken into account for assessing the suitability of the permit applicant include four main issues: (1) personal and business integrity and honesty; (2) financial robustness; (3) planned investment strategy; (4) business experience, businesses and other activities, and the potential for conflict of interest with the regulated institution. Furthermore, the document sets out various conditions that must exist in order to receive a permit for holding core control, including the existence of consistent and stable core control, the manner by which the controlling means are held, the manner by which the controlling means are transferred, as well as various limitations on the permit holder.

In February 2014, the Commission issued a detailed position paper regarding the acquisition of means of control in an institutional body, setting out the Commissioner's provisions regarding means of control in an institutional body and how applications for a control permit are to be filed. These provisions apply to applicants for a new permit, however the provisions will also apply to existing holders of a control permit, with required adjustments when changes are made in the permit they hold. It is noted that if control is held together with others, each entity in the controlling group must obtain a permit and therefore each of them must apply for a permit. The Commissioner's provisions deal, inter alia, with the following issues: (1) the conditions applicable to an applicant for a control permit together with others; (2) the control structure and with regard to a non-financial corporation, foreign bank and foreign financial institution, money management company, partnership, trusteeship and financial institution, the manner by which the controlling means in the financial institution are held; (3) minimum holding according to which it was determined, inter alia, that holding rates of more than 30% in a financial institution that requires a large amount of minimum equity, more than 40% in a financial institution that requires a moderate amount of minimum equity, and more than 50% in a financial institution that requires a low amount of minimum equity, are required; (4) the financing of the corporations through which the financial institution is held; (5) encumbrance of the means of control; (6) the financial robustness of the permit applicant.

It is noted that in March 2015, a draft circular was issued concerning the transfer of shares of a management company to the controlling shareholder of a management company. The draft circular prescribes, inter alia, rules for granting another control permit in a management company that will be given if a management company is sold, incidental to the requirement of compliance with the Concentration Law (separation of significant financial institutions from significant non-financial corporations), subject to the management of the assets managed by the acquired management company being transferred to the management company controlled by the buyer within 60 days from the date of transfer of the shares of the acquired management company. The foregoing does not detract from the provisions of the law and Commissioner's requirements regarding applications for a control permit.

1.9.17 Legal proceedings

As part of its regular course The Phoenix business in the insurance sector, The Phoenix involved in numerous legal proceedings. Furthermore, at the reporting date, there are a number of motions pending for certification of class actions suits against The Phoenix. The exposure from these lawsuits, and in particular if The Phoenix loses these class actions, if certified, could have a

[62] The foregoing, particularly with regard to the implications of the Concentration Law on The Phoenix, is forward-looking information as defined in the Securities Law, 1968, the actual materialization and/or application of which could differ materially from that projected. Furthermore, the effect of the law as projected is uncertain and is affected by various factors, which are not in The Phoenix's control, such as supplementary arrangements that could be prescribed for the Law, including revision of its regulations and other legislation applicable to The Phoenix and The Phoenix Group. It is also noted that forward looking information does not constitute a proven fact and is based, inter alia, on The Phoenix's assessments which are based on divers and varying data and factors, the accuracy and authenticity of which The Phoenix has not verified.

material effect on the results of The Phoenix's operations. For details regarding pending legal proceedings against The Phoenix and Excellence, see Note 31(A)(2) to the financial statements

1.9.18 Business strategy and goals

The Phoenix aims to position itself as a leading company in the various insurance segments and in the finance segment, inter alia, as regards innovativeness and service, and to expand its operations and increase its market share and profitability. The Phoenix believes that in forthcoming years, the financial services segment will be affected mainly by an erosion of management fees, commissions in the various operating segments, and stiffer regulations. An important component of Excellence's business strategy will include dealing with the repercussions of these trends.

1.9.19 Risk factors

Other than the risk factors to which the Group is exposed as set out in section 1.28 below, in the insurance sector in Israel the Group is also exposed to the following risks:

(A) **State of the economy** - further to section 1.28.3 below, it is also noted that a slump in the economy and decline in employment may result in a decrease in deposits in long-term savings, and withdrawal of pension and medium-term savings (study funds) for current needs, an increase in bad debts, reduced cover purchased in insurance policies, an increase in the number of insurance cases and claims (due to an increase in theft and fraud), filing of claims on earlier dates, and intensification of competition in various operating segments.

(B) **Market risks** - manifestation of market risks could bring about changes in the value of the assets and liabilities held by The Phoenix. The main market risks are: interest risk (the risk that the value of a financial asset and/or liability will change as a result of changes in market interest rates. In most of The Phoenix's businesses, the average duration of the assets does not match the average duration of the liabilities, mainly that of life insurance liabilities in which the average duration of liabilities is considerably longer than the average duration of assets. As a result, a decrease in interest rates has an effect of reducing future proceeds when rescheduling the assets against the liabilities, and reducing the inherent value of the life-insurance portfolio); share and real assets risk (risks that derive from changes in share prices or in the fair value of real assets); credit margin risk (loss that may result from changes in the credit margin between tradable concern bonds and government bonds); currency risk (risk that the fair value of the future cash flows of a financial instrument may change as a result of changes in foreign currency exchange rates); risks related to the CPI (real loss resulting from erosion of the value of NIS assets as a result of inflation rates exceeding the forecast inflation in the capital market, against CPI-linked insurance liabilities. In life insurance (for the portion of the life insurance portfolio that is not backed by designated bonds), general insurance and equity, there is no full correlation between the linkage basis of the assets and the linkage basis of the liabilities. This risk has a significant impact, in particular in nostro portfolios, in which liabilities are almost fully linked to the CPI, whereas not all assets are linked to the CPI); ALM risk (resulting from a discrepancy between insurance liabilities and assets held by The Phoenix Insurance); and the state of the capital markets in Israel and abroad (a significant part of The Phoenix assets portfolio is invested in securities and financial derivatives, which are typically affected by volatility caused by market risks and political, security and economic events in Israel and worldwide. Changes in the capital markets and the value of capital market assets have a significant influence on The Phoenix's results, both in terms of profits stemming from profit-sharing insurance policies and in terms of The Phoenix's nostro portfolios).

(C) **Credit risks** - The Phoenix invests part of its assets in providing of credit, loans and mortgages to corporations, agents and various other borrowers; in various types of deposits in the Israeli banking system; in negotiable and non-negotiable securities; in credit instruments, etc. The Phoenix Insurance is also exposed to the credit risks of the reinsurers with which it has engaged in insurance contracts Default on obligations by counterparts to such contracts due to insolvency, and impairment of the debt due to a drop in a borrower's credit rating or in their repayment ability, will have an adverse effect on The Phoenix profits.

(D) **Regulation** - Further to the provisions of section 1.28.7 below, it should be noted that The Phoenix Insurance is also subject to capital adequacy requirements. Low equity (even if it complies with the capital adequacy requirements) may impair the Company's operations and its ability to insure new businesses. In 2009, stiffer restrictions were placed on minimum capital requirements for insurance companies and regulations for recognizing tier 1 and tier 2 capital. When implementing Solvency II, insurance companies may be required to supplement additional capital.

(E) **Portfolio retention** - Operations in life insurance, provident funds and pension funds are exposed to policy cancellations and redemptions during the policy period. The ability to retain existing client

portfolios depends, among other things, on the terms of the policy, fund or trust, as the case may be, the terms offered by competitors, the policyholders' ability to move their money, market conditions, marketing activities and more. The Phoenix's ability to retain its existing portfolio depends, inter alia, on its ability to achieve attractive returns compared to its competitors.

(F) **Operating risks** – In the course of its business activities, The Phoenix is exposed to many operating risks, such as the failure of internal systems, failure of computing and information systems, including due to insufficient information protection, human error (employees, agents and suppliers), fraud, computer crime and external damage to the Company, such as an earthquake.

(G) **Insurance risks** - The Phoenix Insurance is exposed to risks arising from pricing policies and assessment of insurance liabilities. The insurance policies sold by The Phoenix cover diverse risks, such as life expectancy, disease, natural disasters and theft. The Phoenix is also exposed to catastrophes, such as natural disasters, war and acts of terror, where the principal catastrophe to which The Phoenix is exposed is an earthquake in Israel. Such events could lead to a large volume of aggregate losses. Pricing of policies and the assessment of insurance liabilities are based on past experience, assessment of the current legal situation, and assessment of existing risk factors and the possibility of their occurrence. Accidental changes in business results and changes in the average cost of claim and/or prevalence of claims due to various factors could cause a gap between the pricing and setting the premiums and the actual occurrence, so that the collected premiums are insufficient for covering future claims and expenses. In addition, incorrect assessment of the insurance liabilities might cause the actuarial reserves to be inadequate for covering all the liabilities and claims. Incorrect pricing and assessment of liabilities could arise, among other things, due to using an erroneous pricing model or erroneous parameters in the pricing model.

(H) **Reinsurance -** The Phoenix Insurance purchases reinsurance in international markets. The Phoenix's ability to purchase reinsurance at good terms is affected by The Phoenix Group's performance and the capacity of global reinsurance (which is partially dependent on the reinsurers' stability and the occurrence of global catastrophic events, etc.). Changes in the cost and scope of reinsurance offered in these markets affect The Phoenix's profits and its ability to expand the insurance volume and commit to certain insurance liabilities. Reinsurance does not exempt The Phoenix from its obligations towards its policyholders in accordance with the insurance policies, and for that reason, the financial stability and credit rating of the reinsurers affect the business results of insurance companies. ' Accordingly, the failure of a reinsurer to meet its obligations to The Phoenix might have a significant effect on its ability to meet its obligations to its clients (for example, in the event of a catastrophe).

(I) **Impairment of The Phoenix's financial robustness, the value of its shares or its rating** - Impairment of The Phoenix's financial robustness, the value of its shares or downgrading of its credit rating could make capital and debt raising difficult and adversely affect the terms of such capital raising in the future if needed, which among other things, could become necessary for complying with capital adequacy requirements.

(J) **Lawsuits and class actions** - The Phoenix is exposed to class action suits and claims that could potentially become class action suits, in which it may be found liable for large sums.

Risk factors

Breakdown of the Company's assessment of the types of risk factors and the degree of the impact of the foregoing risk factors on the insurance and finance sectors in Israel:

Risk factors	Effect of the risk factors on The Phoenix operations		
	Major	Moderate	Minor
Macro risks			
Economy		X	
Market risks		X	
Credit risk	X		
Sector-specific Risks			
Regulation	X		
Portfolio retention		X	
Insurance risks		X	

Risk factors	Effect of the risk factors on The Phoenix operations		
	Major	Moderate	Minor
Reinsurance		X	
Risks specific to The Phoenix			
Operating risks		X	
Impairment of The Phoenix's financial robustness, the value of its shares and its ratings		X	
Lawsuits and class actions		X	

The degree of the impact of these risk factors on operations in the insurance and finance sectors in Israel is based on estimates alone and may actually be different.

1.10 Automotive segment

1.10.1 General

The Group's automotive segment is based on the activities of Delek Automotive Systems Ltd. and its subsidiary companies and corporations (Delek Automotive Systems Ltd., its subsidiaries and corporations are referred to collectively as "Delek Automotive"). Delek Automotive is a public company controlled by Mr Gil Agmon, its CEO, who acquired control from the Company in October 2010 and who, at the report publication date holds 37.47% of its issued paid-up share capital.

In the sale agreement, Gil Agmon undertook (unilaterally) toward the Company[63] that as long as he is the controlling shareholder in Delek Automotive and as long as the Company holds more than 20% of the share capital of Delek Automotive, and the number of Delek Automotive's directors is greater than seven, he will act to appoint two directors recommended by the Company, and as long as the Company holds more than 15% (but not more than 20%) of the share capital of Delek Automotive, he will act to appoint one director on the strength of its recommendation. Pursuant to the Articles of Incorporation of Delek Automotive, up to ten directors can be appointed at Delek Automotive (including external directors). In accordance with an undertaking between the parties the Articles of Incorporation of Delek Automotive were amended so that a resolution on the following matters would be passed by a majority of 75% of the shareholders attending a general meeting of Delek Automotive: allotment of shares or securities convertible into shares; sale, transfer or disposal of most of the assets of Delek Automotive or a material change therein; voluntary liquidation of Delek Automotive.

At the report publication date the Company holds 23.07% of the shares of Delek Automotive.

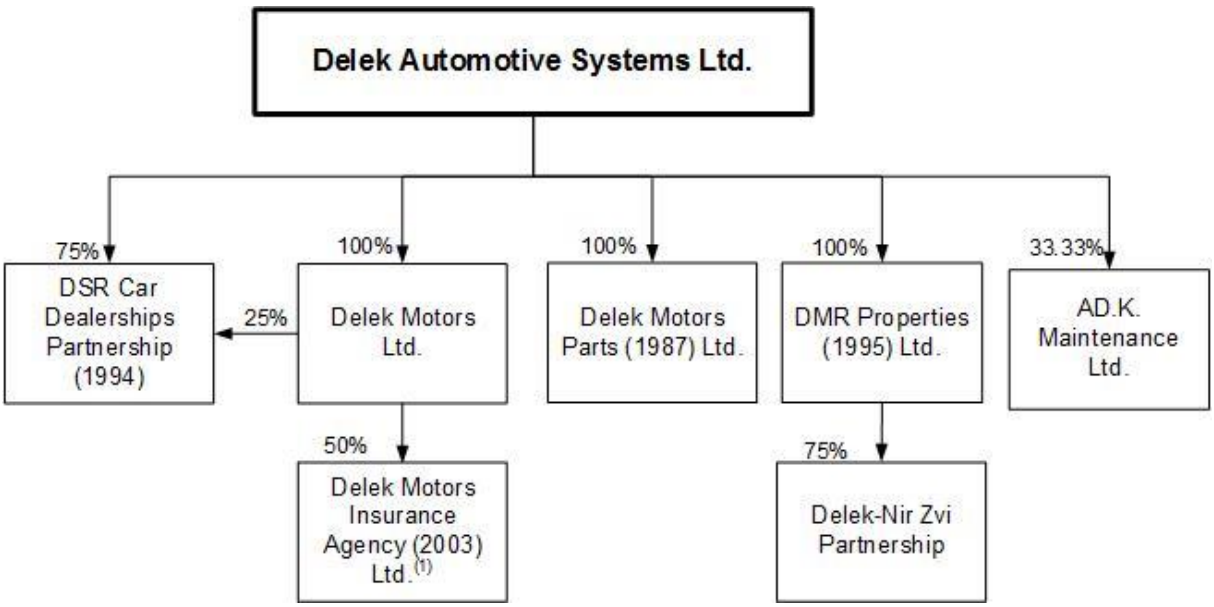
For details on the way in which its holding in Delek Automotive is presented in its financial statements, see Note 14K to the financial statements.

Delek Automotive has been operating in Israel since 1994 as importer, distributor and seller of Mazda vehicles and vehicle parts. In 1999, it started to import, distribute and sell Ford vehicles and vehicle parts into Israel. In addition, from December 2011, Delek Automotive started to import, distribute and sell BMW vehicles[64] and parts in Israel. Delek Automotive also operates a service center (authorized garage) where it provides maintenance and repair services to its customers as well as support and guidance to its network of authorized garages ("the Service Centers") and dealers for the vehicles it imports. Delek Automotive also has a franchise to distribute Lincoln vehicles and vehicle parts in Israel, but at the report publication date, Delek Automotive does not sell these vehicles and vehicle parts.

The following chart illustrates the structure of the main holdings of Delek Automotive:

[63] The sale agreement was signed with Delek Investments and Properties Ltd. which as of December 31, 2011 was merged with and into the Delek Group and liquidated.

[64] In this report, BMW vehicles and parts include Minis and BMW motorcycles as well as parts for BMW's Husqvarna motorcycles which were marketed by Delek Automotive until October 2013.



(1) Formerly Kamor Insurance Agency (2003) Ltd. 50% is held by Aon Israel Insurance Brokerage Ltd., an unaffiliated third party.

1.10.2 General information about the segment of operations

(A) Structure of segment and changes therein

The Israeli automotive market differs from most other automotive markets in the world because of its geographical isolation and high vehicle import duties. The motorization level in Israel is low compared to various Western countries, owing to a relatively low standard of living, relatively high vehicle prices caused by high import duties, inferior road infrastructure and high population density.

The automotive market comprises a relatively large number of vehicle importers which import vehicles manufactured in different parts of the world, most of them importing only two or three brands. The development of the automotive market in Israel is characterized by volatility stemming, inter alia, from changes in the macroeconomic environment.

The main characteristics affecting the operations of Delek Automotive and its competitors include: (a) high dependence on suppliers - the business success of the vehicle importers depends on the financial and business positioning of the manufacturers and on their operating strategies in respect of the launch of new products, global brand positioning, model and pricing policy and marketing support; (b) taxes - in Israel, purchase taxes and import duties on most private cars at a cumulative rate of 100% of the price of the vehicle are among the highest in the world. These taxes affect the power to purchase new vehicles and consequently could affect Delek Automotive's sales; (c) fuel prices - these prices can affect consumer preferences, resulting in a long-term impact on the type of vehicles purchased, based on fuel type (diesel, gas or gasoline); (d) changes in consumer preferences – in recent years there has been a significant rise in the demand for smaller, more economical, cheaper vehicles inter alia because of their lower fuel consumption and lower prices.

(B) Restrictions, legislation, standardization and special constraints in the segment

The automotive market is influenced by legislative and standardization requirements, a significant factor which could have an impact on the supply of and demand for vehicles in Israel. Following are details of the principal requirements which could affect the Company's automotive operation:

(1) Zelekha Committee

For details of the conclusions of the public committee headed by Prof. Zelekha ("the Zelekha Committee") to increase competition in the automotive industry which were published on February 12, 2002, the recommendations of the implementation team appointed by the Minister of Transport in order to formulate recommendations for implementation by the Zelekha Committee ("the Implementation Team") and which published its recommendations in April 2012, and the Vehicle Services Licensing Bill, 2013 ("the Vehicle Services Licensing Bill") which was submitted by the government to the Knesset for approval after the Zelekha Committee and approved in its first reading on June 24, 2013, see sections 1.10.18(A) and 10.2(B)(9).

(2) Parallel import

In March 2010 and January 2013 amendments were published in the Official Gazette to the Commodities and Services Control (Vehicle Import and Servicing) Order, 1978 ("the Import Order") in order to remove the principal barriers to the parallel import of vehicles. Inter alia, it was determined that a vehicle importer could be anyone importing and marketing new vehicles in Israel under an agreement with the manufacturer of an imported vehicle ("the Direct Importer") or under an agreement with an authorized dealer (as defined in the Order) of a manufacturer of imported vehicles of the same make imported by the Direct Importer ("the Parallel Importer"). A Parallel Importer may import no more than three transportation products. In 2013 the parallel import into Israel of several Ford models began. Delek Automotive believes however that existing market conditions mean that it is not economically feasible to engage in parallel import in commercial quantities. Delek Automotive's assessment of the effect of parallel import on its operations is forward-looking information as defined in the Securities Law, and it is based, inter alia, on the fact that the pre-tax consumer prices of vehicles in Israel are among the lowest in the world. This assessment is not certain and might not be realized, inter alia, because of changes in the tax rates imposed on car imports and regulatory changes relating to parallel import. For details of the provisions of the Vehicle Services Licensing Bill in respect of the parallel import and personal import segment, see Section 1.10.2(B)(9) below.

(3) Purchase tax

The reform of the purchase tax imposed on the purchase of private and commercial vehicles took effect in September 2005. It granted tax incentives to encourage the installation of safety accessories beyond those already in existence. On July 4, 2013, the Ministry of Transport published procedure no. 03/13 "Safety System in M1 and N1 Vehicles" whereby from August 1, 2013 tax incentives (by way of a purchase tax credit) will be granted on all new private and commercial vehicles imported into Israel (including by personal import) with safety systems, in order to encourage the import and purchase of better equipped and safer vehicles. The rate of the purchase tax credit will be determined on the basis of the type of safety systems fitted in the vehicle, as set out in the procedure.

Moreover, under the green taxation reform, in November 2010, the Knesset Finance Committee decided to reduce the basic rate of purchase tax imposed on vehicles in Israel from 90% to 83% (before calculation of the tax benefit determined in accordance with the vehicle's pollution score). The green taxation formula (according to which a green index grade is calculated for the vehicle and this serves as the basis for determining tax reductions in relation to the base purchase tax rate) was updated on August 1, 2013. For further details of the green taxation reform see below.

On September 1, 2013, the Customs Tax and Exemptions and Purchase Tax on Goods Ordinance (Temporary Order no. 5), 2013 entered into force. This stipulates that from September 1, 2013 and until December 31, 2017, there would be an increase in the purchase tax levied on Group A motorized vehicles (whose permitted weight does not exceed 3,500 kg) whose price to the consumer is greater than NIS 300,000.

(4) Green taxation reform[65]

On August 2, 2009, the "green taxation" reform of purchase tax on vehicles with a weight of up to 3.5 tons took effect. Under the reform, there was a gradual rise in the basic level of the purchase tax from 75% on private vehicles and 72% on commercial vehicles to a basic level of 83%, along with the grant of a tax benefit which was derived from the pollution grade of the vehicle (pollution grades are determined in accordance with the green score which is calculated for each vehicle

[65] Based on the "Taxation and selected data on the vehicle segment for 2013" report issued by the Planning and Economics Division at the Tax Authority (for the full version of the report, refer to: http://taxes.gov.il/About/PeriodicReports/Documents/SkitraRehev/rechev2012.pdf/.

model based on its pollution data in 5 pollutant categories), and cancellation of the tax benefit for vehicles equipped with electronic stabilization control systems (in light of the fact that this has become compulsory for private and commercial vehicles). Moreover, reduced purchase tax rates were determined for vehicles equipped with advanced propulsion technologies (hybrid vehicles with a pollution grade of 2, plug-in hybrid vehicles, and emission-free vehicles such as electric vehicles). It was also determined that the pollution grade would be stamped on vehicle licenses. A file of vehicle models with their emissions data is published on the Ministry of Transport website, and vehicle importers are obliged to state the pollution and gasoline consumption data of each new vehicle offered for sale. Failure to present the pollution data in accordance with the requirements of the Ministry of Transport will cause the vehicle to be awarded the highest pollution grade, in other words, this vehicle will not be granted tax benefits on the basis of its pollution grade. The rules regarding calculation of the purchase tax will also apply to the import of used vehicles.

On August 1, 2013 an update to the green taxation formula entered into force with the objective of preserving the effectiveness of the tax incentives while improving the positioning of the various vehicle models in the pollution level map, and creating a constant incentive for improvement on the one hand, and preventing the continued decline in the effective purchase tax rates, on the other hand. The updated green taxation formula reduced the tax benefits on vehicles so that the higher the pollution grade of a vehicle, the lower its tax benefit. With the update of the green taxation formula a fixed rule was determined for future formula updates (to take place every two years), in accordance with the recommended values of air pollution costs as published by the Ministry of Environmental Protection every year. Accordingly, the update to the green tax formula of January 1, 2015 which will remain in effect until January 1, 2017, tightens the criteria for vehicle tax benefits and it may reduce the size of the benefit granted to certain models. As a result of this update, after the reporting date Delek Automotive will raise the price of some of its models (by several thousand shekels per vehicle).

(5) Change in method for calculating the use value of company cars

From January 2010 there was a change in the method of calculating the use value from the licensing group method (based on the price of the vehicle in accordance with the price of a vehicle set by the Taxation Authority at the beginning of each calendar year) to the linear method whereby the use value is a fixed rate of the consumer price. This method was applied only to new vehicles registered from January 1, 2010. In contrast, the licensing group method continues to apply to vehicles registered until that date.

(6) Restrictions on importers for the prevention of restrictive arrangements

Pursuant to an order agreed by virtue of Article 50B of the Antitrust Law, 1988, which took effect on April 24, 2003, restrictions and prohibitions designed to prevent restrictive arrangements and to open the parts market to competition were imposed on vehicle importers. For further details, see section 1.10.18(I). For details of the Vehicle Services Licensing Bill under which it was proposed to anchor these restrictions in law, see section 1.10.2(B)(9).

(7) Import of spare parts

Further to the implementation of the Zelekha Committee recommendations, on February 21, 2013, the Ministry of Transport published procedure no. 02/2013 “Information for customers regarding prices and types of spare parts for enterprises using various types of transportation products”, which was designed to increase the transparency and availability of the information presented to customers regarding the prices and types of vehicle products existing in the market. Consequently, since March 21, 2013, all garages and service centers of vehicle importers in Israel have to present all existing types of spare parts and their consumer prices to their customers. In addition, since May 4, 2013, importers of vehicles and spare parts are required to publish on their websites all details of parts, including a description, the international catalogue number and the part’s price on the price list publication date.

(8) Standardization

As part of implementation of the recommendations of the Zelekha Committee, on April 1, 2012, the Minister of Transport granted approval for the import of vehicle models manufactured in any country in the world in accordance with American standards (instead of in the NAFTA countries only). In March 2013 the Ministry of Transport approved the personal import of vehicles manufactured in any country in the world in accordance with Canadian standards. According to articles published in the press, the Ministry of Transport is currently drafting regulations for the application of Canadian vehicle standards. This step is likely to increase the supply of models available to the Israeli consumer, without the need to make adaptations before they arrive in Israel.

(9) The Vehicle Services Licensing Bill, 2013 ("the Vehicle Services Licensing Bill, 2013") or ("the Bill")

At the report publication date, the provision of vehicle services in Israel is regulated by control orders determined by the Minister of Transport by virtue of the Control of Commodities and Services Law, 1957. On June 24, 2013, the Knesset approved the first reading of the Vehicle Services Licensing Bill which was submitted by the government for approval after the Zelekha Committee, which according to explanation was intended to ensure inter alia an appropriate professional level of service providers, maintenance of the public's safety, the provision of regular service to customers and the promotion of competition in the vehicle industry. Some of the recommendations of the Zelekha Committee and Implementation Team have been integrated into the Bill. Following is a summary of the Bill's provisions: (1) Licensing obligation – it is proposed to regulate the provision of vehicle services and professions in the vehicle industry by means of licenses which will be granted in accordance with the provisions of the law by the Director of the Vehicle and Maintenance Services Division in the Ministry of Transport (the provision of these licenses is currently regulated by virtue of various control orders) in such a way that vehicles will be serviced only by people who are licensed to provide this service, and in accordance with the license terms. In this regard, "vehicle service" means the manufacture and marketing of a vehicle in Israel, the import and marketing of a vehicle, the purchase of a vehicle from the importer and its sale by a dealer, the manufacture of a transportation product in Israel, the trade in transportation products and the operation of a garage. The Bill contains a closed list of causes for action and should any of them apply to a licensee, the administration may (after a hearing) suspend, revoke or refuse to renew a license. Delek Automotive believes that the enshrinement of these directives in law, if the Bill is passed, will not have a material effect on its businesses. (2) Unprofessional act or conflict of interest – it is proposed to stipulate that the holder of a license to engage in an occupation in the vehicle industry shall not engage in a profession in such a way as to arouse suspicion of a conflict of interest between his interest and that of his client, including a conflict of interest between his profession in the vehicle industry (in other words, professional management of a garage, vehicle assessor, vehicle import dealer) and another of his occupations. The minister determined a list of circumstances which may indicate possible conflicts of interest, including occupations giving rise to such conflicts of interest. (3) In order to open the vehicle import industry to competition and expand the possibilities of importing vehicles from abroad, it is proposed to regulate three types of commercial importer under the Vehicle Services Licensing Law: direct vehicle importer (operating under an agreement directly with the overseas vehicle manufacturer); indirect vehicle importer (operating under an agreement with an accredited dealer of an overseas vehicle manufacturer); small vehicle importer (importer who enters into an agreement with an overseas entity stipulated by the Minister of Transport and which is restricted to the import of up to 20 vehicles per year), and also to regulate the terms for granting import licenses to each of them (including compliance with the equity requirements stipulated by the minister), and the duties imposed on them. The Bill also lays down the types of vehicles which may be imported by each of the above importers. Delek Automotive believes that enshrinement of these provisions in law, if the Bill is passed, will not have an adverse material impact on its businesses since under current market terms, it is not economically viable to engage in the parallel import of these vehicles in commercial quantities. (4) Under the Bill, before an import license is granted or its conditions are set, the Director shall consider, inter alia, the contribution made by the granting of the license to competition in the vehicle import segment and the level of services to the public, in accordance with the directives stipulated by the minister in this regard after consultation with the Antitrust Commissioner. (5) Personal import – the proposed law allows a person to import a vehicle manufactured as determined by the Minister of Transport, for personal or family use (until December 31, 2015, if he is a dealer – also a vehicle intended for his own business) provided that he does not import a vehicle in the year in which he applies for a license or in the preceding year and no more than two years have elapsed from the manufacture date of the vehicle and until its registration in Israel. Inter alia, a personal applying to import a vehicle by means of personal import shall declare that there is an infrastructure for the maintenance and supply of transportation products for the repair and maintenance of the vehicle. As a rule, the transfer of ownership of a personal import vehicle shall not be permitted for a period of two years from its registration in Israel. (6) The proposed law imposes obligations on direct or indirect vehicle importers in order to ensure the proper functioning of the vehicle over the years such as the provision of vehicle maintenance services, the sale of products specific to the imported model and supplying the buyer with a warranty of its correct functioning. It also defines the relationship between the importers in respect of the warranty and the repair of faults. Delek Automotive believes that the enshrinement of these directives in law, if the Bill is passed, will not have a material effect on its businesses. (7) It is also proposed to ban direct and indirect vehicle importers from making the warranty conditional upon having the vehicle serviced by one of the importer's garages or by using a particular

transportation product. Delek Automotive believes that the enshrinement of these directives in law, if the Bill is passed, will not have a material effect on its businesses. It is also proposed to ban commercial importers from dictating, recommending or interfering in any other manner in the use made by a garage of transportation products not purchased from the importer, or interfering in any way in the import of a vehicle by another commercial importer. It is also proposed to ban the service garage of an importer from handing over to the importer information regarding the use made of transportation products not purchased from the vehicle importer with which it is linked by an agreement. It is also proposed that upon a request from a garage or other entity, direct and indirect importers be obliged to hand over information required in order to service and maintain a vehicle imported by them. (8) Agreement between a commercial importer and a specialist garage – the proposed law obliges a vehicle importer to publish the conditions of its agreement with a specialist garage. Furthermore, the commercial vehicle importer is banned from making an agreement with the garage conditional upon having a vehicle repaired with certain transportation products only (unless where stipulated by the minister), providing service for the importer's vehicles only or imposing price limits for the service provided by the garage, excluding a maximum price for servicing a vehicle in the warranty period. (9) The Bill proposes legislation of the conditions for obtaining an import license for a transportation product, inter alia for personal use or for personal business use, as well as the conditions for the obtaining of a license to trade in transportation products. It also proposes to increase transparency by obligating holders of a commercial license for transportation products to publish information regarding the products he sells (country of manufacture, manufacturer name or trademark, manufacturer address, importer name and address). Delek Automotive believes that the enshrinement of these directives in law, if the Bill is passed, will not have a material effect on its businesses. (10) Under the Bill, a car dealer[66] offering a warranty period beyond the warranty period to be determined in the Bill, shall detail its conditions and display its price separately from the vehicle's purchase price, and shall not make purchase of the vehicle conditional upon purchasing this warranty. Delek Automotive believes that the enshrinement of these directives in law, if the Bill is passed, will not have a material effect on its businesses. (11) The Bill regulates the occupation of a vehicle import agent with the aim of enabling a person wishing to import a vehicle for personal use to be assisted by a professional person. Moreover, it simultaneously protects consumer interests, fights commercial imports disguised as personal imports and tax evasion. Moreover, the Bill regulates the conditions under which used car dealers are also entitled to market new and unused vehicles purchased from the importer. It is also proposed to ban car dealers from selling vehicles from importers where one year has elapsed since its manufacture date and it has still not been registered in his name or in the names of the persons who purchased the vehicle from him. (12) The Bill proposes, inter alia, to establish financial penalties for breaches of the law and penal sanctions for offenses under the law. (13) The Bill proposes, inter alia, to legislate the manufacture of vehicle products, the conditions for obtaining a license to operate a garage and for the professional management of a garage, the conditions for obtaining a license to engage in the appraisal of vehicles and registration in the register of vehicle appraisers, appointment of an advisory council for the licensing of professional garage managers and a council of vehicle appraisers and stipulation of their powers, and qualification of inspectors to enforce the provisions of the law.

The interim provisions of the Bill provide that a vehicle service license (including the import and marketing of a vehicle) granted prior to the effective date and which was in force prior to the effective date shall be regarded as a license granted under this law, and it shall be in force for one year from the effective date or until the end of the license period, the earlier of the two and not less than six months. In respect of a license to engage in a profession in the vehicle industry (including professional management of a garage), a license granted before the effective date which was in force prior to the effective date shall be regarded as a license granted under this law. At the report publication date it is being discussed by the Knesset Economics Committee in preparation for second and third readings.

(10) Additional restrictions

For further details regarding the legal restrictions and legal arrangements applicable to the importation of vehicles and spare parts, see section 1.10.18.

[66] A "car dealer" according to the Bill is a commercial vehicle importer or holder of a license to manufacture and market vehicles recognized in Israel.

(C) Changes in the volume of segment operation and its profitability

The growth trend also continued in 2014, reaching a new record of 239,771 vehicle deliveries (a rise of 6% compared with 2013)[67].

Changes in the volume of activity in the automotive market were accompanied by changes in the mix of activity in this market, primarily as a result of the changes which took place in the operational leasing sector. This meant that vehicle customers fell into two main groups – private customers and institutional customers (which chiefly consist of leasing companies and car hire companies). Institutional customers do not always service their vehicles at an authorized garage chain and some use non-original vehicle parts. Nonetheless, Delek has agreements for the maintenance and supply of vehicle parts with a number of institutional organizations, such as leasing companies and the Ministry of Defense. In recent years there has been a material decline in sales to institutional customers out of all sales in the automotive segment and a rise in sales to private customers, which stems, inter alia, from the change in the method of calculating the use value of company cars. At the report publication date, the changes in the operational leasing sector are having a material effect on Delek Automotive's sales of vehicle parts.

The low interest rates in the economy in recent years as well as the supply of financing to private customers have made it possible to purchase a new vehicle with very little, sometimes zero, capital, and with convenient payment terms. This has been, in the opinion of Delek Automotive, a contributory factor to the rise in the volume of sales to private customers in 2014.

Moreover, after a (relative) increase in the volume of operations in the personal import segment, in recent years there has been a decline in the number of vehicles imported into Israel by means of personal import. The overwhelming majority of personal imports are premium vehicles, most of which arrive from the USA.

In contrast to the prevailing European trend, there is no discernible trend favoring diesel engines over gasoline engines in private vehicles.

(D) Technological changes which could have a material impact on the segment[68]

The declared policy of the Ministry of Transport is to encourage the use of alternative propulsion technologies in order to reduce vehicle air pollution and fuel consumption. Recent years have seen the launch of hybrid vehicles combining liquid fuel (usually gasoline) engines with electric motors which consume less fuel. According to data from the Ministry of Transport, in the first half of 2014 twenty models of hybrid vehicles were registered in Israel and 4,843 vehicles were imported. The annual figure for the import of hybrid vehicles in 2014 is expected to exceed 9,000 vehicles. Despite their significant tax benefits, prices of hybrid vehicles are higher than those of the vehicles sold by Delek Automotive in the equivalent categories. Consequently, these vehicles do not constitute significant competition for those sold by Delek Automotive. It is noted that the market share of hybrid vehicles in Israel is gradually rising (2% in 2011, 2.3% in 2012, 3.1% in 2013 and 3.6% in the first half of 2014)[69]. Furthermore, in recent years, entities in the vehicle market as well as others have been engaging in the development of vehicles which will be powered by electricity only. Ministry of Transport data indicate that 48 electric vehicles were registered in 2011, compared with 518 in 2012[70]. Since at the report publication date, the mileage between charges is low compared with that of gasoline vehicles, Delek Automotive does not expect these vehicles to constitute significant competition for its vehicles in the next few years until substantial technological advances are made.

(E) Critical success factors and changes in the segment

Several significant factors contribute to the success of vehicle and vehicle parts importers in Israel, some of which are: (a) new models and their branding vis-à-vis consumers; (b) trading conditions for the importer, and primarily the currency exchange rates applying to imports and the exchange rates of the currencies used by competitors; (c) good marketing skills; (d) service level and reputation of the importer; (e) good relationship with the manufacturer; (f) commercial relations with leasing and rental companies; (g) vehicle marketability level in the used car market; (h) attractive

[67] Data from reports of the Vehicle Importers Association and are to the best of the Company's knowledge.

[68] This information is to the best of Delek Automotive's knowledge and it is taken from the Public Committee Report on Increasing Competition in the Vehicle Sector, February 2012.

[69] This information is taken from a Tax Authority report on the vehicle industry in 2013 and is to the best of the knowledge of the Company.

[70] This information is to the best of Delek Automotive's knowledge and it is taken from the website of the Israel Vehicle Importers Association: http://www.vehiclesnet.org.il/statistics.

price, quality and availability of vehicle parts; (i) the regulation governing vehicle import and marketing.

(F) Principal entry barriers to the segment

In the opinion of Delek Automotive, the entry barriers to the vehicle import segment in Israel are relatively high for the following reasons: (a) strong ties between the importer and the manufacturer; (b) the financial strength required of car importers; (c) importance of the level of service provided by the importer and its past experience with its customers. For details of the Vehicle Services Licensing Bill which, if approved, is likely to reduce the entry barriers to the vehicle import segment in Israel, see section 1.10.2. (B)(9)However, in the opinion of Delek Automotive, there are no significant entry barriers to the vehicle parts import market. The reasons include the fact that trading in vehicle parts requires a license from the Ministry of Transport and obtaining such a license does not entail the investment of many resources and efforts.

(G) Alternative products and changes in the segment

The Ministry of Transport is progressing with its urban transport development plans. Inter alia, in January 2011 a fast lane project was launched at the entrance to Tel Aviv. In August 2011 the light railway project was inaugurated in the Jerusalem, and according to the plans of the Ministry of Transport, in a few years the inauguration of the first line of the light railway will take place. In September 2012 digging began on two tunnels for the high-speed Jerusalem – Tel Aviv railway line which will lead to a significant reduction in the duration of the journey.

1.10.3 Products and services

(A) Mazda, Ford and BMW vehicles

Delek Automotive imports, distributes and sells a wide range of Mazda, Ford and BMW private and commercial vehicles under franchise agreements with the manufacturers. For a description of the franchise agreements, see sections 1.10.19.

The following tables illustrate the breakdown of vehicle deliveries by Delek Automotive in units for 2013 and 2014, by quarter and by manufacturer:

2014

Manufacturer	Q1	Q2	Q3	Q4	Total
Mazda	5,866	4,164	3,967	3,098	17,095
Ford	2,367	2,848	2,037	918	8,170
BMW/Mini	634	530	645	427	2,236
Total	8,867	7,542	6,649	4,443	27,501

2013

Manufacturer	Q1	Q2	Q3	Q4	Total
Mazda	3,264	3,122	1,968	2,335	10,689
Ford	4,460	3,673	2,973	1,696	12,802
BMW/Mini	673	562	405	302	1,942
Total	8,397	7,357	5,346	4,333	25,433

In addition to the above, in 2014 there were also 242 deliveries of BMW and Husqvarna motorcycles from BMW (compared with the 245 deliveries made in 2013)[71].

Delek Automotive imports, markets and distributes Mazdas, Fords and BMW's including models for different market segments: family sedans (Mazda 3, Ford Focus and BMW 1 Series), executive cars (Mazda 6, Ford Mondeo and BMW 3 Series), SUVs (Mazda CX-5, Ford Explorer, Ford Edge, Ford Kuga and BMW X Series), transport vehicles (Ford Transit), minivans (Mazda 5, Ford S-MAX and Ford Galaxy), commercial vehicles (Ford F-350 and Ford Connect), mini cars (Mazda 2, Ford

[71] Since October 2013 the Company no longer imports and markets Husqvarna motorcycles following a change of ownership of the manufacturer.

Fiesta and Mini), premium vehicles (BMW 5 and 7 Series) and the premium sports vehicle segment (BMW 6, 4, 2, Z series). Delek Automotive also has a franchise to market, distribute and sell Lincoln vehicles in Israel. At the report publication date, Delek Automotive is not selling these vehicles.

In 2014 Delek Automotive's market share was 11% of all vehicle deliveries in the sector (compared with 12% of all vehicle deliveries in the sector in 2013) and 11% of all private vehicle deliveries (similar to 2013)[72]. It should be noted that the decline in the volume of sales of Ford vehicles is due primarily to the fact that sales are being made only from existing inventory because the Company is preparing for the launch of new models in 2015.

Import of vehicle parts and provision of garage services

Delek Automotive markets and distributes all types of vehicle parts and accessories for the vehicles it imports.

Delek Automotive also provides its customers with maintenance and repair services, and support and training for its network of dealers and service centers. The support and training services are provided at its central service garage (the central garage at Nir Zvi). For a description of the real estate asset on which the central garage is located, see section 1.10.9(c) below.

1.10.4 Breakdown of revenues from products and services

The following table shows data for Delek Automotive revenues from products and services in 2013 and 2012 (in NIS millions), as a percentage of the automotive segment's revenue:

	2014			2013		
	NIS millions		% of segment revenue	NIS millions		% of segment revenue
Import and sale of vehicles	3,283		89.3%	3,038		87.65%
Sale of parts and garage services	395		10.7%	428		12.35%
Total	3,678		100%	3,466		100%

1.10.5 Customers

(A) Delek Automotive customers in the vehicle import segment fall into two main categories: private and institutional – in this matter an "institutional customer" is a car leasing company, a car hire company and the Government Vehicle Administration. Below is a breakdown of sales to private and institutional customers for 2014 and 2013:

	2014	2013
Private customers	54%	52%
Institutional customers	46%	48%

This breakdown of sales does not stem from Delek Automotive's policy but from the structure of the vehicle market in recent years. In view of the large numbers of vehicles purchased by institutional customers, these customers are granted bulk discounts and preferential credit terms.

(B) In 2012, Delek Automotive granted credit terms to a particular customer in such a manner that the credit period for some of the regular sales to this customer was significantly extended compared with Delek Automotive's normal practice. In 2012 and 2013 it continued to extend the original credit periods it had granted to this customer. In September 2014, an agreement was reached with this customer to further extend the repayment schedule for the credit, the balance of which at December 31, 2014, amounted to NIS 202 million (compared with NIS 267 million at December 31, 2013), so that the credit will be repayable over a period of three years commencing on January 1, 2015. The credit bears annual interest of prime plus 3%. To secure part of the credit, an encumbrance in favor of Delek Automotive was placed on some of the vehicles it had sold to this customer. Delek Automotive believes that there is no need for an impairment provision in respect of

[72] Based on reports published from time to time by the Vehicle Importers Association.

this debt. In the reporting year there was an increase in sales to private customers which led to a change in the distribution of sales such that in the reporting year there was no one customer which generated revenues constituting 10% or more of the total revenues of Delek Automotive in its consolidated statements.

The following table contains data regarding customers, the revenues from which in the reporting year constitute 10% or more of the Company's total revenues in the consolidated statements from previous years (in NIS millions and as a percentage of the revenues):

	2014		2013		2012	
	NIS millions	%	NIS millions	%	NIS millions	%
Customer A	-	-	379	10.9%	574	14%
Customer B	-	-	374	10.8%	399	9.7%

Delek Automotive customers purchasing parts and garage services are mainly the service centers, distributors, customers of the central garage, institutional customers and also insurance companies providing repair services for their customers under existing insurance arrangements.

1.10.6 Marketing and distribution

(A) Delek Automotive markets and distributes its vehicles in its fourteen showrooms and in the seven showrooms operated by five independent dealers throughout the country. Delek Automotive sales are completed at its showrooms and it also makes direct sales to institutional customers. The BMW showrooms carry out trade-in transactions on all types of vehicles with BMW buyers. Delek Automotive's agreements with the independent dealers that maintain and operate the showrooms do not grant them exclusivity as authorized dealers of Delek Automotive. However, Delek Automotive has agreed that in an area with predefined borders it will not set up another dealership (but this will not remove or restrict its own operations in that area). Delek Automotive pays and sets the commissions it pays to its dealers, and payments are made only after it receives full payment for the sale of the vehicle.

(B) Most of the parts manufactured by the manufacturers of the vehicles imported by Delek Automotive are marketed by the company's central logistics center at Nir Zvi and sold to 58 garages nationwide which have been certified as Mazda and Ford service centers, as well as to six dealers which have been certified as BMW service centers. Delek Automotive also sells parts through various dealers and distributors of vehicle parts in Israel. In recent years Delek Automotive has upgraded the service centers. Under agreements between Delek Automotive and the service centers, service center owners are required to operate, maintain and manage the centers at their expense, in a manner and with an appearance and at a location to be determined by Delek Automotive. Owners are required to maintain permanent inventories of vehicle parts and accessories that comply with the quality and compatibility requirements defined by Delek Automotive from time to time. They are required to repair any vehicle, without charging customers for labor and/or parts, provided the repair is included in the warranty and/or service agreement and Delek Automotive approves the repair in advance.

(C) Delek Automotive also supports the marketing of its products through advertisements in the various media, at the discretion of its management and in compliance with the manufacturer's standard rules.

1.10.7 Competition

The Israeli automotive market contains a number of importers representing various manufacturers. Competition in the vehicle market is between the various importers and is reflected in the wide range of car models imported from different parts of the world (Europe, the United States and the Far East), but it is not usually reflected in the representation of a particular manufacturer by more than one importer. Nevertheless, competition continues to be based mainly on brand, model, price, service quality, consumer preference, the vehicle's resale value in the used car market and payment terms. The external factors influencing competition in the sector are primarily competition in the global automobile market, vehicle manufacturers (financial strength and their option of developing new models) and the exchange rates of the currencies in which the vehicles are purchased. The internal factors influencing competition in the industry are primarily the activities of the other importers in the Israeli market such as potential parallel importers. To the best of Delek

Automotive's knowledge[73], it was ranked fourth among all the vehicle importers in Israel in terms of vehicle deliveries (excluding taxicabs) in 2014 (11.4% of total deliveries. Its main competitors are Union Motors (Toyota, Lexus), Colmobil-Colmotor (Hyundai, Mitsubishi and Mercedes), Samlat (Subaru, Fiat), David Lubinski (Peugeot, Citroen , MG), Moshe Carasso & Sons (Nissan Infiniti, Renault, Dacia), Champion Motors (VW, Audi, Skoda and Seat), UMI (Chevrolet, Cadillac, Isuzu), Mayer's Cars and Trucks Ltd. (Honda, Volvo, Jaguar), Automotive Equipment (Suzuki, Chrysler), Talcar (Kia, SsangYong) and Shlomo Sixt (Opel). In 2013, the parallel import of some Ford models began, and numbers even increased in 2014, but since the quantities are relatively small, Delek Automotive does not regard it as significant competition with its businesses.

On June 2, 2013 procedure directive no. 2/2013 of the Ministry of Transport came into force. It canceled the requirement forcing the leasing companies to register vehicles in their name and sell them as "second-hand", thereby improving their ability to compete with vehicle importers in the sale of new vehicles (zero kilometers), without registering an owner and without mention of a "leasing remark" which reduce the vehicle's value. It is noted that in 2012, in other words, before the new regulation took effect, the weight of vehicle sales sold by leasing companies, out of all the new vehicles sold to the public, amounted to 5%[74]). A change in this policy may increase the level of competition in the vehicle market and even lead to a reduction of the differences between the size of the discounts awarded to car fleets and those awarded to private consumers. Moreover, in 2014, there was a continuation of the trend of "private leasing" (finance leasing for the private sector), alongside the trend of a decline in demand in the operational leasing segment through employers.

It is noted that under the Vehicle Services Licensing Bill whose first reading was approved by the Knesset on June 24, 2013, it is proposed to authorize the Director of the Vehicle and Maintenance Services Division in the Ministry of Transport to stipulate conditions in the vehicle importer license (which will be granted to entities importing and marketing vehicles in accordance with the provisions of the above-mentioned proposed bill), inter alia given the contribution made by the grant of the license to competition in the vehicle import segment and to the level of service to the public, in accordance with the provisions to be determined by the Minister of Transport in this matter, after consultation with the Antitrust Commissioner (for further details of this bill, see section 1.10.2(B)(9)).

The intense competition in the vehicle parts and garage service markets is waged with original parts imported by means of parallel import, generic parts, counterfeit parts, parts from scrapped cars, reconditioned parts and stolen parts. The competition to provide garage services is waged between the authorized service centers and unauthorized garages. Delek Automotive cannot estimate its market share in the service and vehicle parts market since there are no official data owing to the proliferation of service providers, distributors, and small- and medium-size dealers.

1.10.8 Seasonality

The automotive market is not usually characterized by seasonality. The trend however is for vehicle sales to fall towards the end of the year and increase at the start of the year because customers prefer their vehicle licenses to record that the vehicle was registered in a new calendar year.

1.10.9 Property, plant and equipment, real estate and facilities

Below is a summary of the main real estate and other material property, plant and equipment of Delek Automotive:

(A) Delek Automotive owns a Mazda showroom in Victoria House in Tel Aviv. With an area of 912 sq. m. the showroom is located on the ground floor and adjacent to it is a parking lot with an area of 132 sq. m. Delek Automotive also has a 50% undivided interest ownership in a land area of 747 sq. m. (gross) which is part of the BMW Tel Aviv showroom. The showroom is located on the ground floor and has five parking spaces in the basement.

(B) Delek Automotive leases showrooms from third parties for its brands in Haifa, Jerusalem, Raanana and Tel Aviv.

(C) <u>Logistics center and central service garage ("Central Garage")</u>

Delek Automotive, through DMR Properties (1995) Ltd. ("DMR Properties") has a logistics center comprising storage areas and offices situated on an area of 64 dunams near Moshav Nir Zvi. The Group's Central Garage is located on adjacent land, as set out below.

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[73] Based upon the reports published from time to time by the Vehicle Importers Association.

[74] Based on "Taxation and selected data on the vehicle segment for 2012" report issued by the Tax Authority.

DMR Properties has leasing rights to this land through 2045 (with an option for a 49-year extension). Operations in the logistics center include vehicle storage, preparation and delivery of vehicles to customers, and marketing and sales of vehicle parts. Delek Automotive's management and service staff are also located in this compound.

The Central Garage is located on adjacent land with an area of 15 dunams to which DMR Properties has leasing rights through 2042 with an option for a 49-year extension. Delek Automotive has also purchased agricultural land adjacent to the area on which the Central Garage is located, as follows: (1) land with an area of 71 dunams of which Delek Automotive purchased 58.5% (undivided interest). The leasing rights to this land expired on September 30, 2002 and despite consent received from the ILA on May 15, 2009 to extend the lease agreement, it has not yet been extended in light of the ILA's demand to regularize the rights of the previous owner of the land who is not active at present. Following paving of a road, part of this area was expropriated and another expropriation is expected and this would leave Delek Automotive with an area of 22.35 dunams. (2) 22 dunams of land to which Delek acquired the leasing rights from Koor Properties ("Koor"). The leasing rights to the land run through 2052. The transfer of the lease from Koor to DMR Properties has not yet been implemented owing to a demand from the ILA for payment of a consent fee in the sum of NIS 1,138,628 to which an objection was lodged by Koor (the matter has been transferred to Koor for handling, as required by the rights purchase agreement). After the road was paved, part of this land was expropriated, so that the area of the leased land is expected to be 12 dunams. (3) 15 dunams of the land to which Delek Automotive has leasing rights until September 18, 2042 with an option for a 49-year extension. This is the land where Delek Automotive's Central Garage is located. (4) Delek Automotive holds 50% (undivided interest) through the Nir Zvi Partnership in the leasing rights to a plot of land of approximately 5 dunams bordering on the plot on which the Group's Logistics Center at Nir Zvi was constructed, which was purchased in order to provide convenient access to the center. At the report publication date, the partnership intends to initiate a change in the designation of the land and construct a commercial center and gas station.

(D) Acquisition of land for the construction of showrooms

(1) Delek Automotive owns, through DMR Properties half the rights in a 5,000 sq. m. plot of land located in the Hamasger area of Tel Aviv ("the First Plot"). On February 6, 2008, DMR Properties and Vitania entered into an agreement, which was amended on November 28, 2011, regulating their cooperation in the joint construction of an income-generating property on the plot and an adjacent plot, if acquired ("the Cooperation Agreement"). Under the Cooperation Agreement, DMR Properties and Vitania are constructing an income-generating property which will comprise an office tower and showroom and which will be let to Delek Automotive for its operations[75] (in this section: "the Project"). In addition, on the same day, a loan agreement was signed by DMR Properties and Vitania in which DMR Properties undertook to grant Vitania a loan of NIS 32 million to finance the acquisition of its share (of Vitania) in the plot ("the Loan Agreement"). In 2012 Delek Automotive and Vitania acquired additional land adjacent to the southern part of the First Plot, in consideration of NIS 76 million ("the Second Plot"). The Second Plot has construction rights for a gross area of 28,000 sq. m. and a designation identical to the designation of the First Plot. According to the business plans of Delek Automotive and Vitania, the construction rights of the Second Plot were concentrated in the First Plot and were attached to the construction rights of the First Plot, so that in total, according to the plans, it is possible to construct a gross area of 48,000 sq. m. in the First Plot. In 2012 and 2013 changes were made to the plans and at the report publication date, the entire Project is expected to be constructed in the following stages: (1) Stage A consists of the construction of all the parking basements in an area totaling 29,000 sq. m., as well as showrooms for Mazda, Ford, BMW and Mini vehicles in a total area of 7,500 sq. m., which will be leased to DMR Properties or to another subsidiary of Delek Automotive for its operations. Delek Automotive believes that this stage will be completed at the end of 2015; (2) Stage B consists of the construction of a 32-story office building in the eastern section of the First Plot, with a total area of 40,000 sq. m., which will be constructed subject to significant early marketing. At the report publication date, Delek Automotive had obtained all the construction permits required for construction of Stage A of the Project and had not yet obtained all the approvals required for Stage B. At this time, Delek Automotive believes that Stage A will cost NIS 340 million (including the cost of the land), and Stage B is estimated to cost an additional NIS 240 million. Delek Automotive's estimates regarding continuation of the Project and its construction costs are forward-looking

[75] DMR Properties undertook to lease the showroom for a period of 15 years and it was granted an option to extend the lease period for an additional period of not more than 9 years and 11 months under conditions to be agreed by the parties.

information as defined in the Securities Law and are based, inter alia on the estimates of the professionals providing services to Delek Automotive for the Project. These estimates are not certain and could change, inter alia, as a result of external factors which are not under the control of Delek Automotive, such as a delay in obtaining building permits and/or approvals from other authorities as required by law, difficulties with suppliers, increases in the prices of construction inputs, etc.

For details of the credit agreement to finance Stage A of the Project, see section 1.10.15(D).

In October 2011 another agreement was signed by DMR Properties and Vitania whereby the parties would lease a plot of land from the ILA in equal parts in order to construct a BMW service center (in this section: "the Cooperation Agreement" and "the Project"), respectively. In November 2011 the parties acquired the lease rights in a plot of land in Kiryat Arie in Petah Tikva with an area of 4,500 sq. m. at a cost of NIS 13 million (DMR's share totaled NIS 6.5 million).

On December 19, 2013, DMR Properties and Vitania entered into a sale agreement under which DMR Properties would acquire all the rights of Vitania in a plot and would assume all Vitania's liabilities in connection with the Cooperation Agreement, the development and leasing agreements, the financing from Bank Hapoalim and the agreements with contractors in consideration of NIS 1,041 thousand. At the reporting date, most of the construction of the Project had been completed and approvals to populate it had not yet been received.

(2) At the report approval date, the estimated balance of the construction costs totals NIS 5 million. DMR Properties intends to operate the service center by means of a third party after completion of its construction. Delek Automotive's estimates regarding the duration of the construction of the Project and the balance of the construction costs are forward-looking information as defined in the Securities Law and are based, inter alia on the estimates of the professionals providing services to Delek Automotive for the Project. These estimates are not certain and might not be realized, inter alia, because of external factors which are not under the control of Delek Automotive, such as difficulties with suppliers, increases in the prices of construction inputs, etc.

1.10.10 Intangible assets

Delek Automotive has franchises from vehicle manufacturers such as Mazda, Ford, BMW and Mini for the import of vehicles and parts, as described in sections 1.10.19. Delek Automotive is materially dependent on these franchises.

1.10.11 Human resources

At December 31, 2014, Delek Automotive has 356 employees in the following departments:

Department	No. of employees
Management	8
Finance, IT, Administration	33
Mechanics	99
Service	38
Sales	84
Logistics	52
Vehicle parts	42
Total	356

Delek Automotive is dependent on Mr. Gil Agmon, the controlling shareholder in Delek Automotive and its CEO, inter alia, because,, any change in the active management of Delek Motors Ltd. requires prior written consent from Ford; furthermore, Mazda may notify Delek Motors of termination of the Mazda Agreement if there is a change in the management of Delek Motors; and consent must be obtained from BMW and Mini to any change in the control of Delek Motors or its senior management. For further details, see sections 1.10.19.

(A) Benefits and the nature of the employment agreements

In general, Delek Automotive employees have employment agreements. Most Delek Automotive employees have executive insurance policies that include provisions for pension or savings and Delek Automotive's obligation for severance pay, as part of their terms of employment. Delek Automotive pays all its employees an annual bonus. In addition, since Delek Motors is a member of the Vehicle Importers Association, which is affiliated to the Chamber of Commerce Association, its

employees are covered by a general collective agreement for import, export, service and trade sector employees from February, 21, 1977 (as amended on June 11, 1980 and October 27, 1983) ("the Collective Agreement"). In addition, extension orders applied some of the provisions of the Collective Agreement to all employees and employers in the import, export and wholesale trade sectors, and therefore, it appears that they apply to all Delek Automotive employees.

Employees and members of senior management of the group are employed according to the terms which have been agreed upon with each employee individually; these terms include among others, monthly payment, entitlement to a company car, contributions to pension funds and study funds. It is also noted that on September 9, 2013, the Company's Annual General Meeting approved the remuneration policy (valid for three years from the date of approval) only for employees of the public company Delek Automotive alone, as determined by the Delek Automotive Board of Directors on July 31, 2013, according to the recommendations of the remuneration committee from July 28, 2013. The remuneration policy does not apply to employees of Delek Automotive's subsidiaries, as they do not hold a position in the public company Delek Automotive and do not receive compensation from it. In addition, the remuneration policy does not apply for any current agreements and/or contractual terms, for the period in which they are valid. That being said, it will apply to any renewal or update of current agreement as well as on discretionary approval of bonuses according to agreement and/or current contractual terms.

(B) Training and instruction

Delek Automotive holds regular training sessions for its employees, including at overseas vehicle manufacturers, according to its needs and the employee's function. Delek Automotive also sends its professional employees to trade fairs, seminars and workshops on various topics.

1.10.12 Suppliers

Vehicles and vehicle parts are supplied to Delek Automotive by Mazda, Ford and BMW from their various factories around the world at the manufacturers' discretion. Mazda products generally come from Japan, while most Ford and BMW products are imported from Europe. Delek Automotive is dependent on these suppliers.

In 2014 approximately 54% of the import value of vehicles and about 28% of the import value of imported parts were from Mazda, approximately 30% of the import value of vehicles and 56% of the import value of imported parts were from Ford and the remainder were from BMW. For a description of the agreements with Mazda, Ford and BMW, see sections 1.10.19.

Vehicles and vehicle parts are available within 90 days of the order date and in accordance with the business plan drawn up with each of the vehicle manufacturers.

1.10.13 Working Capital

(A) Vehicle inventory policy

Delek Automotive orders new vehicles from the car manufacturers about once a month. The vehicles arrive in Israel two to three months later. Delek Automotive's policy is to hold stock sufficient for an estimated four months.

(B) Vehicle parts inventory policy

The Commodities and Services Control (Vehicle Import and Servicing) Order, 1978, obligates the supplier to supply transportation products for any vehicle model imported by the importer within seven days from receipt of the order. However, the importer or its agent is protected if it proves that it complied with all the procedures for ordering a product from any possible source at the time, and that the delay in supply was beyond its control, provided the product is supplied to the customer within 14 days from the order date. The vehicle parts inventory at Delek Automotive's Logistics Center is based on the experience of Mazda, Ford and BMW as well as Delek Automotive's accumulated experience with regard to the Israeli market's need for parts. They are delivered about two to three months after being ordered. For urgent orders which cannot be supplied from inventory, Delek Automotive purchases the required parts from the central parts facilities of Mazda, Ford and BMW in Europe and ships them to Israel by air. In order to maintain inventory at the levels required to provide its customers with appropriate service, Delek Automotive uses a computer system based on statistical models which takes relevant parameters into consideration. Therefore, Delek Automotive maintains a five-month inventory of parts. This inventory comprises 72,000 items which are valued at NIS 92 million in the financial statements at December 31, 2014.

(C) Warranty Policy

In addition to the Ford, Mazda and BMW vehicle warranties attached to the manufacturer agreements, the manufacturers provide warranties as detailed in the warranty manual of each car. The warranty manual provided with each Mazda car provide a three-year or 100,000 km warranty, whichever comes first, for all their models, where for the first two years from the vehicle sale date the warranty is unlimited in mileage. The warranty manual provided with each Ford car provides a three-year or 100,000 km warranty, whichever is the earlier, for all their models. It should be noted that while Delek Automotive is obliged to provide a two year warranty from the date of sale for all private vehicles, regardless of mileage, in accordance with the import regulations, Delek Automotive provides an independent commitment, which is not supported by the manufacturer, to provide a warranty to Ford vehicles sold by the Company regarding vehicles which have accumulated over 100,000 km before two years have passed from the vehicle's date of sale. In the light of this, Delek Automotive has made a provision in the financial statements for the aforementioned commitment for overall amounts which are not material. The warranty manuals attached to BMW vehicles (including motorcycles) provide three-year unlimited mileage warranties. As noted in section 1.10.19(C), in its franchise agreement BMW undertook to provide two-year warranties for its products. BMW and Delek Automotive have understandings whereby BMW will also cover the warranty expenses for the third year. Under the manufacturer warranty, Delek Automotive grants this warranty for all the vehicles it sells, and is entitled to reimbursement from the manufacturers for expenses incurred by supplying warranty services under the franchise terms. It is clarified that with the exception of what is detailed above, the warranty is a direct and exclusive warranty from the manufacturer which determines its terms for the customer, while Delek Automotive acts as the manufacturer's agent in all matters pertaining to the provision of service to the customer in general and implementation of the vehicle warranty in particular. There were no material disputes between Delek Automotive and the manufacturers regarding the aforementioned warranties during the reporting year.

The warranty manuals provided with the vehicles sold by Delek Automotive specify that the parts warranty is as follows: For vehicles delivered by October 2, 2011, the warranty is for the first six months or 10,000 km, whichever is earlier, from the date of installation in a Delek Automotive service center. For vehicles delivered after October 2, 2011 Mazda provides a 12-month unlimited mileage warranty for its parts, and Ford provides a warranty for its parts for the first 12 months or 20,000 km, whichever is earlier, from the date of installation in a Group service center. BMW parts have a 24-month unlimited mileage warranty provided that the parts were installed and tested in accordance with the manufacturer's instructions.

(D) Credit Policy

The following tables illustrate detail the average amount of credit and average credit days for customers and suppliers (annual) for the years 2013 and 2014.

Vehicle imports:

	2014		2013	
	Volume (NIS millions)	**Days**	**Volume (NIS millions)**	**Days**
Clients	601	52	809	66
Suppliers	711	195	650	160
Suppliers (effective)[76]	-	95	-	85

[76] In light of the fact that the taxes for the import turnover are paid by Delek Automotive in cash, there is a significant difference between the average credit days of the suppliers and the suppliers effective average credit days.

Import of spare parts and provision of garage services:

	2014		2013	
	Volume (NIS millions)	**Days**	**Volume (NIS millions)**	**Days**
Clients	54	77	57	77
Suppliers	32	35	25	35

1.10.14 b

(A) In April 2002, August 2003, and December 2005, Delek Automotive acquired shares in Mobileye N.V., ("Mobileye") in consideration of USD 7.2 million. Mobileye is developing an advanced sensor technology system for the automotive industry. On July 31, 2014, Mobileye completed the listing, offer for sale and capital raising on the New-York Stock exchange[77]. As part of the listing and capital raising process, Delek Automotive realized approx. 50% of its holdings of Mobileye at the time, at an overall value of approx. USD 56 million. The fair value of the Mobileye shares held by Delek Automotive (which constitute, as of March 18, 2015, approx. 1.117% of the Mobileye share capital) at the time was approx. NIS 367 million, based on the share value at the time at the New-York Stock Exchange, after deduction of the capping elements that existed on these shares at the time (and was estimated by an independent external value appraiser at approx. 3.1%)[78]. Delek Automotive registered a profit of approx. NIS 442 million (gross) for the sale of Mobileye shares during the reporting year, as a result of the rise in Mobileye share value and the rise on the USD exchange rate.

(B) In 2006 Delek Automotive acquired 2,200,000 Ford Motor Co. shares (comprising, at March 18, 2015, approx 0.057% of Ford's share capital) in consideration of approx. USD 15 million (approx. NIS 70 million at the time). The Ford Motor Co. is a public company whose shares are traded on the New York Stock Exchange, and is the manufacturer of Ford vehicles. At December 31, 2014, the fair value of Ford shares held by Delek Automotive us approximately USD 133 million, based on the price of the share at the stock exchange. Delek Automotive registered a profit of approx. USD 15 million as a result of a rise of the Ford share price, as well as of rise in the USD exchange rate.

1.10.15 Financing

(A) Delek Automotive operations are funded by credit received from banks and non-bank finance bodies (including a loan from a related party), interest bearing suppliers credit, and capital.

(B) Below is the average interest rate on loans from bank sources that were in effect in 2014 and are not intended for the exclusive use of Delek Automotive[79]:

		Average interest rate	
		Short-term loans	**Long-term loans**
Sources of bank financing	**NIS credit**	Prime - 0.2%	2.75%
	Credit in Japanese yen/euro	Libor + 1.9%	-
	Credit in USD	Libor + 1.8%	-
Sources of non-bank financing	**NIS credit**	-	Index linked + 4.6%
	NIS credit	3.73%	-

(C) Credit Restrictions

(1) When it received the loans and credit facilities from the banks, Delek Motors or DMR Properties (as applicable) undertook to maintain the covenant whereby the equity ratio in the consolidated balance sheet at the end of each calendar year will not be less than 20% of its total assets for that

[77] During August 2013, Delek Automotive sold approx. 24% of its holdings in Mobileye as part of a transaction for the sale of some of the Mobileye shares to strategic investors for at a share price of USD 34.9, at an overall value of approx. USD 10.6 million.

[78] The shares were blocked until January 29, 2015.

[79] The average interest rate in the table is close to the effective interest rate.

year. “Total assets” is defined as total assets in the balance sheet less short-term credit from bank corporations in a sum which does not exceed the balance of cash and cash equivalents in the banks. At December 31, 2014 the ratio of equity to total assets was 40%.

(2) As part of a credit agreement between DMR Properties and a number of pension funds, provident funds and insurance companies, Delek Motors and/or DMR Properties (as applicable) undertook to maintain the covenant detailed in section 1.10.15(2)(D) below.

(3) The credit arrangements with the banks include a Delek Motors undertaking not to create any liens on the Company’s properties and assets for any person or body, and not to sell or transfer in any form (except for regular business sales) it’s assets to any third party, without receiving the Bank’s prior written consent.

(D) Credit agreements which are material to Delek Automotive

(1) For the purpose of realizing stage A of the project on Hamasger Street in Tel Aviv (as detailed in section 1.10.19(D)), during October 2010, DMR Properties and Vitania (jointly in this section: “the Borrowers”) entered into a credit agreement with Israel Discount Bank Ltd. (in this section: “the Bank”), whereby the Bank would grant the Borrowers a credit facility of a total aggregate amount of up to NIS 150 million (“the Original Credit Agreement”). In order to acquire the Second Plot (as defined in section 1.10.19(D)(1)), in June 2012 the Borrowers entered into another credit agreement with the Bank which would replace the Original Credit Agreement, whereby the Bank would grant the Borrowers another credit facility of NIS 45 million (the first and second credit agreements jointly: (“the Credit Agreement”). Due to the changes in the project plan (detailed in section 1.10.9(D)(1) above), the Borrowers entered an amendment to the Credit Agreement on July 9, 2013. According to the amendment, the Credit Facility for the project’s financing was decreased to NIS 130 million (“the Agreement Amendment”). The borrowers would use the Credit Facility by taking out short-term, on-call loans (“the Discount Bank Loans”).

On November 25, 2014, DMR Properties replaced the Loans From Discount Bank to Credit from Hapoalim Bank Ltd. (“Hapoalim Bank”), which granted the Borrowers a guaranteed credit facility of a total aggregate amount of up to NIS 210 million, valid until June 30, 2017 (hereinafter, respectively: “the Credit Period” and “the Credit Facility”). NIS 140 million of the Credit Facility served for payment of the Discount Bank Loans and were granted as a long term loan (until the end of the Credit Period), where half of the amount as granted at an annual interest of Prime + 0.55% and half of the amount at a fixed annual interest of 2.65%. The interest payments will be paid ever quarter while the capital will be paid at the end of the Credit Period. The remainder of the Credit Facility,up to a total of about NIS 70 million will be used for the completion of Phase A of the project, will be withdrawn as short-term, On-Call type loans, according to the progress of the project, which we bare an annual interest of Prime deducted of 0.2%, and DMR Properties will pay a non-utilization commission at a rate of approx. 0.5% of the overall non-utilized Credit Facility (hereinafter: “the Bank Poalim Credit”).

In order to secure payment of the Bank Poalim Credit, the Borrowers will provide Bank Poalim with various collateral including, among others, a first mortgage or fixed first liens and a cheque by way of lien, unlimited in amount, to all the rights of the project's real estate, as well as a fixed first lien and cheque by means of lien, unlimited in amount, for all of the Borrowers rights resulting from the rent contract to be signed between the sides and Delek Motors regarding the project, including rent fees, payments and funds coming to the Borrowers from Delek Automotive by the power of the aforementioned rent contract (hereinafter: “the Liens”)[80]. In addition, Delek Motors provided Bank Hapoalim with an permanent and unconditional security, limited to a sum of up to NIS 250 million (interest linked) to ensure the full repayment of the Borrowers debts regarding the Credit From Bank Hapoalim (including for Vitania's Liabilities towards Bank Hapoalim) against receiving a letter of indemnity from Vitania for half of the amount of the guarantee, according to Vitania's part in the project.

A number of events were determined, where if any one of them took place, Bank Hapoalim will be allowed to immediately cancel the entire Credit Facility provided to the Borrowers and even put the credit amounts up to immediate repayment, in full or partially, and this, among others, as long as no Liens are registered in favor of Bank Hapoalim up to June 30, 2015.

In addition, the credit documents state that Bank Hapoalim may cancel or minimize the Credit Facility or to put the amount actually used from the Credit Facility up for immediate repayment, immediately and without providing early notice, in events which according to the Bank's discretion

[80] As at the approval date of the report, the aforementioned liens have yet to be registered with the Registrar of Companies and with the Land Registry Bureau.

there may be a risk in the Bank Hapoalim's ability to collect the Borrower's debts regarding the Credit Facility, in full or partially, or if one of events which provide Bank Hapoalim with the right to put the debts of the Borrowers for immediate repayment, including the Lender's debts for Credit From Bank Hapoalim

As at the approval date of this report, the unpaid balance of Credit From Bank Hapoalim at the date of this report is approx. NIS 141,212 thousand.

(2) On June 11, 2012 DMR Properties signed an agreement with a number of pension funds, provident funds and insurance companies "the Lenders") whereby the Lenders would extend to DMR Properties a loan of NIS 185 million (in this section: ""the Agreement" and "the Loan"), respectively).

The Loan will bear annual interest of 4.6% and will be linked (principal and interest) to rises in the CPI compared with the Known Index on the date on which the Loan was granted. The interest will be repaid every six months from January 1, 2013 until July 3, 2022 (inclusive) and the principal will be repaid in semi-annual installments from January 1, 2014 until July 3, 2022 (inclusive).

In order to secure repayment of the loan the Lenders were granted various forms of collateral, including a fixed first lien and a first assignment by way of a lien, unlimited in amount, on all the rights of DMR Properties in the land on which the Logistics Center and Central Service Garage (Central Garage) are located at Nir Zvi (in this section "the Land"), on all the rights of DMR Properties in the Nir Zvi Logistics Center (in this section: ("the Asset") and on all the rights of DMR Properties under existing and future lease agreements signed in connection with the Asset (including with companies held by the Company); a first pledge and assignment by way of a lien, unlimited in amount, in respect of the rights of the Borrower in a bank account to be opened by DMR Properties and to which all the rent to which DMR Properties would be entitled for the Asset, would be transferred; guarantees of the Company and Delek Motors which are unlimited in amount; a lien on insurance policies which have been taken out and/or which would be taken out in connection with the Asset.. Under the agreement, DMR Properties assumed additional general obligations which are common in this type of agreement.

As is accepted practice with this type of loan agreement, it listed events which would grant the Lenders the right to call for immediate repayment of the loan (in whole or in part) and/or realize the liens (in whole or in part), including, among others, the following events: If any entity in Israel or abroad calls for immediate repayment of a financial debt exceeding NIS 50 million of DMR Properties and/or Delek Motors and/or the Company (together in this section: "the Companies") and the breach is not remedied within three business days; noncompliance with one or more of the financial covenants set out hereunder; change in the control structure of the Companies, as set out in the agreement, etc. . In the agreement DMR Properties, Delek Motors and Delek Automotive undertook to comply with the following financial covenants:

(a) Ratio of rental to current maturities - from the date of termination, for whatever reason, of any of the marketing franchises of Ford and Mazda ("the Termination Date") and as long as said marketing franchise is not renewed - the ratio between (a) the rental (only) which was deposited in a bank account in the twelve months preceding the test date as set out hereunder ("the Receipt Flow"); and (b) the current maturities of the loan (principal plus interest including CPI linkage differentials) on the two dates of payment of the interest prior to the test date, will not fall below 1.15. This covenant will be tested by the Lenders every calendar quarter from the termination date until the date of full and final repayment of the loan or the renewal of the marketing franchise, the earlier of the two;

(b) Equity balance sheet ratio - the ratio between the equity of Delek Motors and the total balance sheet (as it is in the audited annual financial statements of Delek Motors less the cash amounts in the balance sheet up to the total of the short-term loans in the balance sheet) of Delek Motors will not fall below 20%. This covenant will be tested by the Lenders every calendar quarter from the closing date until the date of full and final repayment of the loan, pursuant to the last audited annual financial statements of Delek Motors which were published / approved before the test date. If this ratio falls below 20% but rises above 17%, it the financial covenant may be amended during the period set out in the agreement. This amendment opportunity will be given four times only during the term of the loan. At December 31, 2014 the equity balance sheet ratio was about 40%.

(c) The ratio between the outstanding loan balance and the value of the asset (the Nir Zvi Logistics Center, as determined in the fast realization collateral appendix, which was attached to the appraiser's valuation of the asset, will not exceed 70%. This covenant will be tested by the Lenders once a calendar year. The loan agreement terms state that in the event that the ratio exceeds the aforementioned, the debtor (DMR Properties) may, within 45 days of the test date, provide the

Lenders with additional securities or settle a part of the uncleared balance, so that once the additional securities have been provided or part of the uncleared balance has been cleared, the LTV will not exceed 70%, and this shall be considered that the debtor has met the aforementioned financial covenant. At December 31, 2014 the ratio between the outstanding loan balance and the value of the asset was 69% (taking into consideration the repayment of part of the loan during January 2015, as allowed by the Agreement), and was at approx. 65%. around March 18, 2015.

(E) Credit facilities of Delek Motors and their conditions

At December 31, 2014, Delek Automotive had unsigned credit facilities totaling NIS 1,350 million. At December 31, 2014 and March 18, 2015, it had used NIS 217 million and NIS 409 million of this amount, respectively. These credit facilities were granted for one year.

(F) It should be noted that the standard forms for opening an account which were signed by Delek Automotive many years ago stipulate that the bank will have precedence in calling in any loan granted to Delek Automotive, inter alia, in the event that any document signed by Delek Automotive gives another entity the right to demand immediate repayment of its debts and liabilities to said entity.

(G) Variable interest credit

Below are details of variable interest credit used by Delek Automotive at the balance sheet date and at March 16, 2015:

Change mechanism	Interest range in 2014	Basic interest rate before report publication date (March 16, 2015)
Bank of Israel interest +	1.3%	1.3%
JPY LIBOR +	1.8%-2%	1.8%
EUR LIBOR +	1.8%-2%	1.8%
USD LIBOR +	1.8%-2%	1.8%

1.10.16 Taxation

(A) Every vehicle imported by Delek Automotive is subject to Purchase Tax. For details of the Purchase Tax, see section 1.10.2(3)(B)

(B) Vehicles sold by Delek Automotive in Israel are subject to VAT at the rate applicable on date of the sale (since June 1, 2013, it has been 18%).

(C) Vehicles imported from Japan are subject to a 7% customs charge on the value of the vehicle.

(D) Delek Automotive pays the taxes listed in subsections A-C when the vehicles are released from customs. The sales prices of the vehicles take these taxes, inter alia, into account.

1.10.17 Environmental risks and their management

The provisions of law, regulations and various orders dealing with environmental protection ("Environmental Protection Laws") are applicable to a non-material part of Delek Automotive's operations. These issues relate to the garage and service operations provided by Delek Automotive and their consequences, including: an internal gasoline station to fuel the new vehicles marketed by Delek Automotive; operation of a carwash station; removal of waste from the central service garage, including, inter alia, oils, filters and tires. Delek Automotive believes that the costs of compliance with environmental protection laws are not expected to have a material effect on its results. Its assessments regarding the potential implications of environmental quality laws for its business is forward-looking information as defined in Article 32A of the Securities Law, which is based on its familiarity with regulation in the sector and its past experience. Nevertheless these estimates might not be realized for many reasons, among them regulatory changes, changes in Delek Automotive's installations, discovery of significant pollution on its premises, etc.

1.10.18 Restrictions and supervision of Delek Automotive operations

Below are details of the legal restrictions and other legal arrangements which are relevant to a material part of Delek Automotive's basic operations and which could affect it:

(A) Recommendations of the Zelekha Committee and the Implementation Team

On September 24, 2011, the Zelekha Committee was appointed by the Minister of Communications to examine ways of reducing the centralization in the automotive industry and formulate recommendations for the removal of barriers to increase competition and lower industry prices. After publication of the committee's recommendations, the Minister of Transport appointed an Implementation Team which published its recommendations in April 2012.

(1) The Zelekha Committee recommended, among others, that a direct vehicle importer holding a market share of 8% or more for longer than two consecutive years or two non-consecutive years in a four-year period be permitted to have an agreement to import vehicles into Israel with one manufacturer only. An importer holding a market share of between 4% and 8% for two consecutive years or two non-consecutive years in a four-year period would be permitted to have such agreements with three manufacturers. However in the case of a manufacturer manufacturing a number of models by means of wholly owned (100%) subsidiaries, the importer would be permitted to import all its models without restriction, irrespective of its market share. This recommendation would have a transition period of one year. If and when this part of the Committee's report is adopted in its entirety this would have a materially adverse effect on Delek Automotive. The Implementation Team recommended that an automobile importer be prohibited from holding shares (directly or indirectly) in more than one garage serving as a service and training center for all its vehicles. An importer representing a number of manufacturers and therefore wishing to hold shares in additional garages serving as service and training centers for vehicles imported from other manufacturers would have to submit an appropriate application to the Director of the Vehicle Division in the Ministry of Transport and in any event it could not provide service for two manufacturers in the same garage. The transition period for implementation of this recommendation is 24 months.

It should be noted that these recommendations are not contained in the Vehicle Import and Servicing Bill.

(2) The Implementation Team recommended that responsibility for issuing recall notices be transferred to the direct importer at no cost, irrespective of whether the vehicle was imported by direct, personal or parallel import. Furthermore, with regard to vehicle warranties, it was recommended that direct importers be obligated to grant warranties to vehicles imported into Israel even if the vehicle was imported through another source, provided that the vehicle has a manufacturer's warranty in the country of origin. With regard to a recommendation to include in the Vehicle Services Licensing Law the direct importer's responsibility to supply a warranty for any type of vehicle imported by them, as well as the responsibility of notification in the event of a serial safety fault in the manufacturing of a vehicle imported by them, as well as repair of the fault, see section 1.10.2(9)(B).

The Implementation Team recommended cancelation of the obligation to repair vehicles in an authorized garage of the importer as a condition for complying with the vehicle warranty, provided that the garage is in compliance with the list of conditions laid down by the Ministry of Transport relating to implementation of repairs and provision of service under the manufacturer's warranty. It is noted that the Vehicle Services Licensing Bill contains a proposal to ban direct and indirect vehicle importers from making the warranty conditional upon having the vehicle serviced by one of the importer's garages or by using a particular transportation product. Delek Automotive believes that the enshrinement of these directives in law, if the Bill is passed, will not have a material effect on its businesses. In addition to the aforementioned, the Zelekha Committee included other issues in its recommendations regarding marketing of vehicles, sales and ties with the importer, regulation of the parts and garage market, taxation, parallel import and personal import, which according to Delek Automotive's estimations should not have a material effect on the Company's business.

It should be noted that some of the recommendation of the Committee and the Implementation Team have already been implemented as part of Procedures published by the Ministry of Transport, and some are proposed for inclusion as part of the Vehicle Services Bill as set out in section 1.10.2(B)(9).

(B) Legislation in the vehicle import industry in Israel

The Control of Commodities and Services (Vehicle Import and Servicing) Order, 1978, states, inter alia, that no importer or agent may sell a new imported vehicle without a license from the

competent authority. Delek Automotive has licenses as defined in the above Order, for importing vehicles, valid through December 31, 2015. The licenses are granted for one year and are renewed every year[81]. Delek Automotive also has special permits for importing original vehicle parts for Mazda[82] , Ford[83] and BMW[84] vehicles (including Minis and Husqvarna motorcycles from BMW). For details of a Ministry of Transport procedure regulating the import of generic vehicle parts, see section 10.18(B)3.

(C) Law for the Promotion of Competition and Reduction of Concentration, 2003 ("the Market Concentration Law")

For details of the Market Concentration Law, see section 1.20. On December 11, 2014, the concentration reduction committee published, according to the regulations of the Market Concentration Law, a list of the concentration agents in the market, a list of the major financial entities and a list of material financial bodies ("the List"). In addition, a chapter of the Market Concentration Law regarding the consideration of overall market concentration, and sector-specific competition-related factors in the grant of rights entered into force. After reviewing the list published by the Market Concentration Committee near the report's approval date, it seems that Delek Automotive is included in the list of concentration agents and the list of major financial entities. Delek Automotive believes, based upon the assessment of its legal counsel, that its inclusion in the aforementioned lists is fundamentally wrong and that it is not a "concentrating body" or "major financial entity" according to the definition of the Market Concentration Law, and is currently clearing the matter with the relevant agents. At the report publication date, Delek Automotive is not able to estimate the effect on its operations of the Market Concentration Law).

(D) Import of spare parts

On October 15, 2010, a procedure published by the Ministry of Transport entered into force. This procedure regulates the import of generic spare parts for vehicles, and provides for the import into Israel of any generic part sold in Europe or the United States.

On May 29, 2011, the Ministry of Transport published a "Procedure for the Licensing of the Personal Import of Spare Parts for Personal Use" which is designed to determine the requirements and conditions for the licensing of and release from customs of parts for vehicles imported by personal import.

(E) Traffic Regulations

Pursuant to the Traffic Regulations, 1961, a vehicle may not be registered or licensed unless the Licensing Authority has inspected and approved the prototype of that specific type of vehicle and unless a certificate from an accredited laboratory or any other certificate has been submitted to the Licensing Authority upon demand, certifying that the vehicle matches the prototype of the specific type or model.

(F) Consumer Protection Regulations (Cancellation of Transaction), 2010 ("the Transaction Cancellation Regulations")

On December 14, 2010, the Transaction Cancellation Regulations entered into force. They provide, inter alia, that a consumer may cancel an agreement to purchase goods provided that he returns the goods to the dealer undamaged and unused. The consumer may cancel the agreement within 14 days of the transaction date provided that the item has not yet been registered in the consumer's name pursuant to the Traffic Ordinance [New Version]. It is noted that Delek Automotive has for years permitted cancellation of transactions, as long as the vehicle has not been registered in the consumer's name, and because a vehicle is not delivered to the consumer before it has been registered in his name, pursuant to the Traffic Ordinance.

(G) Price Control

By law, the prices of vehicles, parts and the provision of garage services are not subject to control.

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[81] The Vehicle Import and Servicing Bill includes a list of causes which, should they occur, may cause the Ministry of Transport to suspend, cancel or refuse to renew a license for the provision of vehicle services or to engage in a profession in the vehicle industry, as defined by law. For additional information about the Bill, see section 1.14.2(10)(B).

[82] Valid until April 23, 2015.

[83] Valid until November 17, 2015.

[84] Valid until November 17, 2015 and until May 30, 2015 for Husqvarna spare parts.

(H) Business licenses

Delek Automotive's various operations require a business license under the Business Licensing Law, 1968. At the report publication date, Delek Automotive had not been granted a business license for its non-material operation and it is taking steps to obtain one.

Trade in vehicles and vehicle parts requires a permit from the Ministry of Transport pursuant to the Commodities and Services Control (Manufacture of and Trade in Transportation Products) Order, 1983. Delek Automotive has a valid license from the Ministry of Transport for trading in transportation products, valid through December 31, 2015.

(I) Antitrust

On April 24, 2003, an order by virtue of section 50B of the Restrictive Trade Practices Law, 1988, which expired on April 24, 2008, entered into force. It was designed to preserve freedom of competition in the vehicle sector. It prohibits, inter alia, restrictions on service garages with regard to the purchase and use of transportation products. It entitles consumers to purchase warranties in addition to the statutory warranty or the one determined by the manufacturer (based on the longer of the two periods). It prohibits the setting of warranty conditions which are contingent on the purchase of other products and services. It bans service garages from demanding various items of information. It also bans service garages from imposing price restrictions and determines criteria for the granting of authorized garage status. It also forbids the granting of exclusivity to service garage operators. It is noted that the order was valid for five year (until April 24, 2008). Delek Automotive continues to operate in accordance with this Order. It is also noted that the Vehicle Services Licensing Bill contains a proposal to enshrine the above restrictions in law. For information about this law, see section 1.14.2(9)(B).

1.10.19 Material Agreements

The material agreements to which Delek Automotive is a party are these:

(A) Mazda Agreement

Delek Automotive has imported and sold Mazda vehicles and vehicle parts since 1992, under an agreement (as amended and extended from time to time) between Delek Motors and the manufacturer. Delek Motors imports vehicles and spare parts made by Mazda under an agreement from October 1, 2014 ("the Mazda Agreement"), valid through September 30, 2017. Below is a summary of the main terms of the Mazda Agreement:

The supply of Mazda Vehicles and Parts to Delek Motors pursuant to the Mazda Agreement will not prevent Delek Motors from purchasing vehicles and vehicle parts for sale in Israel from suppliers other than the Manufacturer, provided such sale does not have a significantly adverse effect on the sale of Mazda Vehicles and Parts. Mazda gave its consent to the acquisition of Kamor Motors. The Manufacturer has sole discretion to determine whether a sale has a significantly adverse effect on the sale of Mazda vehicles. Delek Motors is required to inform Mazda of its intent to sell other vehicles or vehicle parts at least 90 days in advance.

Notwithstanding the aforesaid, the Manufacturer has the right to sell and export Mazda vehicles in Israel through other parties, as specified in the Mazda Agreement. These parties include government bodies, the diplomatic corps, international bodies and others. Delek Motors may not sell, directly or indirectly, vehicles and vehicle parts outside of Israel.

The Mazda Agreement sets out the commercial and legal conditions relating to the distribution of Mazda Vehicles and Parts, including the establishment of a marketing and distribution system, implementation of marketing and sales activities, annual sales forecast which will be determined annually between the sides in good faith, establishment of a service center for vehicles and a customer service management system. It also requires the establishment of storage facilities suitable for vehicles, provision of customer warranties according to the Manufacturer's warranty, performance indexes for Delek Automotive, etc.

Each party is entitled to terminate the agreement at any time by written notice to the other parties if: (a) one or the other is in breach of the agreement and does not remedy that breach within two months after a written demand for remedy was sent to the party in breach; (b) there is an occurrence of the events as set forth in the agreement: foreclosure, application for liquidation, receivership, request for reorganization, insolvency, delay in payment, transfer of all or most of the businesses, assets and liabilities of Delek Automotive, the freezing of Delek Automotive's business, merger, and so forth; (c) as a result of force majeure (as defined in the agreement), any party to the Mazda Agreement is prevented from fulfilling its obligations for more than six months.

The Manufacturer is entitled to terminate the Mazda Agreement at any time by written notice to Delek Motors, if the Manufacturer decides that it is unable to continue business with Delek Motors as a result of death, incompetence, disregard, or any change in Delek Motors' management or as a result of a change in the legal or organizational structure of Delek Motors or in the case of a material change in the composition of the company's shareholders or investors.

Delek Motors is forbidden from transferring its rights and obligations according to the Agreement, in full or in part, to any third party without without prior written consent from the Manufacturer.

(B) Ford Agreement

Delek Motors (in this sub-section, the "Dealer") has been importing and selling Ford vehicles and vehicle parts since 1999, under an agreement signed on June 1, 1999 between Ford Motor Company ("Ford") and Delek Motors ("the Ford Agreement"). Following are the main provisions of the Ford Agreement:

Ford appointed Delek Motors as a non-exclusive authorized dealer in Israel of vehicles and parts made by or for Ford and of other products as determined by Ford from time to time. Delek Motors agreed not to act directly or indirectly for any other business enterprise and shall act solely as a Ford dealer unless Ford agrees otherwise in writing.

Delek Motors undertook not to act in any way in the sale of new vehicles or parts which compete with Ford products without prior written consent from Ford. In the agreement, Ford agrees that Delek Automotive be a franchisee of Mazda products and defined rules for the integration of Mazda and Ford franchises in Israel. Ford agreed to the acquisition of Kamor Motors.

The Ford Agreement remains in effect from the date of its execution until it is terminated by one of the parties in accordance with its provisions.

The Ford Agreement stipulates the business and legal conditions for distribution of Ford products by Delek Motors in Israel, including marketing and distribution operations, establishment of a service system that complies with Ford standards, employment and training of suitable human resources, provision of warranties for Ford products, maintenance and repair services, the use of trade names and trademarks, etc.

Section F of the Ford Agreement ("Section F"), among others, that as long as no other person holds 10% or more of the shares of the Dealer, Gil Agmon will be the largest shareholder and Delek Investments will hold at least 10% of the shares in the Dealer[85], the Ford Agreement will remain valid and no prior consent will be required from Ford with regard to future changes in shareholdings in the Dealer. The agreement also stipulates that the Dealer shall give Ford prior written notice of any proposed change in control (subject to that stated above) or in management authority, and immediate notice of the death or incapacity of any person as aforesaid. It also stipulated that any such change shall be valid only upon an amendment to the agreement to be signed in writing by Ford and the Dealer. In the event that its advance written approval (which it shall not unreasonably withhold) is not obtained Ford shall have the right to terminate the agreement as set forth hereunder.

Delek Motors has the right to terminate the Ford Agreement at any time by giving Ford 30 days' written notice.

Ford has the right to terminate the Ford Agreement without notice should any of the events listed in the agreement and which are under the control of Delek Motors, including: transfer by Delek Motors of the rights or obligations under the agreement; transfer of any material assets owned by Delek Motors that are required for running its business; any change without Ford's prior written consent (which it shall not unreasonably withhold) in the direct or indirect control of the active management of Delek Motors, as set forth in Section F. In addition, Ford has the right to terminate the Ford Agreement by giving 60 days' notice if Delek Motors fails to fulfill its undertakings in accordance with the agreement and does not remedy the breach within the 60-day notice period.

Ford and Delek Motors both have the right to terminate the Ford Agreement by giving 15 days' written notice in the event of the death, physical or mental disability of the owners of Delek Motors listed in Section F, provided that Ford suspends its right for a period of three months to one year if their successor or legal representative asks Ford to do so and Ford is satisfied that he or she is able to comply with the terms of the Ford Agreement. Ford has the right to terminate the Ford Agreement at any time by giving Delek Motors at least 120 days' written notice. Ford has the right

[85] At the report approval date, the holdings of Gil Agmon and the Company in Delek Automotive are 37.47% and 23.07% respectively.

to terminate the Ford Agreement at any time by giving at least 30 days' notice if Ford offers a new agreement or an amended version of the agreement to its authorized dealers.

In the event of a change in the control of Delek Motors or if most of the assets of Delek Motors are transferred to any other party, which requires Ford to negotiate a new distribution agreement with that party, Ford shall have the right of first refusal to purchase Delek Motors or the assets offered for sale on the same conditions as agreed with that party. Ford has the right to assign its right of first refusal to any third party. The right of first refusal can be enforced vis-à-vis any transferee of Delek Motors.

In order to secure the supplier credit granted by FCE Bank Plc ("FCE") to Delek Motors for the purchase of Ford products, the Company provided a guarantee for payment of all amounts and obligations owed by Delek Motors to FCE, and it also undertook to indemnify FCE for any loss or damage incurred as a result of the provision of the above credit.

(C) BMW Agreement

On March 13, 2012, Delek Automotive, by means of Delek Motors, entered into a franchise agreement with BMW for the import into Israel of BMW cars, SUVs, and original accessories and parts, that was valid until February 28,2015, and was extended until February 28, 2018, and a franchise agreement for the import of motorcycles and original accessories and parts to Israel "the BMW Agreement and the BMW Motorcycle Agreement), respectively. Under these agreements Delek Motors will be granted a franchise to sell BMW products, including cars, SUVs and motorcycles as well as original BMW accessories and parts, manufactured or which will be manufactured by BMW or supplied to BMW by third parties. In addition, on March 13, 2012 Delek Motors entered into another agreement with BMW under which it received a franchise to import and sell Minis as well as original accessories and parts for these cars, in Israel (in this section: "the Mini Agreement" (the three franchise agreements: "the Franchises").

Following is a summary of the principal terms of the Franchises at the reporting date:

The Franchises are franchises for the import, sale and provision of service in Israel for BMW and Mini products (in this section: "the Territory"). Delek Motors is prohibited from selling or marketing BMW and Mini products outside the Territory and it is also prohibited from selling the goods directly or indirectly to sellers which have not been approved by BMW. In order to guarantee these undertakings, Delek Motors has agreed to pay for any breach thereof punitive compensation amounting to 15% of the market price of vehicles sold in contravention thereof, including the accompanying optional accessories. Delek Motors also agreed not to distribute products competing with BMWs and Minis (except for Mazda, Ford and Lincoln) and that it would not produce, distribute or market competing products or use competing products for repair and maintenance purposes, except in its operations as importer, except with prior written consent from BMW. Notwithstanding, under the agreements Delek Motors may enter into agreements with dealers approved by BMW for the distribution of BMW and Minis in Israel.

BMW has the right to sell BMW and Mini products (including motorcycles) and their parts in Israel, directly or indirectly, not via Delek Motors, to a limited number of entities such as car fleets, public authorities and international organizations, customers who purchase armored vehicles, VIPs and BMW employees.

BMW Bank GmbH of Germany has granted supplier credit to Delek Motors for the purchase of BMW products. In order to guarantee payment of the shipment costs by Kamor Motors, Delek Automotive has provided BMW with a guarantee of up to EUR 28 million in favor of BMW Bank GmbH.

The Franchises impose various obligations on Delek Motors, including, inter alia, management of the sales and marketing system, display, demonstration, product advertising, management of the customer service systems, including management of the garage and parts warehouse, provision of customer service, inventory maintenance, technical training for employees, etc. Delek Motors is also committed to operating and ensuring the quality of service and customer centers in accordance with the number of vehicles in Israel.

The Franchises are not transferable by Delek Motors to a third party unless with the advance consent from BMW. Pursuant to the Franchise Agreements, a change in the identity of the owner of Delek Motors or in the composition of its shareholders or in its senior management requires advance written approval from BMW. The parties may terminate them immediately in the event of a fundamental breach by one of the parties, as defined in the Franchises (e.g. insolvency of Delek Motors, or its application for a declaration of bankruptcy, implementation of activities requiring the prior consent of BMW without having obtained such consent, deliberate forgery of documents sent

to BMW under the agreement, resale to suppliers which are not authorized under the agreement, liquidation, change in the ownership of Delek Motors and/or its senior management in a manner which does not allow for execution of the Agreement, etc.) (subject to the exclusions listed in the Franchises). In the event of any other breach BMW may terminate the Franchise by giving three months' notice (in the Motorcycle Agreement – six months) after it provided an opportunity to remedy the breach in a period of up to six months. Moreover, each of the parties has the right to terminate the BMW Motorcycle Agreement by giving the other party one year's notice. BMW may within 60 days from the termination of the Agreement buy back from Delek Motors all or part of its products, subject to the terms set forth in the Agreement.

1.10.20 Legal Proceedings

(A) On February 11, 2015 a petition was filed to approve a claim as a class action against Delek Motors and against 30 of its service centers. The grounds of the claim for a class action are that Delek Motors did not meet its commitment for granting a discount for services at its licensed service centers, despite its commitment to a discount in its advertisements. The party bringing the class action estimated the scope of the claim, in the event that it is approved, at a sum of approx. NIS 121 million. Due to the early stages of the process, it is not possible to estimate the chances of the claim, at this point.

(B) On February 6, 2006, DMR Properties received an enhancement levy assessment from the Lodim local Planning and Construction Committee ("the Committee") in respect of grant of a building permit for the Logistics Center, in the amount of NIS 21,600 thousand. DMR Properties paid half of the amount of the assessment , and filed a counter assessment to the assessment of the Committee on March 8, 2006. On February 17, 2008, a settlement agreement was signed between DMR Properties and the Emek Lod Local Planning and Construction Committee, wherein it was agreed that the enhancement levy is NIS 10 million at its value on the date on which DMR Properties paid this amount to the committee. On April 5, 2012, DMR Properties filed a civil claim against the State of Israel – Israel Land Authority in the sum of NIS 13 million, for indemnification of the expenses it incurred in respect of payment of the above enhancement levy and losses incurred as a result of the Administration's handling of the matter. On September 28, 2014, a settlement agreement between the sides was submitted to the court, according to which the Israel Land Authority will pay DMR Properties a sum of NIS 5 million for total and absolute disposal of the claim, and upon the aforementioned payment, no person and/or body will have a claim and/or demand against ILA or against DMR Properties regarding and/or about the payment of the enhancement levy, in addition to the Emek Lod Local Planning and Construction Committee and the Emek Lod Regional Council, jointly and severally, will repay DMR Properties by means of crediting the enhancement levy's account with the Local Committee with the sum of NIS 900 thousand. On June 10, 2014, the regional court validated the above mentioned settlement agreement.

(C) In June 2012 Delek Motors approached Kamor Ltd. with a request to activate the indemnification mechanism in the agreement to acquire shares in Kamor Motors Ltd. from Kamor Ltd. (the transaction was concluded on December 13, 2011), according to which the Company would be entitled to indemnification if any of the representations made by Kamor Ltd. is incorrect and/or misleading. Talks were held by the parties at the end of which it was decided to engage in a non-binding bridging proceeding. The parties failed to reach an understanding in this proceeding and as a result the parties turned to an arbitration proceeding as determined in the agreement. On March 19, 2013, the Tel Aviv District Court issued a stay of proceedings against Kamor Ltd., which included a stay of the arbitration process between Delek Automotive and Kamor Ltd. Under the stay of proceedings and in accordance with the ruling of the court, Delek Automotive filed a debt claim against Kamor Ltd. in the sum of NIS 23 million. On May 26, 2013, the Tel Aviv District Court ruled that the stay of proceedings issued against Kamor Ltd had expired, and that its trustees will be appointed as temporary liquidators of Kamor Ltd. In this way Kamor Ltd officially began the liquidation process. On January 13, 2015, the temporary liquidators filed a motion for the issue of instructions, which included a request to receive the court's approval for the sale of shares of companies held by Kamor, which hold, by concatenation, various assets in Europe at an overall value of NIS 53 million. The court approved the request and the sides are awaiting the completion of the transaction. Under the provisions of the law, Delek Motors has began clarifying the debt claim against Kamor Ltd. with the temporary liquidators as part of the liquidation process.

1.10.21 Goals and Business Strategy

On December 13, 2011 Delek Automotive completed the acquisition of Kamor Motors, importer and dealer of BMW vehicles in Israel, as part of Delek Automotive goal of increasing the scope of its operations and profits. Since that date Delek Automotive has been focusing on the luxury car and motorcycle segments by using its synergy with the consolidated logistics setup. In addition to its goals of increasing its operations and profits, Delek Group is dedicated to making constant

improvements in its service. In recent years Delek Automotive has implemented a number of measures to achieve these goals, among them centralizing its facilities at the Nir Zvi Logistics Center, upgrading its service centers, and investing in new show rooms. Throughout the year, Delek Automotive has implemented a Customer Relationship Management (CRM) system that should improve the sales and marketing departments significantly as well as increasing their efficiency. These days the Company is preparing for the implementation of the CRM system in the service department.

1.10.22 Development Expected over the Coming Year

In 2015 Delek Automotive is planning on launching new models of Ford vehicles, including among others, a new Focus, a new Mondeo, in a hybrid edition as well, Galaxy, S-Max and Edge.

In the upcoming months Delek Automotive is preparing to launch the new Mazda 2 model as well as the Demio, and is planning on launching another new model from Mazda in the second half of the year.

In addition, there are planned launches of the BMW series 7 and the new X1 model during 2015.

The expectation for progression in the upcoming year is forward-looking information as defined in the Securities Law, and launching the model, in whole or in part, may be postponed and/or not materialize, among others for factors that are not controlled by Delek Automotive, such as manufacturer decisions, changes in the manufacturers' schedules and/or changes will affect the entire Israeli vehicle market and/or changes in the customers taste.

1.10.23 Risk Factors

Except for the risk factors to which the Group is exposed (detailed in section 1.28), the following risk factors could threaten the Group's operations:

(A) Dependence on manufacturers: Delek Automotive is completely dependent upon the manufacturers of the cars it imports. Under its agreements with the manufacturers, Delek Automotive is required to comply with certain conditions. Moreover, the parties may terminate these agreements as provided therein. Non-renewal or termination of the agreements, except for the BMW Motorcycle and Husqvarna agreements, will have a material impact on the operations of Delek Automotive. In addition, Delek Automotive is dependent on the manufacturers' models and pricing structure which they determine. If the manufacturer produces more expensive models, this could affect the financial results of Delek Automotive. If one of the manufacturers whose vehicles are imported by Delek Automotive were to halt its operations either completely or for a lengthy period (including as a result of force majeure), this could have a material effect on the business of Delek Automotive.

(B) Changes in foreign currency rates of competitor countries of origin: The exchange rate component in the price of Delek Automotive products is 85-90% of the selling price of those products. Therefore, if foreign currency exchange rates relevant to the competitors remain unchanged or depreciate while currencies relevant to Delek Automotive appreciate, the competitive ability of Delek Automotive will be impaired.

(C) Customer Credit– Delek Automotive's sales to institutional customers are partially accomplished using credit, as is common in the automotive industry. The credit is not fully secured and is concentrated among a few customers with a large volume of sales. Therefore, failure by one such customer to repay the credit can affect Delek Automotive's cash flow and business results. At December 31, 2014, NIS 439 million of the total customer debt (amounting to NIS 499 million) is concentrated among nine customers of which four are controlled by the same entity.

(D) Reducing centralization in the vehicle market: In recent years the Ministries of Finance and Transport have been taking steps to reduce centralization in the vehicle market in Israel and to remove market barriers by means of tax reforms, standardization and regulation of vehicle imports. After implementation of its new strategy, Delek Automotive estimates that in the short term, these changes will not have a significant effect on the Group's operations, since parallel and personal import of cars imported by the Company are not economically viable. For recommendations of the Zelekha Committee and the Implementation Team regarding the increase of competition and reduction of centralization in the automobile sector, see section 1.10.18(A)

(E) Changes in the management or control of Delek Motors: Under the Ford agreement, any change in the direct or indirect control or active management of Delek Motors as set forth in the Ford Agreement gives Ford the right to terminate the agreement, (see section 1.10.19(B)). Furthermore, Ford has the right to terminate the agreement, inter alia, if the court convicts Delek Motors, Delek Automotive, Yitzhak Sharon (Teshuva) or Gil Agmon of violation of the law or any other action unbecoming for reputable business executives. Furthermore, under the Mazda agreement, the

Manufacturer is entitled to terminate the agreement at any time by written notice to Delek Motors, if the Manufacturer decides that it is unable to continue business with Delek Motors because of death, incapacity, disregard or any change in the management of Delek Motors or as a result of a change in the legal or organizational structure of Delek Motors or in the case of a material change in the composition of the company's shareholders or investors. The BMW Agreement stipulates that a change in the identity of the owner of Delek Motors, in the composition of its shareholders or in its senior management requires advance written approval from BMW.

Below is a summary of the Company's estimations regarding the aforementioned risk factors on the automotive sector:

	Impact of risk factors on company operations		
	Major effect	**Moderate effect**	**Minor effect**
Industry-wide risks			
Changes in foreign currency rates used by competing importers		X	
Customer credit		X	
Reduction of centralization in vehicle market		X	
Risks specific to Delek Automotive			
Dependence on manufacturers	X		
Changes in the management or control of the Company		X	

The above analysis of the risk factors is based solely on estimates, and the actual effect on Delek Automotive's operations might differ.The degree to which Delek USA's risk factors impact is based solely on estimates. In reality the actual impact may be different.

1.11 Additional Operations

1.11.1 Biochemicals

The Group holds 100% of the shares in Gadot Biochemical Industries Ltd. ("Gadot")[86]. Gadot produces, markets and sells crystalline fructose for the food industry, as well as citric acid, salts and other products, primarily for the food, pharmaceuticals and detergent industries.

(A) At the reporting date, Gadot has two areas of operation:

(1) Fructose - The manufacture, marketing and sale of crystalline fructose and of tri-sodium citrate which is a byproduct of the fructose production process. Most of Gadot's fructose sales are to Europe, for the food industry. Fructose (fruit sugar) is a monosaccharide (derived by separating sugar into its two components: fructose and glucose), and which undergoes various processes until it becomes crystalline fructose. Gadot produces crystalline fructose for the food and beverage industry as a premium sweetener – fructose has properties that make it preferable to sugar, such as a more concentrated sweetness, slower decomposition in the digestive system, high solubility and enhancement of fruit flavors. It is therefore used in the food industry, especially for sweets, jams, baked goods, ice creams and more. In addition, Gadot produces a citric acid known as trisodium citrate (TSC) from the glucose solution which is a byproduct of the fructose manufacturing process, which is primarily used in the food and beverage and detergent industries.

(2) Citric acid and salts - The production of citric acid and salts (citric acid salts and phosphoric acid salts). Citric acid is produced in the West by a small number of large manufacturers and in China by several large and a few smaller manufacturers, who together produce a quantity larger than that produced by the large manufacturers in the West. In its plant in Israel Gadot produces citric acid which is used in the food industry (primarily in soft drinks) and as a raw material in the detergent and pharmaceuticals industries and for other applications. Gadot also produces various citric acid salts for the food industry (soft drinks, calcium supplements, food enhancement, food supplement extracts sold "over the counter" in health food shops and for other uses) and for the paper industry. Gadot's citric acid and citric acid salts, manufactured at the facility in Israel, are marketed by Gadot in the United States, Europe, Israel, Asia and South America.

[86] In July 2014, following an early redemption of its bonds, Gadot ceased to be a reporting entity.

(B) Gadot's plant in Israel stands on land it owns in Haifa Bay, near the Kishon River. All of Gadot's production facilities are at this location, as well as its storage areas and offices. Gadot also has rights in the land adjacent to the Company's plant which serves.

(C) Gadot's financial position

(1) In 2013 and 2014 Gadot's revenues totaled USD 85 million and USD 73 million, respectively. In 2013 gross loss totaled USD 1.2 million, and in 2014 gross profit totaled USD 1.6 million. The loss attributable to Company shareholders in 2013 and 2014 amounted to USD 31 million and USD 22 million, respectively.

At December 31, 2014 Gadot had equity capital of USD 27.2 million compared with a working capital deficit of USD 72.3 million at December 31, 2013. The increase in equity capital stems mainly from the conversion of the Company's loans into capital notes (as outlined below) and the offsetting of losses caused in previous reporting periods and in 2014. Moreover, at December 31, 2014, Gadot had a working capital deficit of USD 10.4 million stemming mainly from short-term and long-term liabilities (classified as short-term) undertaken to finance long-term investments. Gadot is reviewing a number of options to obtain sources of financing in order to repay its liabilities. Gadot's management believes that Gadot will succeed in meeting its obligations, based inter alia on the Company's support and on the cash flow it expects to derive from its future current operations[87]. In this context it is noted that from 2010 and until the reporting date, Gadot has received support from the Company in the form of an investment in its capital (participation in rights offerings in 2010 and 2011 and the issue of capital notes in 2014) and the provision of loans which were converted into capital notes in 2014. In 2014 and until the reporting date Gadot has received from the Company loans and capital notes totaling USD 31.1 million. The total balance of all the financial support granted by the Company to Gadot at the reporting date (including loans, the interest accumulated thereon and the capital notes granted in 2014), amounts to USD 133 million[88]. Gadot has the right to convert the sum of the capital notes totaling USD 117 million into ordinary Gadot shares of NIS 0.1. Repayment of the capital notes and/or their conversion into shares will not be possible before April 11, 2019. Consequently the debt from the capital notes does not bear interest and was classified as equity in contrast to non-current liabilities.

On November 27, 2013 the Company gave Gadot an updated letter of intent, which stated that if Gadot has no additional resources to meet its obligations, the Company would grant it financing of up to USD 35 million. The balance of this sum, at the reporting date, is USD 6.7 million. The specific conditions for receipt of the balance of the financing from the Company pursuant to the letter of intent have not yet been determined.

Moreover, the Company has guaranteed Gadot's debts to its creditors (sugar suppliers) in the total amount of USD 4.5 million and to banking corporations and non-banking corporations in the total amount of USD 27.5 million.

(2) Gadot is not in compliance with the financial covenants which are part of the USD 15 million loan agreement between it and a number of financial entities from the Harel Insurance Investments and Financial Services Ltd. Group ("Harel") from June 2010. As a result, and in accordance with the terms of the agreement, Harel has the right to call in the balance of the loan (which at the reporting date stands at USD 8 million). As a result, in its financial statements at December 31, 2014, Gadot presented this loan as part of its current liabilities. At the reporting date, Gadot believes, based on conversations it has had with Harel regarding its noncompliance with the above financial covenants, that at this stage Harel will not call in the loan[89]. However, Gadot's noncompliance with the covenants determined in the agreement with Harel constitutes grounds to call in other loans taken by Gadot and/or its subsidiaries from third parties (cross-default). At the reporting date, the

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[87] Gadot's estimate of its ability to recruit sources of financing and the Company's support as described above, is forward-looking information as this term is defined in the Securities Law, 1968, and it is based inter alia on Gadot's plans and the letters of intent it has received from the Company. This forward-looking information may not be realized because it is not under the full control of Gadot and/or the Company and it is dependent inter alia on the wishes and ability of third parties to make investments and provide Gadot with credit.

[88] This sum includes the balance of Gadot's debt to ORL of USD 17 million, which was transferred to the Company by ORL as part of the transaction to transfer ORL's holdings in Gadot to the Company, as described in the immediate report (ref no. 2013-01-121038) regarding Gadot's transaction, the information in which is hereby presented by way of reference.

[89] Gadot believes that Harel's failure to call in the loan at this stage is forward-looking information as defined in the Securities Law, 1968, which is based on conversations it has had with Harel in respect of this matter. This forward-looking information may not be realized and it is dependent inter alia on the wishes and decisions of Harel which are not under the control of Gadot.

total amount of the other loans which might be called in as a result of the Company's noncompliance with the financial covenants is USD 23.3 million. As noted above, the Company has guaranteed these debts.

1.11.2 Water desalination

The Group's desalination operations in Israel and other countries are carried out through IDE Technologies Ltd. ("IDE"), a private company held by the Group (50%) and Israel Chemicals Ltd. ("ICL") (50%)[90,91].

IDE is engaged in the design, construction, supervision and sale of water desalination facilities, construction of EPC and turnkey desalination plants, operation of desalination facilities and initiation, construction and operation of sea water desalination facilities and projects using the BOT (Build, Operate, Transfer)[92] method. IDE also engages in activities related to desalination, among them the design and supply of industrial evaporators and industrial wastewater treatment systems, industrial cooling systems and snow and ice-making machines.

IDE also provides services and sells equipment and chemicals to various desalination facilities.

General

Water desalination is the process of removing salts and minerals from brackish water and sea water to produce high-quality water for industrial use and potable water. Desalination can also be used in the treatment of industrial and municipal wastewater.

There are two main desalination methods: (1) Thermal desalination - conducted through an evaporation process, in which the water gradually evaporates through a passage between a number of cells, each time at a lower temperature and pressure. In each cell, a certain amount of water is evaporated, while the salts remain in the water that does not evaporate and are removed as brine or concentrate. The water vapor undergoes a condensation process which in the end yields desalinated water. This is the oldest method of desalinating water but it consumes a great deal of energy; (2) Membrane desalination (reverse osmosis) - is mainly performed through a process of reverse osmosis using membranes. In this process, the water is forced under high pressure through membranes that allow only the water to pass through them. The salts that are concentrated on the other side of the membrane are discharged as brine or concentrate. At present, membrane desalination is more common, being significantly less expensive than thermal desalination owing to lower energy consumption. However, the water is not as pure, and the desalination is conditional upon treatment of the water prior to desalination.

The desalination process is subject to regulation that includes standards and procedures, the most important of which are water health preservation, safety and environmental protection. The laws and regulations differ depending on the location of the activity and include the following: (1) guidelines for the prevention of water pollution and environmental protection; (2) supervision of emissions into the air, water and soil, including the discharge of brine; (3) production, import, sale, storage, transport and use of certain materials and products; (4) production, storage and disposal of waste; (5) tort law, including with respect to property damage and bodily harm, and the health and safety of employees and third parties; (6) guidelines regarding the quality of the desalinated water; (7) monitoring and setting quotas for water production and use by the authorities. Additionally, since most project agreements are the result of winning a government or other tender, the activity is subject to the rules of the relevant tender.

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[90] The Group and ICL entered into an agreement that sets out their relationship as shareholders in IDE and includes provisions regarding the appointment of directors at IDE. The agreement further stipulates that decisions on specific issues (such as a change in IDE's areas of activity, its merger or liquidation, appointment or laying off of a CEO and distribution of dividends over and above 50% of IDE's net profit) will require a special majority on the Board of Directors and at the IDE general meeting. Additionally, the agreement sets out provisions regarding instances where IDE requires additional funds to finance its activity. It also sets out provisions regarding the resolution of disputes between the parties (a dispute resolution mechanism was set up and should the parties fail to resolve the dispute, each party will be able to invoke the BMBY clause), as well as provisions regarding the right of first offer and tag-along right. These provisions are also determined in IDE's articles of incorporation and in any event, in the event of a contradiction, the provisions of the shareholder agreement shall prevail.

[91] IDE has a management agreement with Delek Infrastructure and ICL, pursuant to which management and consulting services are provided to IDE in return for a management fee.

[92] Under this method, IDE enters into an agreement with a customer. It constructs and operates a desalination plant, and sells the product or its services to the customer at a predetermined price in the contractual period and this price also includes the operational costs. At the end of the contractual period the plant becomes the property of the customer.

Desalination in Israel and around the world

Desalinated water is used as an alternative to natural fresh water and, therefore, the extent of desalination activity around the globe depends, to a large extent, on the supply of and demand for drinking water. Among other things, these are influenced by factors such as the extent of the shortage of fresh water; population growth rate; increase in the standard of living and industrialization, regulation of industrial waste and disposal of wastewater; natural phenomena that cause water supply disruptions; desalination costs, economic conditions and ability to invest in desalination plants.

According to Global Water Intelligence (GWI)[93] data, the quantity of daily desalinated water around the world increased from 50 million cubic meters ("m^3/d") in 2006 to 88 million m^3/d in 2014. GWI estimates that in 2016, the quantity of desalinated water will rise to 100 m^3/d, and the global market for desalinated water will soon exceed USD 7 billion annually. However, not all of the global desalination markets are accessible to IDE, as a significant number are located in Arab countries in the Middle East (in 2014 approximately 40% of the quantity of desalinated water is in markets accessible to IDE - the "Accessible Markets").

Desalination began in Israel at the beginning of the 1960s, with the construction of the desalination facility in Eilat. Over the years, the sector has developed significantly in technological terms, and operating volumes have increased, with the major desalination facilities so far built in Israel being the ones in Ashkelon, Palmachim, Hadera and Sorek which began operating in 2013. In accordance with the targets and quotas set by the government, additional desalination plants are slated for construction in Israel, one of them being the desalination plant in Ashdod, which had been scheduled to begin operations at the end of 2014. It will probably begin operations in 2015, and it will have an annual production capacity of 100 million m^3 of desalinated sea water. Mekorot is responsible for construction of the plant in Ashdod. According to data from the Israel Water Authority[94], desalination activity in Israel is growing from year to year. In 2005 desalination in Israel produced 36 million m^3 per annum and in 2014 it produced 495 million m^3 per annum. In accordance with decisions made by the Israeli government, by the end of 2015 annual production (including the Mekorot plant in Ashdod) will reach 595 million m^3 and by 2020 it will reach 750 million $m^{3.}$. IDE (through subsidiaries) currently operates desalination plants (in Ashkelon, Hadera and Sorek), which, according to data from the Water Authority, produce 80% of all desalinated water in Israel.

Competitive standing

A global pioneer and leader in the design and construction of water desalination plants, IDE has been active in the field for the past 50 years. IDE has completed more than 400 projects in approximately 40 countries, including Israel, India, China, Australia, various European countries, North America, Latin America and the Caribbean islands. In the field of thermal desalination, IDE is a leading company, with rich experience in the design and construction of over 320 desalination plants of this type. Based on analysis of GWI data, IDE believes that its share of the thermal desalination market in the Accessible Markets is 75%. IDE's primary markets in this field today are China and India because of the high level of pollution in the seawater, the extensive availability of surplus heat from industrial sources, and power-station requirements for desalinated water. The membrane desalination field is characterized by long-term projects (using BOT or other methods), and IDE has built and is currently operating (through subsidiaries) three of the world's largest membrane desalination plants, in Ashkelon, Hadera and Sorek. In 2015 an American subsidiary of IDE, IDE Americas Inc., is expected to complete construction and start operation of the USA's largest membrane desalination plant in California. To the best of IDE's knowledge, its main competitor in the thermal desalination market is Veolia, and its main competitors in the membrane desalination market are Veolia, Hyflux and Degremont.

Human capital, property plant and equipment, marketing

IDE's headquarters are located in Kadimah, Israel, where IDE leases 5,500 m^2 in office space. IDE also owns a logistics center, containing areas for storage, assembly and operation of the facilities occupying an area of 20,000 m^2 in the Haifa Bay area. IDE also has small offices in the USA, China, India and in other places.

[93] A private entity which analyzes desalination market data and provides consulting services to the Company. For details, see http://www.globalwaterintel.com.

[94] As stated on the website of the Israel Water Authority: www.water.gov.il/hebrew/Pages/home.aspx.

As of December 31, 2014, IDE had 300 employees (including in wholly owned subsidiaries). The material decline in the number of employees stems, inter alia, from reductions in personnel at the end of 2014 caused by the completion of the Sorek project. Another factor was the retirement, in line with IDE's policy, of most of the employees who were over retirement age. Services and products are marketed through the physical presence of IDE employees in key markets and through a global system of agents who track and respond to tenders and create cooperation opportunities.

Technological developments and work methods

IDE's main work methods in desalination projects are as follows:

EPC (Engineering Procurement and Construction) projects: IDE specializes in the design and construction of desalination facilities. As part of this activity, in which the customers are generally industrial factories, IDE turns the plant over to the customer immediately after completion, and the customer then operates it. An average EPC project lasts between one and three years. To date, IDE has designed, built and handed over 400 plants around the world, including one in Sardinia, Italy which is the largest thermal desalination plant in the world using the mechanical vapor compression distillation method, one in Jamnagar, India which is the largest in India, one in Tianjin, China which is the largest in China. As described below, at the reporting date, IDE is constructing an additional four desalination units which are scheduled to become operational in the next few years.

BOT (Build, Operate, Transfer) projects: Under long-term agreements, IDE builds and operates the plants and sells the water at a fixed price per cubic meter for the term of the agreement. IDE currently operates and sells desalinated water from the three plants it has built in this manner - in Hadera, Sorek and Ashkelon.

A typical BOT project, which lasts from 10-25 years, changes the project financing and imposes a large portion of the risk on the company performing the construction and operation.

Most of IDE's revenues stem from construction - in other words, EPC projects and the construction phase of BOT projects, which constituted 90% and 74% of its total revenues in 2013 and 2014 respectively. The balance of its revenues stems from the sale of water and the provision of operation and maintenance services.

IDE's principal projects

Following is a summary, at the reporting date, of the facilities constructed, completed and operated by IDE, and of the largest projects – in terms of costs and future production volumes - on which it is performing the construction and which are slated for completion in the next three years.

Major BOT projects completed by IDE, in which IDE continues to provide operating and maintenance services:

(A) Desalination plant in Ashkelon, Israel – construction of the plant was completed in 2005 by VID Desalination Ltd., owned 50% by IDE, and 50% by Veolia Water SA, at a cost of NIS 1.1 billion. The concession period is 25 years, and it will be handed over to the State of Israel, at no consideration, in June 2027. The plant is operated and maintained by ADOM (Ashkelon Desalination) Ltd., a private company in which IDE holds 40.5% of the shares in partnership with Veolia Water SA. It is one of the largest reverse osmosis desalination plants in the world, and its annual desalination capacity (after expansion) is 120 million m^3.

(B) Desalination plant in Hadera, Israel – the plant was constructed in 2010 by H2ID Ltd., a company 50% owned by IDE and 50% owned by Shikun & Binui Ltd., after it won a tender issued by the State of Israel. It has a total annual contractual capacity (after expansions) of 127 million m^3 (the contractual quantity which the State undertook to purchase). The concession term is 25 years (consisting of 2.5 years of construction and 22.5 years of operation and maintenance), and the plant will be handed over to the State of Israel at no consideration in August 2032. The facility is operated and maintained by OMIS Water Limited, a private company in which IDE holds 60% of the shares in partnership with Shikun & Binui Ltd.

(C) Desalination plant in Sorek, Israel – construction of the plant was completed in 2013 by SDL (51% of which is held by IDE) after it won a tender issued by the State of Israel. It has a total annual contractual capacity of 150 million m^3. Its construction costs amounted to half a billion US dollars. The plant, which began operating in 2013, is the largest desalination plant in the world using the reverse osmosis method. The concession period is 26 years (consisting of 3 years of construction and 23 years of operation and maintenance). It will be handed over to the State of Israel at no consideration in May 2037. The facility is operated and maintained by Sorek O&M Company Ltd., a

private company in which 51% of the shares are held by IDE in partnership with Hutchison Water International Holdings Pte.

Revenues of IDE's subsidiaries which operate the facilities described above, come from the sale of desalinated water and the provision of operation and maintenance services. IDE benefits from the distribution of dividends by its subsidiaries.

Key projects under construction at the report approval date:

Location and date of contract	Brief description of the project	Estimated capacity (m^3/d)	% of holding in the project	Target completion year
Carlsbad, USA; December 2012	Design, supply of equipment and supervision of the reverse osmosis desalination plant. Design began in 2012. There is also a 30-year operation agreement upon completion of construction.	200,000	100%	2015
Reliance, India April 2013	Design and supply of a thermal desalination plant	72,000	100%	2015
Reliance, India June 2013	Design and supply of a reverse osmosis desalination plant	168,000	100%	2015

Aside from these projects, IDE has another five small projects scheduled for completion in the next year. Furthermore, IDE has a contract to operate a desalination plant in Carlsbad, California, whose construction will be completed in 2015, for an operating period of 30 years. In addition, IDE participates regularly in tenders and conducts negotiations in connection with future desalination projects. It also designs, constructs and sells small desalination plants.

Desalination-related operations

Given its understanding and expertise in issues related to water biology and chemistry, hydraulic systems, development of industrial compressors etc., IDE also offers solutions for the treatment of industrial wastewater, brine treatment, mine cooling systems, thermal energy storage systems and snowmaking machinery. In 2014 one industrial wastewater treatment system for use in the oil and gas sector was sold in Canada.

IDE is also attempting to enter the smaller water desalination markets by marketing a compact modular system which desalinates water by means of reverse osmosis. In 2014 it sold one such unit.

Risk factors

IDE's operations involve various risk factors: scope and timing of desalination projects, both of which are uncertain factors; competition; changes in technology; changes in the capabilities required of the company which result from the number of projects; financing needs; dependence on counterparties in the BOT transactions; quality, price and availability of materials or subcontractors for performance of the projects; timetable delays and budget overruns; legal proceedings and disputes; lack of intellectual property protection; limited Accessible Markets; regulation in various countries; and currency rate changes.

Financial information

	December 31, 2014 (USD) millions	December 31, 2013 (USD) millions
Income	259	263
Gross profit	79	60
Operating profit	33	21
Financing expenses, net	11	117
Net profit attributable to Company shareholders	31	33

As of December 31, 2014, the guarantees provided by the Company to IDE in connection with its various projects and finance agreements amounted to NIS 240 million. The Group's investment in IDE is accounted for by the equity method. For further details, see Note 14 to the financial statements.

1.11.3 Power plants

Delek Power Plants Limited Partnership ("Delek Power Plants"), a partnership which is wholly owned by the Company, is engaged in the construction and operation of power plants in Israel by means of subsidiaries. As of the reporting date, Delek operates one power plant in Ashkelon, and is working on the construction of an additional power plant in Sorek as outlined below.

(A) Ashkelon power plant

IPP Delek Ashkelon Ltd. ("Delek Ashkelon"), a company wholly owned by the Company built a power plant on the premises of the desalination facility in Ashkelon, to generate 87 MW of electricity. Most of the power plant's capacity is earmarked for the requirements of the desalination plant, and the rest is sold to private customers and/or the Israel Electric Corporation. The power plant began operations in January 2008 and the period for the supply of electricity to the desalination plant was set at 22.5 years (ending in June 2027).The power plant holds permanent licenses for the generation and supply of electricity.

The power plant has been operating with gas supplied under an agreement with the Yam Tethys Partnership since 2005. Following the decline in gas supply capacity from the Mari-B gas field as of April 2013, and since gas began to flow from the Tamar gas field, the Yam Tethys Partnership has been supplying gas to the power plant from the Tamar field. Throughout the shortage period (until the Tamar field came online) the Company provided Delek Ashkelon with shareholder loans totaling NIS 50 million so that it could meet all its obligations. In 2013 and 2014 the revenues of Delek Ashkelon totaled NIS 174 million and 227 million respectively.

(B) Sorek power plant

After IDE and Hutchison won the tender for the construction of a desalination plant at Sorek using the BOT method, in May 2011 IPP Delek Sorek Ltd, a wholly owned subsidiary of Delek Power Plants ("Delek Sorek") and SDL entered into an agreement for the supply of electricity to the desalination plant for a period of 22 years. As of the reporting date, the power plant is in the advanced stages of construction. The estimated cost of the construction of the power plant as of the reporting date is USD 190 million. At the end of December 2010, Delek Sorek received a conditional license from the Electricity Authority for the production of up to 140 MW of electricity for the Sorek power plant. In the first quarter of 2014 Delek Sorek entered into an agreement with a construction contractor for the construction of the plant on a turnkey project basis, and it also entered into an agreement with the Tamar Partnership to purchase up to 3.3 billion m^3 of natural gas to operate the power plant for a 15-year period starting in the first quarter of 2016 at an estimated cost of USD 750 million (throughout the agreement period)[95].

Delek Sorek also entered into an agreement with a subcontractor for the operation and maintenance of the power plant, for a 22-year period, in an amount totaling NIS 600 million. In May 2014 Delek Sorek, together with the Company and Delek Power Plants, signed a non-recourse financing agreement in the sum of NIS 600 million with Bank Hapoalim Ltd. and Poalim Trust Services Ltd. to finance the construction of the power plant. The agreement is conditional upon the receipt of tariff approval from the Electricity Authority. Under the financing agreement, guarantees were provided by the Company, and a lien was placed on Delek Sorek's and Delek Power Plants' rights in the power station and Delek Sorek's equity rights which had not yet been issued. It is the intention of Delek Power Plants that this power plant shall also serve other customers, in addition to the desalination facility, and so Delek Sorek is working on the recruitment of such customers.

In June 2014 Delek Sorek lodged a petition with the High Court of Justice against the Ministry of Energy and Water and the Electricity Authority, owing to the refusal of the Electricity Authority to grant tariff approval to the power plant in accordance with the tariff regulation applicable to the power plant on the grounds that it had expired after the quota set out in its application section had been filled. In December 2014 the High Court of Justice issued a decree nisi to the Electricity Authority ordering it to explain why it is not granting the tariff approval to Delek Sorek. Without

[95] The conditions precedent for entry into force of the supply agreement include the receipt of approval from the Antitrust Authority, the financial closure of the purchaser as well as receipt of approval from the desalination administration in the Water Authority. It is clarified that the estimates of the total financial scope of the agreement, the quantity of natural gas to be purchased and the supply start date under the agreement constitute forward-looking information as defined in the Securities Law, 1968, which may not be realized, in whole or in part, and may be realized in a materially different manner, as a result of various factors including noncompliance with the conditions precedent, in whole or in part, changes in the scope, pace and timing of consumption of the natural gas by Delek Sorek, the price of the gas which will be determined in accordance with the formula set out in the agreement, the CPI in Israel and the U.S. CPI, an increase in the supply capacity to the level stipulated in the agreement, etc.

approval of this tariff Delek Sorek will be unable to apply the financing agreement with Bank Hapoalim as a non-recourse agreement as is customary in the sector.

It is estimated that the Sorek power plant will be ready to start supplying electricity from the beginning of 2016.[96]

1.12 Disposal of operations

In 2014 the Company sold various operations as a result of its decision to focus on its core assets in the energy arena, as described below:

1. Sale of Barak Capital

The Company held 46% of the issued capital of Barak Capital ("Barak Capital"), a private investment company which, through subsidiaries, was active in various sectors of the capital market, including financial derivatives, financial transactions, underwriting and advice in connection with offerings.

On June 24, 2014 the Company entered into an agreement with Mr. Eyal Bakshi ("Mr. Bakshi"), the controlling shareholder in Barak Capital, to sell all its holdings in Barak Capital Ltd. ("Barak Capital"). The value of the transaction was estimated at NIS 237 million, including payment in the form of proceeds from the sale of shares, repayment of a shareholder loan and receipt of a dividend.

Furthermore, an arrangement was made to remove the guarantees put up by the Company to secure Barak Capital's debts to banks. The sale of the shares was accompanied by removal of the guarantee of NIS 20 million provided by the Company to the First International Bank of Israel Ltd. It was also was agreed that the guarantee of NIS 20 million provided by the Company to Mizrahi-Tefahot Bank Ltd. would be reduced in such a way that after 24 months its sum would be reduced by two thirds and after 36 months the guarantee would be removed in full. The Company will collect from Barak Capital a guarantee commission at the rates set out in the agreement.

A. By August 2014 a total of NIS 100 million had been paid.

B. The balance of the proceeds was paid by the two loans provided by the Company to Barak Capital and to a subsidiary of Barak Capital ("the Borrower"). The first was a loan provided before the sale, in the sum of NIS 65 million as of December 31, 2014. The loan terms were updated as follows: the duration was set at 3 years and the interest at 7% and it will be repaid in accordance with a predetermined schedule. The second was a loan provided to the subsidiary of Barak Capital, in the sum of NIS 72 million as of December 31, 2014, with a duration of 3 years and interest of 7% which will be repaid in accordance with the predetermined schedule.

C. As security for the loans, an encumbrance was placed in favor of the Company on all the shares sold to Mr. Bakshi, and financial covenants were agreed. As security for repayment of the loans and compliance by the Borrower with its obligations, the following collateral was provided:

   A. A negative pledge from Barak Capital and the Borrower.

   B. A first fixed charge on the shares of Barak Capital which were acquired by Mr. Bakshi from the Company as part of the transaction and an encumbrance on the registered share capital prior to its issuance.

   C. A charge on the right to repayment of the shareholder loans.

   D. A guarantee provided by Barak Capital to secure the Borrower's obligations.

[96] The estimates of the date on which the plant will be ready to start supplying electricity are forward-looking information as defined in the Securities Law, and are based, inter alia, on the estimates and plans of Delek Infrastructure's management. This forward-looking information might not be realized because Delek Infrastructure does not have full control and it is dependent on the capability of third parties to implement the plans and on their compliance with deadlines, technical delays, faults, etc.

As part of the transaction the Company made an indemnity undertaking whose scope was limited to the standard sums and periods in respect of the events and/or requirements defined in the agreement.

2. Sale of Delek Europe

The fuel products sector in Europe, in which the Company operated, was incorporated as Delek Europe BV ("DEBV") and included the marketing of fuels in Belgium, the Netherlands, Luxembourg and France, ownership of gas stations, convenience stores, food networks, car wash facilities as well as ownership of terminals used in the supply and warehousing of fuels for operational purposes.

In June 2014 the Company, through its subsidiary Delek Europe Holdings Ltd. ("Delek Europe"), entered into an agreement to sell all its holdings in DEBV (100% of the issued capital of DEBV) and the loans provided to it by Delek Europe to a foreign investment fund ("the Buyer") in consideration of 355 million euros (NIS 1.7 billion) ("the Consideration"). The transaction was completed on August 28, 2014.

On the date of completion of the transaction, 90 million euros were paid in cash and a further payment of 90 million euros (which had been scheduled for payment 12 months from the date of completion of the transaction), was brought forward to September 14, 2014.

The balance of the Consideration of 175 million euros was provided by Delek Europe in the form of a loan to the Buyer for a period of 5 years and 6 months, which will bear annual interest of 5%. The principal of the loan and accumulated interest will be repaid in one installment at the end of the loan period. To secure repayment of the loan a lien was placed in favor of Delek Petroleum Ltd. (a wholly owned subsidiary of the Company) on all the shares of the parent company of the Buyer. The Company exercised its right under the agreement to appoint an observer on its behalf to the board of directors of DEBV as long as the loan remains unpaid.

The sale agreement also stipulates a mechanism to reduce the Consideration by up to 11.5 million euros, depending on the results of DEBV in 2014. It also stipulates a mechanism for an additional consideration which is limited to 40 million euros, in the event of exercise of the shares sold by the Buyer within an agreed time frame and achievement of the targets defined in the agreement.

As part of the purchase agreement, Delek Europe has made representations to the Buyer and given an indemnity undertaking whose scope is limited by the standard sums and periods.

3. Sale of Republic

The insurance sector in the United States in which the Company operated by means of Republic Companies Inc., ("Republic"), included holdings in a number of subsidiaries and insurance agencies operating primarily in property and liability insurance. Republic operated through a network of independent insurance agencies in Texas, Louisiana, Oklahoma, Arkansas, Mississippi and New Mexico.

On October 23, 2014, Delek Finance US Inc., a foreign, wholly-owned subsidiary of the Company ("the Subsidiary"), completed the sale of 34% (out of 100%) of its holdings in Republic and transferred control of Republic to a group of US investors ("the Purchasers") in consideration of USD 75 million (NIS 280 million) which was received in cash on the date of the sale.

The Purchasers were granted three options to purchase the balance of the shares in Republic (66%) from the Company in consideration of an exercise addition which reflects a value for Republic of USD 220 million plus annual interest for each option (as outlined below), the exercise of all of which would give the Purchasers full ownership (100%) of Republic.

None of the options granted to the Purchaser may be split or used in partial purchase and are as follows:

A. An option to acquire an additional 2.27% of the share capital of Republic for a period of one year. The exercise price accrues annual interest of 4.5%.

B. An option to acquire an additional 18.64% of the share capital of Republic for a period of three years. The exercise price accrues annual interest of 6.5%.

C. An option to acquire 45% of the share capital of Republic for a period of two years. The exercise price accrues annual interest of 2.5%. (The “Third Option”)

If the options granted to the Purchasers are not exercised, and the stake of the Purchasers does not exceed 50% of the share capital of Republic, at the end of a period of three years from the date of completion of the transaction, control shall revert to the Company.

The Purchasers have the right to receive a loan from the Company of up to 50% of the sum of the exercise addition of the Third Option. This loan, if granted at the end of the Third Option period, will be for a period of one year, it will bear annual interest of 6.5% and will be repaid in one installment (principal and interest) at the end of the loan period.

As part of the transaction the Purchasers made the standard representations in transactions of this type and the Company made an indemnity undertaking for various periods which were defined on the basis of their type in a sum not to exceed USD 7,500,000.

4. Sale of Roadchef

The Company operated in the motorway service area sector in Great Britain through Roadchef Ltd. (“Roadchef”) and included the operation of 30 service stations which sold retail products, food, drinks and fuel in 21 different motorway sites in England, Scotland and Wales.

On September 11, 2014, the Company entered into a binding agreement (through a wholly owned company) for the sale of all its holdings (100% of the issued capital of Roadchef) in Roadchef to Antin Infrastructure Partners, a European infrastructure fund, in consideration of GBP 153 million (NIS 910 million) Proceeds”).

The agreement contains the standard representations and indemnity undertakings limited by sum and by period.

On September 30, 2014 the transaction was completed and the consideration was paid in full.

For further details of the sales of Barak Capital, Republic, Delek Europe and Roadchef, see Note 14 to the Company's financial statements.

Part Four – Matters Pertaining to the Group as a Whole

1.13 Property, plant and equipment

The corporate headquarters are located in an office building on Giborey Israel Street in Netanya, covering a total leased area of 965 sq.m plus parking space. Rent paid is not material. Furthermore, a wholly owned subsidiary owns approximately 461 hectare of land close to the sea shore in Acco, which is recorded in the Company's books at cost of NIS 105 million.

1.14 Human resources

1.14.1 Organizational structure

The Company is a holdings management company which controls, directly and indirectly, numerous companies most of which conduct their operations independently and some of which are managed by the Company's head office (for a chart presenting the Group's holdings structure, see section 1.1.3 above).

Financing for the Company's transactions and guarantees for the financing is often provided by wholly-owned (100%), directly held, subsidiaries of the Company. The Company's current procedure is that material transactions made by the wholly owned subsidiaries of the Company, are not only approved within the subsidiaries, but are also submitted for approval by the Company's board of directors. The description in the sections concerning the Company's entire operations refers to the Company and the subsidiaries (100%) as a single entity.

1.14.2 Employee headcount

The Company employs a staff of 30, of whom ten are executive officers and the rest are head office and administration employees.

1.14.3 Officers and senior management employees in the Group

The officers and senior managers are employed under personal contracts which include various forms of pension coverage. Some of the officers and senior management employees are entitled to acclimatization bonuses for periods of up to 6 months, based on the personal employment contracts signed with them In certain cases, loans or guarantees for bank loans have been provided to officers in the Group for purchasing securities of the Group's companies.

The officers are eligible for insurance, waiver and indemnification in respect of activities performed in their official capacity. Furthermore, some of the Group's officers and senior managers received phantom options in November 2012. For further information pertaining to the adoptions of the phantom option plan for employees and senior officers, under which , inter alia, phantom options were awarded to the Company's CEO and other officers, see Chapter D to the periodic report.

For further information pertaining to remuneration of senior officers in the Group pursuant to Regulation 21 in the Securities Regulations (Periodic and Immediate Reports), 1970, see Chapter D to the periodic report.

Company officers' remuneration policy - on September 11, 2013, the Company's general meeting approved a remuneration policy for the Company's officers, pursuant to the provisions of Amendment 20 to the Companies Law, subsequent to approval by the Company's board of directors on August 6, 2013, based on the recommendations of its remunerations committee. For further information regarding the Company's compensations policy, see immediate reports issued by the Company on August 28, 2013, September 11, 2013 and October 26, 2014 (Ref. No.: 2013-01-129708, 2013-01-143127 and 2014-01-181236, respectively), noted herein as reference, and breakdown in accordance with Regulation 21 of the Periodic and Immediate Reports Regulations and in Chapter D of the Periodic Report.

1.15 Investments in securities

The Company holds cash and short term investments, including an investment in available-for-sale financial assets, in an amount totaling, as at December 31, 2014, NIS 2,462 million. The Company's investments committee, which is made up of three board of directors members and headed by an external director of the Company, Prof. Ben Zion Zilberfarb, outlined the Company's

investments policy. In addition, there is a management staff team that meets frequently (at least once a week) and discusses the composition of the portfolio and decides, according to the procedures and policy outlined by the committee, regarding buying and selling of the securities held in the investment portfolio.

In view of the low interest rates in the financial markets and the zero yield in conservative investment channels, the investments committee resolved to increase the risk component in the Company's securities portfolio and to acquire foreign securities, including shares in the energy sector, and this in view of the financial opportunities created with the decline in the oil prices in the market.

Breakdown of the liquid balances of the Company and its wholly owned subsidiaries, as at December 31, 2014 (in NIS millions):

	At December 31, 2014	Close to the report date
Cash and deposits*	1,053	1,622
Foreign securities portfolio **	1,396	1,137
Shares traded on the TASE	10	7
Corporate bonds and mutual fund bonds	3	3
Total	2,462	2,769

* The cash and deposits are in held in Israeli and in foreign banks.

** Including foreign shares and bonds and including a holding in Delek US Inc shares.

1.16 Working capital

Composition of the Company's working capital

The Company's working capital consists of the Company's key current assets, which are cash of deposits in banks and investments in securities. On the other hand, the Group has current loans for the liabilities to banks and debenture holders which are due for repayment as of the coming year.

1.17 Financing[1]

1.17.1 Breakdown of the average interest rate on loans from bank and non-bank sources effective during the reporting period and which are not designated for specific use:

		Short-term loans		Long-term loans	
		Average interest rate	Effective Interest rate	Average interest rate	Effective Interest rate
Banking sources	Unlinked NIS credit	-	-	7.1 %	7.3 %
	Unlinked NIS credit at variable interest	3.5 %	3.6 %	2.0 %	2.1 %
	Linked NIS credit	-	-	5.5 %	5.6 %
	USD linked credit	3.7 %	3.8 %	-	-
	Euro linked credit	-	-	-	-
Non-banking sources	Unlinked NIS credit	-	-	8.1 %	8.3 %
	Linked NIS credit	-	-	5.1 %	5.1 %

* The interest rate on short term NIS loans are based on the increase in actual debt.

[1] This section does not refer to the credit received by the subsidiaries operating in the segments of operation, unless explicitly stated otherwise. Wherever financial covenants are mentioned in this report and the actual ratios are close to them, there are quantitative references.

1.17.2 Credit facilities

The lines of credit provided for the Company are used to finance its ongoing operations. Unless specifically stated otherwise, everywhere that credit facilities are noted in this report, it refers to the lines of credit for which commissions are paid and for the use of which is guaranteed, subject to compliance with their terms. Breakdown of the Company's effective credit facilities during 2014:

Amount of credit facility	Date of receipt of credit facility	Final maturity date of the credit facility	Amount of credit facility	Variable interest	Amount of the credit facility utilized at December 31, 2014 (NIS millions)	Amount of the credit facility utilized shortly before reporting date (NIS millions)	Collateral	Causes for immediate repayment	Additional details
Israeli banks	March 28, 2012 * On March 31, 2014 the agreement was extended for a further two years	March 31, 2016	NIS 265 million * Subsequent to the balance sheet date, as of March 11, 2015, the amount of the facility was reduced to NIS 215 million.	3.45 %	200	(-)	Charge registered on: 21,000,000 Phoenix shares; 119,000 Delek Energy shares; 3,406,165 Cohen Development shares For the financial ratios set see Note (1) below	The credit facility agreements stipulate events of default (the main ones being: non-compliance with the financial covenants prescribed therein, changes in control, appointment of a liquidator/receiver, demand for immediate repayment of another loan due to cross default, which if they materialize (subject to remedial periods as provided by the financing agreement) the financing banks may call for immediate repayment of the credit facilities.	The credit facility agreements also include commissions, such as commission for non-utilization of the credit facility.
	Aug 8, 2012 * On August 3, 2014 the agreement was extended for a further year	Aug 31, 2015	NIS 150 million Shekel.	3.35 %	50	(-)	Charge registered on: 3,365,000 Delek Automotive shares; 89,417,826 Avner Oil Exploration participating units; 4,164,625 Delek Drilling participating units; 80,645 Delek Energy shares; For the financial ratios set see Note (2) below		
	16.09.2014	30.06.2016	NIS 150 million Shekel.	2.55 %	(-)	(-)	Charge registered on: 1,100,000 Delek US shares; 7,353,323 Phoenix shares; 4,200,000 Delek Automotive shares; For the financial ratios set see Note (3) below		

Amount of credit facility	Date of receipt of credit facility	Final maturity date of the credit facility	Amount of credit facility	Variable interest	Amount of the credit facility utilized at December 31, 2014 (NIS millions)	Amount of the credit facility utilized shortly before reporting date (NIS millions)	Collateral	Causes for immediate repayment	Additional details
	Jan 7, 2014 * On December 31, 2014 the credit limit was increased and extended for a further year	Jan 31, 2016	NIS 300 million Shekel. * Subsequent to the balance sheet date, as of March 11, 2015, the amount of the facility was reduced to NIS 250 million.	2.85 %	250	(-)	Charge registered on: 5,300,000 Delek Automotive shares; 164,000 Delek Energy shares; 4,045,000 Delek Drilling participating units; 23,074,000 Avner Oil Exploration participating units For the financial ratios set see Note (4) below		
Foreign bank	Feb 18, 2014	Feb 17, 2016	USD 100 million * Subsequent to the balance sheet date the lien on Delek US shares was lifted and the amount of the credit line was reduced to USD 50 million.	3.73 %	(-)	(-)	Charge registered on: 3,000,000 shares in Delek US (as at February 2015 the lien on the Delek US shares has been lifted). 14,000,000 Delek Drilling participating units; 102,000,000 Avner Oil Exploration participating units For the financial ratios set see Note (5) below	In addition to the foregoing with regard to banks in Israel, the credit framework agreement with the foreign bank contains restrictions concerning secured stocks relating to the value, price and liquidity of the secured stocks.	The agreement includes exercise commission and non-exercise commission.

Notes to the Table - Key financial ratios

(1) A. The ratio of the bank debt, as may be from time to time, to average market value of securities defined in the agreement, will not be greater than 0.7. On the balance sheet date, the debt to value of securities ratio is 0.2

B. The net financial debt of Cohen Development will not exceed NIS 15 million. As of the balance sheet date, there is no net financial debt.

(2) The ration between the market value of the securities and the credit facility amount will not fall below 2. As of the balance sheet date it is 3.75. On the date of publication of this report, the debt to value of securities ratio is 4.

(3) The ratio between the market value of the pledged securities and estimated credit balance will not fall below 160%. As of the balance sheet date this ratio is 229 %. On the date of publication of this report, the debt to value of securities ratio is 300%.

(4) A. The key financial ratio that were set are that the ratio between the value of the collateral plus the value as set by the bank of the additional collateral (generated to the satisfaction of the bank for compliance with the collateral ratio) and the debt for calculating the ratio (as may be on the date of the relevant test regarding credit) will not fall below 1.75. As of the balance sheet date it is 2. On the date of publication of this report, the debt to value of securities ratio is 2.2.

B. The key financial criteria that were set are: (a) the total amount of the collateral for securing the cumulative liabilities of subsidiaries and third parties may not exceed NIS 1.5 billion (at balance sheet date NIS 0.9 billion); (b) the assets to liabilities ratio as defined between the Company and the bank will not fall below 1.2. With respect to this ratio: (i) The value of the assets will include the share of the Company and of the headquarters companies (as defined in the agreement) in the equity of investees (public companies - at market value; private companies - as presented in the financial statements) plus loans granted to the investees and plus cash and/or unencumbered cash equivalents and other financial assets in the Company and the headquarter companies (as defined in the agreement). (ii) The liabilities will include the balance of short-term and long-term credit from banks and from others with the addition of loans from shareholders and interested parties which were extended to the Company and the headquarters companies (as defined in the agreement) in accordance with the financial statements. This ratio as at balance sheet date is 2.4. As at the date of publication, there has been no material change.

(5) The ratio between the value of the collateral and the debt for calculating the ratio (as may be on the date of the relevant test regarding credit) will not fall below 1.2. The ratio as at balance sheet date is 2. On the date of publication of this report, the debt to value of securities ratio is 2.43.

1.17.3 Credit received between the date of the financial statements and their publication

On February 19, 2015 the Company issued 800,000,000 par value debentures (Series 31) of the Company under the Company's shelf prospectus dated July 5, 2013 and a shelf offering memorandum dated February 19, 2015, for proceeds in the amount of NIS 800 million. For further information of the summary of financial covenants for the issue, including financial criteria that the Company undertook to comply with, see the Immediate Report issued by the Company on February 16, 2015 (Ref. No. 2015-01-03249), with the information appearing in this report is indicated here as reference.

1.17.4 Variable interest credit

Breakdown of variable interest credit received by the Company in 2014:

Variance mechanism	Interest range in 2014	Interest rates prior to approval of the periodic report
Bank of Israel Interest +	2.55 % -3.9 %	3.3 %
USD LIBOR +	1.88 % -3.73 %	-

1.17.5 Constraints on the Company under its loans

The Company undertook financial covenants in connection with its debt to an Israeli bank, the balance of which at December 31, 2014 amounted to approximately NIS 450 million, as follows:

(B) Compliance with financial covenants:

(1) The total cumulative amount of guarantees for securing the liabilities of the Company's subsidiaries and third parties shall not exceed NIS 1.5 billion (at balance sheet date NIS 0.9 billion).

(2) The ratio of assets to liabilities as defined between the Company and the bank will not fall below 1.2. With respect to this ratio:

(a) The value of the assets will include the share of the Company and of the headquarters companies (as defined in the agreement) in the equity of investees (public companies - at market value; private companies - as presented in the financial statements) plus loans granted to the investees and plus cash and/or unencumbered cash equivalents and other financial assets in the Company and the headquarter companies (as defined in the agreement).

(b) The liabilities will include the balance of short-term and long-term credit from banks and from others with the addition of loans from shareholders and interested parties which were extended to the Company and the headquarters companies (as defined in the agreement) in accordance with the financial statements. This ratio as at balance sheet date is 2.4.

(C) **Restrictions on dividend distribution:**

(1) The Company may announce the distribution of a dividend of more than 60% of the adjusted net profit, as defined in the agreement, provided that in such case an amount equivalent to a certain rate that is fixed in the agreement, of the surplus amount exceeding the 60% will be used for early repayment of the Company's debts and liabilities to the bank.

(2) The Company may execute a distribution, as defined in the Companies Law, provided that the following conditions exist: (a) the distribution is a permitted distribution under section 302 of the Companies Law; (b) the Company does not violate the financial covenants set out in the debenture deed as specified in section 1.20.3 above prior to the distribution; (c) the Company's equity does not fall below NIS 1,800 million due to the distribution.

(D) **Grounds for immediate repayment of the loans**

(1) If there will be a change in the control of the Company

(2) If there will be a change in the control of the Company and/or of Delek Petroleum

(3) If, during the period during which the bank extended credit for the buy back of the Company's debentures and/or if early payment is made to the Company's debenture holders in a total accumulated amount exceeding NIS 300 million. It is hereby clarified that refinancing shall not be deemed as early repayment.

1.17.6 Liens

In addition to the liens described in section 1.17.2 above, the Group has additional liens, which are not attributed to any of the segments of operations as follows:

1. Liens on the Company's assets as at December 31, 2014:

   Lien in favor of a bank on 45,000 shares of Delek Energy.

2. Other than the foregoing, all the investments of the Company and its subsidiary, Delek Petroleum, in investees are free of liens.

1.17.7 Credit limits

The Group is subject to the Proper Banking Management Directives issued by the Supervisor of Banks in Israel, which include, inter alia, restrictions on the volume of loans which the Israeli banks may extend to a single borrower and the largest borrower group in the bank (as these terms are defined in the aforementioned directives).

1.17.8 Credit rating

On June 11, 2014 S&P Maalot ratified the Company's rating outlook, ilA Stable. On December 24, 2014 S&P Maalot announced that there was no change in the Company's rating following the announcement by the Antitrust Commissioner that the Antitrust Authority is considering a decision that the Partnerships, together with the other Leviathan reservoir partners, are party to a restrictive

arrangement that was not approved by the Antitrust Tribunal ("The Antitrust Commissioner's Announcement").

On December 25, 2015, Midroog announced that it was ratifying the Company's A1 rating with stable outlook and that there was no change following the Antitrust Commissioner's Announcement.

On February 19, 2015, Midroog announced its rating of A1 with stable outlook for the debenture series issued by the Company in the amount of up to NIS 800,000,000 par value.

On February 19, 2015, S&P Maalot announced awarding a rating of ilA with stable outlook for the debenture issue of up to NIS 800 million par value of the Company.

1.18 Loans and guarantees to investees

(A) Breakdown of material loans to the Company's subsidiaries and affiliates, as at December 31, 2014 (in NIS millions):

Lender	Borrower	Loan amount as at December 31, 2014
Delek Group	Delek Ashkelon	108
Delek Group	Delek Sea Maagan 2011 Ltd.	77
Delek Group	Navatis Petroleum Ltd.	37
Delek Power Stations	Delek Soreq	146
Total		368

(B) Breakdown of material guarantees provided to the Company's subsidiaries and third parties, as at December 31, 2014 (in NIS millions):

Guarantor	Guaranteed	Guarantee amount As at 31.12.2014
Guarantee for liabilities of subsidiaries and related companies[98]		
Delek Group	Delek Ashkelon	60
Delek Group	IDE	240
Delek Group	Delek Soreq	407
Delek Group	Gadot	114

For details regarding guarantees unlimited in amount provided in favor of the Cyprus government, see Note 16H to the consolidated financial statements.

(C) Breakdown of Seller's loans provided on date of sale of assets as set out in section 1.12 above.

Lender - the Seller	Borrower - the Buyer	Loan amounts as at December 31, 2014
Delek Group	Foreign investment fund for the acquisition of Delek Europe	659
Delek Group	Delek Capital	137
Total		796

1.19 Taxation

For a description of the tax laws applicable to the Company see Note 41 of the Group's financial statements.

[98] Guarantees provided by the Company and its headquarters company (Delek Petroleum) to the operational subsidiaries.

1.20 Restrictions and Supervision of the Corporation's Operations

With the exception of the restrictions and supervision applicable to the Company and its subsidiaries under the various operating segments, as set out in each of the operating segments, as a public holdings company the Company is subject to applicable restrictions under the Company's Law, 1999 and corresponding regulations, the Securities Law, 1968 and corresponding regulations, and the Antitrust laws. In addition, the Company is affected by the various directives concerning capital and debt raising on the financial market in Israel or for non-banking finance,

(D) Concentration Law

In December 2013 the Law to Promote Competition and Reduce Concentration, 2013 was published ("Concentration Law").

The Concentration Law consists of three main chapters: (1) Multiple-sector concentration considerations when granting rights for use of national resources (essential infrastructures and privatized assets) to conglomerates (as they appear in a list of conglomerates to be published by the concentration reduction committee[99] and the criteria set in the Law), and taking into account the advancement of competition when granting rights in essential infrastructures and in sectors where the number of players among whom the rights are to be allocated is limited ("Concentration considerations taken into account when allocating rights"). (2) Constraints on Control of Multi-tiered Structured Conglomerates limiting multi-tiered control to two tiers only and applying increased corporate governance regulations on multi-tiered conglomerates ("Constraints on Control of Multi-tiered Structured Conglomerates"); (3) Separation of significant financial corporations (such as banks, insurance companies, investment funds, etc) from significant non-financial corporations as defined in the Concentration Law and under which, inter alia, a significant non-financial corporation is prohibited from controlling and holding the means of control in an insurer, which is a significant financial corporation ("Separation of Non-financial Corporations from Financial Corporations").

The Concentration Law affects the Company and its subsidiaries directly and/or indirectly.

1. Multi-sector concentration and sectoral competitiveness considerations when allocating rights:

This chapter deals with two key and separate aspects for allocation of rights by the State: multi-sector concentration and sectoral competitiveness, and stipulates that when granting rights and setting the terms for those rights, the regulating agency authorized to grant such rights must take into account, in addition to all other legal matters regarding the allocation of rights, sectoral competitiveness and multi-sector concentration considers, as set out below.

The provisions of the chapter dealing with multi-sector concentration and sectoral competitiveness considerations when allocating rights came into force on December 11, 2014 and relate to rights allocation procedures from that date forward. With regard to extension of the rights period, the provisions of this chapter will apply from December 11, 2017.

(A) Multi-sector concentration considerations when allocating rights: This part of the chapter provides that when the regulating agency allocates rights in an essential infrastructure domain (defined as a domain that makes use of an essential infrastructure or national resource or which provides an essential public service, as listed in an addendum to the Concentration Law ("Essential Infrastructure Domain"), to an entity listed in a list of concentrated groups, may not permit a concentration group to participate in the rights allocation process unless multi-sector concentration considerations have been taken into account in consultation with the committee for reducing concentration. With regard to this part, the term "right" is a license, contract or significant holding, as defined in the Concentration Law. Without derogating from the foregoing, the regulating agency may refrain from allocating rights to a concentration group also after finding that it is unlikely that real harm would be caused to the sector in which the rights are allocated or to the regulation of the sector due to non allocation. This part also provides that the regulating agency must take into account considerations concerning avoidance of expanding the operations of the concentration group while noting the sectors of operations relating to the matter and considering the relationship between them.

It should be noted that extension or renewal of a rights period is subject to the same rules as for the allocation of rights and the provisions as described above will also be apply thereto if the two following conditions exist: (a) the holder of the rights to be extended has held these rights for a period exceeding 10 years, whether under a single allocation or accumulated under several allocations; (b) the allocation or previous extension of the rights were not

[99] Published on December 11, 2014 http://www.antitrust.gov.il/files/33433/ריכוזיות_רשימות.pdf

assessed in accordance with the provisions of the Concentration Law during the 10 years preceding the requested extension.

(B) Sector-specific competition considerations when allocating rights: This part of the chapter provides that when allocating rights and prescribing the terms of such rights, the regulating agency (allocating the rights) must also take into account, in addition to all other matters to be considered under the law regarding allocation, advancement of sectoral competitiveness considerations. Under certain circumstances, taking into account the advancement of sectoral competitiveness considerations obligates consultation with the Antitrust Commissioner. The applicability of this part is broader than that of the previous part since it applies to all rights allocations (as defined above) in an essential infrastructure domain, and all licenses required in any sector that is not an essential infrastructure domain if, due to the nature of the right, its economic value or applicable laws, there are a limited number of players in the sector in which it is allocated. It should be noted that this part of the chapter also applies to organizations that are not a concentration group as defined in the Concentration Law. It is also noted, that similar to the part regarding multi-sector concentration, the rules that apply to the extension or renewal of a right are the same as those applicable for the allocation of a right, and consequently sectoral competitiveness considerations at the time of the extension/renewal must be taken into account if the two conditions as set out above exist.

Pursuant to the provisions of the Concentration Law, a significant financial corporation and a significant non-financial corporation, as defined in the Concentration Law (see below), will be considered to be a concentration group.

On December 11, 2014, the committee for reducing concentration, pursuant to the provisions of the Concentration Law, published a list of concentration groups, a list of significant non-financial corporations and a list of significant financial bodies, and the chapter in the Concentration Law concerning multi-sector concentration and sectoral competitiveness considerations when allocating rights came into force. Delek Group and all the companies under it control appear in the list of concentration groups (and all, other than The Phoenix and its investees, also appear in the list of significant non-financial corporations). Furthermore, The Phoenix and its investees also appear in the list of significant financial bodies.

According to the list of essential infrastructure domains published by the Antitrust Commissioner, the Group's natural gas and oil sector, water desalination, electricity and LPG marketing segments are considered to be essential infrastructure domains.

At this stage the Company is unable to assess what the effect of the chapter relating to multiple-sector concentration considerations and sectoral competitive considerations in the allocation of rights will have on the Group's operations.

2. Constraints on Control of Multi-tiered Structured Conglomerates

With regard to the constraints on the control of multi-tiered structured conglomerates, the Concentration Law has direct impact because, under the Concentration Law, the Company is considered to be a first tier company and its subsidiary that has further tier companies is The Phoenix, which is considered to be a second tier company ("the Second Tier Company"). Subsidiaries of the foregoing Second Tier Company, which are considered under the Concentration Law, to be "other tier" companies are The Phoenix Capital Raising, Excellence and Mehadrin ("the Other Tier Companies"). Notwithstanding the aforesaid, the transition provisions of the Concentration Law provide that a company that, at date of its publication, was a second tier company, and so long as it remains as such, may continue controlling the other layer companies until December 10, 2019, if it held such control before the publication date.

The impact of the Law is also reflected in the applicability of more stringent corporate governance regulations on the other layer companies, as of June 11, 2016, and so long as it remains an other layer company, such as changing the boards of directors of the other layer companies, so that the majority of the board members will be independent directors and the minimum number of external directors will be half of the board members, less one, rounded upwards and no less than two. The transition provisions also provide that the appointment of external directors as required above, will be appointed to public companies by a general meeting that will convene no later than three months from June 11, 2014. The foregoing corporate governance provisions apply to Excellence and Mehadrin.

With regard to The Phoenix Capital Raising, a wholly-owned subsidiary of The Phoenix, under the Regulations to Promote Competition and Reduce Market Concentration (Classification of

a Company as a Non-Tier Company and Provisions for Attributing Control), 2014, certain concessions apply to Phoenix Capital Raising in its classification as a tier company, regarding the required duty to appoint directors from among the public and independent directors.

3 Separation of Significant Non-financial Corporations from Significant Financial Corporations

The provisions of this chapter impose restrictions and conditions for separating significant financial corporations from significant non-financial corporations Under the provisions of the Concentration Law, a financial corporation may be, inter alia, an insurance company, provident fund management company, bank and auxiliary corporation, mutual investment fund manager and investment portfolio manager. A real corporation is defined as a non-financial corporation.

In general, a financial institute will considered to be a significant financial corporation if, inter alia, its total assets and those of the financial institutes under its control and under the control of its controlling shareholder, exceed NIS 40 billion. A real corporation will be considered to be a significant non-financial corporation if one of the following conditions exists: (1) the effective sales turnover of the company, its controlling shareholder and all the non-financial companies under its control and the control of its controlling shareholder exceeds NIS 6 billion or NIS 2 billion in market monopolies (as this term is defined in the Concentration Law); (2) the effective credit (as this term is defined in the Concentration Law), of the non-financial corporation, its controlling shareholder and all the non-financial companies under its control and under the control of its controlling shareholder exceeds NIS 6 billion.

The main restrictions prescribed in the Concentration Law under this chapter, include: (1) as a rule, a significant non-financial corporation or its controlling shareholder may not control a significant financial corporation (including an insurer that is a significant financial corporation) and may not hold more than 10% of certain types of means of control in a significant financial corporation, and may not hold more than 5% of the means of control in a significant financial corporation that does not have a controlling shareholder; (2) a holder of more than 51% of a certain type of means of control in a significant non-financial corporation may not hold control in a significant financial corporation; (3) and insurer and a management company (including by using the moneys of the provident funds it manages) may not hold more than 10% of a certain type of means of control in a significant non-financial corporation; (4) a bank may not hold more than 1% of a certain type of means of control in a significant non-financial corporation or in an insurer that is a significant financial corporation. Notwithstanding the foregoing, a bank may hold up to 10% of one significant non-financial corporation and of an insurer that is a significant financial corporation; (5) the controlling shareholder of a bank that is a significant financial corporation may not hold control in an insurer that is a significant financial corporation;

Notwithstanding the foregoing in sections (1) and (2) above, a significant non-financial corporation, the controlling shareholder of or anyone holding more than 5% of a certain type of means of control in a significant non-financial corporation which, immediately prior to publication of the Concentration Law, duly held means of control in a significant financial corporation exceeding the holdings stipulated in sections (1) and (2) above, or duly controlled a significant financial corporation, as applicable, may hold said means of control or such control until the end of six years from date of publication of the Concentration Law (i.e. December 11, 2019), with certain constraints as provided in the Concentration Law.

Furthermore, notwithstanding the provisions in sections (3) and (4) above, an insurer, provident fund management company and bank that, prior to the publication of the Concentration Law, lawfully held the means of control in a significant non-financial corporation or in an insurer, accordingly, that does not exceed the rate set in the provisions of sections (3) and (4) above, may continue to hold these means of control until the end of six years from the date of publication of the Concentration Law (i.e. December 11, 2019).

The Phoenix is a significant financial institution and the Group's companies that are not financial institutions are considered to be significant non-financial corporations. Consequently, pursuant to this chapter in the Concentration Law, the Group is required to sell the means of control in the financial bodies that it holds in Israel (The Phoenix and its investees), within a period of six years from effective date of the Concentration Law.

The Law also stipulates prohibition on consecutive terms of office of a director in a significant non-financial corporation and a significant financial corporation, and a transition period of two years from date of publication of the Law, for terminating the term of office of directors who

currently serve consecutive terms of office in both a significant non-financial corporation and a significant financial corporation, with exceptions as set out in the Law.

In addition, the Concentration Law indirectly amended, inter alia, the Companies Law, Supervision Law and Provident Fund Law. These amendments, which could affect the Company and its subsidiaries, provide, inter alia, additional corporate governance rules, such as the duty to hold competitive process and the involvement of the audit committee regarding transactions with controlling shareholders of public companies, including public companies that are not part of a multi sector conglomerate; investment restrictions for the Group companies that are not institutional investors, for them and their clients, such as the acquisition of up to 10% of the means of control in a significant non-financial corporation, restrictions on providing credit for a related company or group, provisions regarding restrictions on granting control permits to an organization that holds both an insurer an a provident and/or pension fund management company, and control of an insurance company that does not have a controlling shareholder.

(E) Trajtenberg Committee

In September 2011 the Committee for Social Economic Change headed by Prof. Manuel Trajtenberg submitted its recommendations to the government, which included, inter alia, the following: halting the progressive reduction in the corporate tax rates set in the past, increasing the corporate tax and capital gains tax rates and reinforcing the regulatory tools available to government authorities regarding supervision over monopolies and powerful factors in the markets of certain sectors. The government adopted the main points of the Committee for Social Economic Change recommendations, decided to act to implement them and also approved part of the recommendations dealing with taxation, which include increasing corporate tax to 25% and raising capital gains tax as of 2012. In June 2012, the Bill for Socio-economic Change (Legislative Amendments) (Increasing Competition and Consumer Welfare), 2012 was published for the purpose of applying part of the Trajtenberg Committee recommendations, under which it proposes, inter alia, to amend the Antitrust Law empowering the Antitrust Tribunal, after receiving a request from the Antitrust Commissioner, to order a monopoly or member of a concentration group to sell certain of its assets, in whole or in part, if it is found that this would prevent significantly harming or the concerns of significantly harming business or public competition, and with regard to concentration groups, even if it means significantly accelerating competition between the members of such group or industry, or to generate conditions for significantly increasing such competition. The foregoing provisions were legislated under Amendment 16 to the Antitrust Law, published in the Official Gazette on November 25, 2014.

As of reporting date, other than legislative amendments that have already been implemented, it is uncertain whether these recommendations of Committee for Social Economic Change will be implemented and in what manner. Consequently, other than the effect deriving from the changes in corporate tax rates as aforesaid, the Company is unable to assess the extent of the impact of these recommendations on its businesses. Nonetheless, application of these recommendations, if they will be applied, could have material impact on the Company.

(F) Report of the committee for reviewing debt settlement arrangements in Israel ("Endorn Committee") and the report of the committee for reviewing investments by financial institutions in tailor made loans ("Goldschmidt Committee")

In view of the increasing trend in recent years of institutional bodies providing private loans to the business sector, the Goldschmidt committee was set up in 2012 to review how institutional bodies invest in coordinated tailor made loans and in April 2014, its final conclusions were published. The recommendations of the committee refer to, inter alia, the functions of the board of directors and investments committee of an institutional body with regard to providing tailor made loans by the institutional body, and the way an institutional body participates in consortium and syndicated transactions. Furthermore, on November 17, 2014 the committee for reviewing debt settlement arrangements in Israel ("Endorn Committee"), which was set up in 2013 due to the numerous debt settlements reached in 2013, published its report. The Endorn Committee recommended a plan for regulating the treatment of debt settlement arrangements of companies in financial difficulties. The Endorn Committee also drew up recommendations referring to the process of allocating credit and pricing it, under which the Committee recommends applying rules for providing loans for leveraged purchases, prescribing disclosure requirements for credit taken to finance acquisition of controlling shares in a company and holding them, prescribing disclosure requirements regarding past practices of the controlling shareholders of a company with financial difficulties, prescribing credit limits for a business group and rules regarding a lending company providing credit based on various criteria. Application of part of the Endorn Committee recommendations as set out above,

including recommendations concerning the settlement arrangements plan for treating debt settlements of companies in financial difficulties, are contingent upon completion of the initial legislature proceedings.

Subsequent to publication of the Endorn Committee recommendations, the Supervisor of Capital Market issued draft circulars in January 2015, for putting into practice some of the Committee's recommendations. On January 4, 2015 the Supervisor of Capital Market issued a draft circular with regard to providing tailor made loans. The draft circular includes, inter alia, provisions concerning tailor made loans given to a company and controlling shareholder in a company that had financial difficulties, according to which the tailor made loans provided by an institutional body to a company, its controlling shareholder or other company controlled by it, which in the 7 years preceding providing of the loans under circumstances set out in the draft circular (such as personal bankruptcy of the controlling shareholder, debt settlement in accordance with section 350 to the Companies of a controlled company, compulsory liquidation of a company under the control of the controlling shareholder and other insolvency proceedings of the controlled company), requires prior approval by the investments committee. In this matter a "tailor made loan" is a loan to the controlling shareholder or controlled company, when the total financial credit (loan from an institutional body or bank and the issue of debentures to the public or an institutional body) received in Israel or abroad exceeds, at the date on which the loan is taken, NIS 50 million. On January 21, 2015, the Supervisor of the Capital Markets issued a draft circular regarding rules for loans provided by institutional bodies. The main points of the draft circular are as follows: (1) leveraged loans - the investments committee of a financial institution will discuss, at least once a year, the policy of the financial institution with respect to leveraged loans, and at least once a year will discuss in a status of the entire portfolio of leveraged loans, including compliance with financial covenants and detailed discussion of each loan that exceeded the minimum amount established by the investment committee (in this regard "leveraged loan" means a tailor made loan provided for acquisition of means of control of a company, credit granted against a pledge of controlling shares of a company or a loan provided for the payment of dividends); (2) limits in credit extending to borrowers - the investment committee of a financial institution will set limits for the leverage rate for borrower companies, above which the institutional body will not provide the credit to the corporation, depending, inter alia, on the total credit granted, internal and external credit rating, the borrower's operating segment and the industry in which it operates and ownership structure; (3) duty of disclosure regarding credit assumed to finance the acquisition of controlling shares in a company or holding them - a financial institution may provide a tailor made loan to a company in an amount exceeding 50 million only after the receiving from the company disclosure regarding credit assumed by the person who holds or acquires the controlling shares of the company to finance their acquisition or disclosure regarding pledging of such shares, the scope and content of which is set out in the draft circular; (4) duty to decide on immediate repayment regarding violation of a covenant in corporate bonds, requiring a financial institution that has invested in corporate bonds to apply to the trustee for the debentures to convene a general meeting the debenture holders for the purpose of making a decision on the matter; (5) duty of determining underwriting procedures for tailor made loans that will refer to, at least, the criteria set out in the draft circular; (6) to prescribe the terms for the financial institution's reliance on the guarantees when deciding to provide a tailor made loan (including the conduct of the guarantor regarding its past investments, restrictions on exercising the guarantee, the guarantor's financial statements and financial liquidity and the guarantor's conduct regarding the distribution of dividends and injection of capital in the companies under his control).

1.21 Material agreements

For further details concerning material engagements as part of the various operating segments, see sections 1.7.26, 1.8.20, 1.9.22, and 1.10.19 above. Other than the foregoing, other material agreements of the Company are with the key shareholders in several companies: IDE (see section 1.11.1 above), Delek Automotive (see section 1.10.1 above) and The Phoenix (see section 1.9.1 above).

The headquarters companies' material financing agreements are set out in section 1.17.2 above.

From time to time, the Company engages in material purchase agreements such as the agreement to acquire the controlling shares in Cohen Development, etc., or in sales agreement which, other than the business terms and conditions, these agreements also include provisions concerning representation, indemnification and transfer of information, which could become material if problems arise subsequent to closing such transactions.

1.22 Legal proceedings

For a description of the material legal proceedings to which the Group's companies are party, see Notes 16 and 31A to the financial statements.

1.23 Business strategy and objectives

The Company customarily reviews its strategic plans from time to time and revises its goals in accordance with developments in its segments of operation and business opportunities which present themselves.

1.23.1 General:

Due to the natural gas discoveries in the Mediterranean Sea and regulatory changes in recent years. through reporting date, including publication of the Concentration Law, the Company's financial strategy is to focus on the development of its core assets in upstream energy and the active management of its other assets with the aim of increasing the value of these assets and maximizing their profitability.

In view of the foregoing, in 2014 the Company sold part of its holdings in sectors other than its core sector as set out in section 1.12 above, and at the same time the Company continues reviewing its investments that are not in its core sectors, adapting them to its goals and the options for disposing of such investments and reducing the financial leverage.

It is note that, further to the Company's report with regard to the possibility of making an issue in London, due to the recent extreme volatility in the international energy markets and the fact that there are several regulatory issues pending solution and regulation, including the antitrust issue of the Leviathan project, the Company management decided that, under these circumstances, it should hold off further review of making an issue in London and listing of its shares on London's primary stock exchange.

1.23.2 Growth, development and trade in the gas exploration and gas transportation infrastructure sectors

The Company estimates that the scope of the significant natural gas resources discovered under the projects in which it is involved, particularly in the Tamar and Leviathan natural gas discoveries, together with the oil assets and additional explorations it holds within the economic waters of Israel and/or Cyprus maintain and strengthen the Group's lead (together with its partners) in the energy segment in the Mediterranean region, and include the potential for generating further growth and value.

In view of the foregoing, the Group's strategy and goals are:

1. To expand and establish the use of natural gas in domestic market and to develop the various projects to enable supplying the needs of the domestic economy;
2. To promote and develop natural gas trade plans by exporting via regional pipelines and/or liquefication to LNG.
3. To invest in resources and to promote sanctioning of the Group's discoveries in Cyprus ("the Aphrodite reservoir") to enable advancing concurrent planning and development of the reservoir with the development of the reservoirs in Israel;
4. The Group intends taking measures to examine and exploit the potential of additional gas and/or oil discoveries within its assets.

1.23.3 Recognizing existing opportunities in global markets for strategic investment in the energy sector:

The Company is reviewing the option of strategic investment in the global energy sector, which will synergize and complement the Group's existing operations in this sector.

1.23.4 Financial Sector

The Group operates in the financial sector in Israel through Phoenix, inter alia, in the elementary insurance, health insurance, life assurance and long-term savings sectors, and through Excellence mainly in the investment management sector for its clients and its own trade in securities.

As set out in section 1.6.4 and 1.20 above, and in view of the Concentration Law, which provides, inter alia, for the duty to separate holdings in significant non-financial operations from significant

financial operations, the Group is required to sell the means of control in the financial institutions in Israel, and this within a period of six years from the date on which the Concentration Law came into force. As set out in section 1.9.1(A) above, on January 27, 2015 the Company signed a non-binding memorandum of understanding with Fosun International Limited, in which criteria were set out for drawing up a binding agreement for the Company to sell the means of control in The Phoenix. For further information see Note 14(F)(1) to the financial statements. As at the date of publication of the report, the foreign company is carrying out due diligence review.

1.23.5 Active management and positioning of the Group's businesses for increasing cash flows from them and maximizing the business value

The Group acts to actively manage its remaining businesses in order to maximize value by generating cash flows that will support, inter alia, the Group's growth in the energy sector and its dividend strategy. The Group provides, inter alia, administrative capacities to the subsidiaries (by means of management agreements and representation on the boards of directors of these companies) and often supports them in order to develop or exploit their potential value.

As a rule, the Group's expanded business portfolio, including businesses designated as yield generating by way of dividend or increased value, enabling it business flexibility and the ability to support capital intensive oil and gas operations.

1.23.6 Wise management of financial operations for ensuring flexibility and maximizing shareholder's return

The Group's approach is to manage its businesses with the aim of ensuring financial flexibility and further development of its business, in the short and mid-term and to maximize shareholders' return by distributing dividends.

In view of its significant holdings in public companies, as well as in public subsidiaries, the Group tries to maintain financial flexibility by increasing or decreasing its holdings, from time to time. The Group actively manages its holdings and increases its share, inter alia, based on its assessment of the value of the shares or reduces its share, inter alia, based on its financing needs and further business development.

The Group's strategy is to maintain its financial strength and adequate solvency. Risk is reduced, inter alia, by a comprehensive business portfolio that balances between exposure and capital intensive businesses and cash yielding businesses. The Company's subsidiaries, some of which are public companies, are financially managed independently and the Company focuses on overseeing its businesses while examining its current and future financing needs.

1.23.7 Expanding and varying financing sources

In view of its financing needs and existing liabilities, the Company makes sure to safeguard its financing sources in the banking system and to maintain its ability to raise capital on the capital market, and consistently examines expanding and varying its sources of finance, based on the Company's needs and goals.

1.23.8 Contribution to the community in Israel and corporate governance

The Company contributes, independently and through its subsidiaries, in a wide range of community activities. As a leading business group, the Group is committed to the principles of corporate responsibility in social and environmental aspects. The Group's community activities are managed through the Delek Science, Education and Culture Foundation Ltd. ("Delek Foundation"), for most of the Group's companies. Together with financial donations, the Group's employees are active in personal and collective voluntary activities within the community, with emphasis on education in the community, focusing the 18-30 population sector (nurturing and promoting young people). For further information see section C(1) to the Board of Directors report.

1.24 Financial information concerning geographic regions

Below is a breakdown of the geographic regions in which the Group operates and its principal operations in them:

Israel - the Group operates in Israel in the energy, fuel products, insurance and finance, automotive, desalination, infrastructure and biochemical sectors.

Other - the Group operates worldwide in desalination.

For further information concerning the geographic regions see Note 43 to the financial statements.

1.25 Risk Factors

The Company is holdings and investments' management company and therefore its principal risk factors stem from the sector-specific risks of each of the Group's operating segments (as described in sections 1.17 through 1.10 above). Aside from the risks described for each of those segments, below are details of additional key risks to which the Group and its investees are exposed:

1.25.1 Antitrust and Increased Competition The Group is subject to antitrust restrictions that deal with, inter alia, restrictions on the scope of operations, prohibited practices and manner of pricing products and services. In certain circumstances, the Group's companies are liable to be restricted in their operations because of the provisions of the Antitrust laws in various countries, in a way that may restrict the expansion of their operations or even require them to downsize and change their operations. The Partnerships, together with their partners in the Tamar Project, were declared a monopoly in the supply of natural gas to Israel. Subsequent to this declaration, restrictions could be imposed on the operations of the Partnerships, including prohibiting them from refusing, under unreasonable reasons, to supply natural gas and barring the exploitation of their market power in a manner that could reduce business competition or cause public harm. The restrictions on the Partnerships due to their status as a monopoly in the supply of natural gas in Israel could have adverse effect on their ability to expand their operations in Israel. Furthermore, in certain cases, the Group and its investees may be subject to approval of transactions by the Antitrust Commissioner in Israel, which is liable to restrict and even prevent such transactions being carried out, or to require acting in accordance with the terms and conditions contained in merger permits which are granted or may be granted by him. Failure to comply with antitrust laws or claims of failure to comply with these laws, could lead to civil and criminal sanctions and the imposition of various restrictions on the Group's operations. Antitrust laws are, from time to time, subject to changes and interpretation, including being made more stringent.

In this regard see the Antitrust Commissioner's decision relating to Leviathan in section 1.7.25C above.

In this regard, as well as with regard to the Concentration Law and its implications for the Group's structure, see sections 1.6.4 and 1.20.1 above. Furthermore, in this context it is noted that proceedings are being conducted with the Antitrust Commissioner with regard to the energy segment. In this regard see also section 1.7.25 above.

1.25.2 Changes in foreign currency exchange rates The Company and its investees are affected by changes in foreign currency exchange rates, from several aspects: (a) From time to time the Company and some of its investees take loans denominated in foreign currencies, which are not their operating currency, (primarily USD and Yen); (b) the exchange rates may affect the business results of some of the investees which purchase raw materials in foreign currencies that are not their operating currency; (c) changes in exchange rates could affect the value of the Company's investments in the share capital of overseas companies and the foreign currency loans it received, and could also expose the Company to risks from translation of exchange rates, if the operating currencies of its subsidiaries, according to which they prepare their financial statements, are foreign currencies. The Company is specifically exposed to USD exchange rate changes, which impact the values in the Company's financial statements, also if there is no change in the original currency.

Though the Company and its investees try, from time to time, to neutralize such currency risks by using various financial instruments, it is uncertain that they will succeed, and they may even undertake under such transactions to make various payments for hedging.

1.25.3 Change in interest rates: The Group has loans at variable interest and therefore it is exposed to interest rate fluctuations, which could affect the Group's business results. Changes in interest rates can also have an adverse effect on the yields of the marketable debenture portfolios of the insurance company held by the Company, which provide collateral for insurance liabilities.

1.25.4 Economic slowdown and changes in the Group's markets: Changes in the markets in which it operates and an economic slowdown in those markets (particularly in the Israeli market) could have an adverse effect on the operations of the Company and its investees, as well as on the value and liquidity of their assets, the demand for their products and their revenues.

1.25.5 Capital markets: Deterioration in the global capital markets could adversely affect the Group's operations. Changes in the prices of marketable securities held by the Group expose it to risks deriving, inter alia, from capital market volatility and will affect its ability to generate capital gains from the realization of its investments. Deterioration of the capital market in Israel and worldwide could have material impact on the operations of the Company and the foreign securities that it holds, also with regard to its ability to raise capital and debt.

1.25.6 Financing, credit restrictions and compliance with financial covenants: The Company and its investments have substantial liabilities and continuous need for refinancing their operations when such liabilities reach repayment date. Some of these liabilities include financial criteria and other undertakings which could restrict the Group's operations and those of its investees (such as restrictions on distribution of dividends, issuing of shares, providing collateral, mergers and disposal of assets), require them to set aside substantial provisions from their cash flows to cover debts, limit their ability to borrow additional moneys and could lead to a demand for immediate repayment of the liabilities and exercise of collateral in the event that they are not met. The absence of the ability of the Group and/or its investees to obtain financing in the future by receiving loans or debt and capital raising, under good terms, may prevent the expansion of its operations, harm its current operations and lead to non-payment of dividends and even non-compliance with obligations towards third parties, including debenture holders. The availability and terms of financing sources are dependent on various factors, including the operating status, financial position, capital market conditions and the ability and limitations of key financing bodies. In this regard it is noted that, application of the Hodek Committee recommendations applicable to large institutional investors in Israel (insurance companies and pension and provident funds) by the Supervisor of Capital Market, and other possible future constraints (such as, subsequent to the recommendations of the Goldschmidt and Endorn Committees) could restrict the Company's ability to raise further debt, under good terms, or impose constraints on its operations.

1.25.7 Security and political situation: Deterioration in the security and political situation (domestic and international) in Israel could adversely affect the Group's operations. Since a major part of the Group's operations are in Israel, it is exposed to the implications of armed conflicts, terror acts and instability in Israel. Such conflicts or acts are liable to harm the operations of the Group and its investees in Israel in a number of ways, including cause an Israeli economic slowdown which could adversely impact the scope of its operations and results; declines in the Israeli capital market which could adversely impact the Group's capital and debt raising ability, realization of its holdings and the value of its marketable holdings; harm the Group's employees in Israel and cause direct damage to the Group's installations, including its gas exploration, production and conveyance facilities (Yam Tethys, Tamar, Leviathan, Ashkelon) and its seawater desalination and electric power plants, which are situated relatively close to the Israeli border with the Gaza Strip and may serve as a specific target for their purposes; and a decline in the presence of foreign investors and international companies will to invest in and engage with Israeli companies. Furthermore, the Group's ability to operate in various countries around the globe, particularly in Middle East countries, which do not recognize Israel is already, by nature, restrictive. Calls and actions to boycott Israeli companies (in enemy countries as well as in friendly countries) may also adversely affect the Group's operations in Israel and abroad. Similar to the foregoing, the Group is exposed to armed conflict, hostile acts and political instability in all the countries in which it operates.

1.25.8 Changes in legislation and standards: Special laws apply to significant parts of the Group's operations. The Group's financial results could be affected by changes in legislation and standards in various areas, including antitrust laws, laws governing the obligation to issue tenders, laws regulating areas such as fuel, gas, telecommunications, supervision of insurance business, control on prices of products and services, excise rates, consumer protection, etc. Furthermore, changes in the policy of the authorities operating by virtue of these laws are liable to affect the Group. Similarly, some of the Group's companies operate abroad and they are liable to be affected by changes in legislation, excise, regulatory proceedings and policy in the countries in which they operate.

In this matter, attention is drawn to the provisions of Note 41 to the financial statements regarding the legislation of Petroleum Profits Taxation Law, 2011 which adversely affected the Group's activities in the energy sector and to the publication of the Zemach Committee recommendations in September 2012 [and the Antitrust Commissioner's announcement regarding Leviathan]. See also section 1.25.1 below.

A change in accounting regulations could affect the business results of the Group and its investees, and the ability of those investees to distribute dividends.

1.25.9 Supervision of banks: The Group and some of its investees are subject to the Proper Banking Practice directives issued by the Supervisor of Banks in Israel, which include, inter alia, restrictions on the volume of loans that Israeli banks may extend to a single borrower and the largest borrower group in the bank (as these terms are defined in the aforementioned directives). In view of the foregoing restrictions, the scope of the loans assumed by the Group and its controlling shareholder may, under certain circumstances, impact the Group's ability to borrow additional sums from Israeli banks, and on its ability to make investments which require bank credit, or investments in companies which have taken large volumes of credit from certain Israeli banks.

1.25.10 Licenses and concessions: Some of the companies held by the Company operate on the basis of approvals, permits, licenses or concessions granted to them in Israel and abroad, in accordance with the law, by various authorities, inter alia the Ministry of National Infrastructures, Ministry of Telecommunications and Ministry of Transport. Failure to comply with the terms of these approvals, permits, licenses or concessions could lead to the imposition of sanctions, fines and even cancellation of the relevant approvals by the competent authorities. Such cancellation is liable to cause substantial harm to investees whose operations depend on these approvals. Some of these licenses and concessions have time limits and are renewable from time to time, all in accordance with the conditions and provision of the law and there is no certainty that these licenses or concessions will be renewed in the future. Non-renewal of such a license or concession may adversely impact the profitability of the company holding such a license or concession and consequently also on the Company's profitability. It is also noted that in view of the Concentration Law, it is possible that the applying company may encounter difficulties or may be unable to renew existing licenses or permits or may be able to renew them, subject to restrictions, and all as described in section 1.20.1 above.

1.25.11 Environment: Some of the Company's investees, particularly those in the fuels and biochemical segments, are exposed to various requirements laid down by the authorities in the matter of environmental protection in Israel and abroad. The other costs and resources necessary for complying with the environmental requirements are large. A change in legislation in this area or a change in the policy of the supervisory authorities may impact the profitability of these companies, and consequently also the Company's profitability and failure to comply with them may expose the Company to various sanctions, legal proceedings and loss of licenses.

1.25.12 Raw materials, equipment and infrastructure: Some of the Company's investees are exposed to changes in the prices of raw materials, such as the fuel sector which is exposed to changes in fuel or crude prices or biochemical operations which are exposed to changes in the global price of sugar. Changes in the prices of raw materials are liable to impact the profitability of investees and consequently also the Company's profitability. Moreover, the companies are dependent upon the proper conveyance and storage of the various raw materials (for example, proper operation of fuel pipelines and terminals) and access to various infrastructures. These may be affected as a result of various factors, such as labor strikes, security events, transport breakdowns, limited access to ports (particularly the two main ports in Israel) natural disasters, extreme climatic conditions, etc.

1.25.13 Development of the Group's gas operations: Over the past two years, the significance of the Group's gas operations have increased, particularly due to the Tamar and Leviathan natural gas discoveries. The increase and success of the Group's gas operations depend on a series of factors, some of which are not in the Company's control, such as regulatory rulings, the successful development of the Leviathan reservoir, increased demand for gas in Israel, development of the infrastructures required for supplying gas, obtaining financing at favorable terms for developing the gas operations, continued good relationship between the Group and Nobel, agreements for selling gas under favorable terms and the ability to export gas. Failure of any of these factors to materialize could have material adverse impact on the Group's operations. Also see risk factors in the energy segment - section 1.7.30 above.

1.25.14 Legal proceedings: Lawsuits have been filed against the Company and some of its investees, including class actions, in substantial amounts. If these companies are found liable in these legal proceedings or in any possible future legal action brought against the Company or its investees, this could adversely impact the Company's business results. Also see Note 31 to the financial statements relating to contingent liabilities.

1.25.15 Salary and labor relations: Material changes in the minimum wage or other material changes in the labor laws are liable to affect the results of the Company's investees and consequently also the Group's business results. Furthermore, strikes and labor disputes in the investees are liable to adversely affect the business results of the Group.

1.25.16 Restrictions on disposal of holdings: The Company and some of its investees are bound by legal and contractual restrictions which could inhibit the ability of the Company and its investees to realize these holdings.

1.25.17 Reliance on the results of investees and their cash flows: As a holdings company, the results of the Company's operations are, inter alia, dependent on the results of its investees, which manage the majority of its operations and which hold the majority of its assets. A majority of the investees are public companies trading on the TASE and operate independently, and their interests are not necessarily the same as the interests of the Company. The Company's sources of capital include profits distributed as dividends, management fees and repayments of loans to the Company by the

investees. Changes in the profit distribution policy of the Company's investees, changes in profitability (including those brought about by changes in accounting principles) and in the cash flows of these companies, and restrictions on the distribution of profits are liable to affect the Company's cash flows and its business operations, and therefore it is not at all certain that they will be able to make such payments in time when it is in need of the cash flows. Furthermore, the Company's ability to raise foreign finance relies, inter alia, on the value of its holdings in the Group's companies.

1.25.18 Loans and guarantees to investees and affiliates: As part of its operations, the Company provides, from time to time, loans to its investees in material amounts as well as guarantees and collateral for various purposes such as guaranteeing finance they received, projects they carried out, etc. A decline in the profitability and cash flow of these investees or liquidity difficulties is liable to have an adverse effect on their ability to comply with the terms of the loans, or alternatively, to bring about the exercise of the guarantees provided by the Company and thereby adversely affect its financial position.

1.25.19 Insurance: Notwithstanding the fact that various risks involved in their business operations are insured by the investees, they are unable to protect against the realization of all risks, including the risks specified above, and existing insurances are also limited in aspects such as scope of insurance, insurance exceptions, timing of insurance payments, and the ability of the insurance companies to meet their liabilities. Accordingly, it is possible that there will be no insurance cover, full of partial, for the realization of various risks, including risks to the Group's employees and its plants.

1.25.20 Goodwill and negative publicity The goodwill of the Group, its investees and part of their brands are attained over years and the success of the Group and its investees is dependent to some extent on its goodwill. Negative publicity regarding the Group, its investees and their brands may adversely affect their goodwill and the willingness of customers, suppliers, investors and others to engage with them. The Group's goodwill is liable to be adversely affected, inter alia, by negative events connected with environmental and health issues, legal proceedings and claims pertaining to unethical and illegal conduct and various publicity, even if these are untrue.

1.25.21 Expansion and integration of new business segments: Previous and future acquisitions and investments expose the Group to several risks, including unexpected risks such as obligations or restrictions that were unknown at the time of the acquisition (for example, concerning environmental and antitrust issues); difficulties in achieving sales and profits that retroactively justify the acquisition; acquiring and managing additional liabilities; difficulties in integrating human resources and in making business, operating, financial and technological changes in acquired operations; difficulties opposite shareholders or other business partners in acquired operations; loss of key employees, suppliers or customers following acquisition; insufficient indemnification from the sellers for future liabilities; undertakings dependent on future payments; and difficulty in managing extensive and varied operations. Realization of these risks and other may adversely affect the Company's operations and its financial results.

1.25.22 Competition Each of the Group's investees are exposed to competition in the sectors in which they operate, which could lead to decreasing prices of the products and services sold in their operating sectors as well as loss of market share, and could have a material adverse effect the revenues and profitability of the Group companies.

1.25.23 Information systems: The Group relies on information systems for its various activities. Information system failures (including as a result of natural disasters, power cuts, unauthorized hacking of the information systems, acts of terror etc) and inability to repair them quickly is liable to harm the Group's businesses. Such failures could, inter alia, cause loss of business information, loss of customers and suppliers, harm to goodwill and significant costs for restoring the information systems.

1.25.24 Failure to comply with the undertakings of third parties engaged with the Group: Failure to comply with undertakings of parties with which the Group is engaged or their failure to pay can expose the Group to losses. Material exposure as aforesaid exists, inter alia, with regard to the exposure of reinsurance companies, and parties managing funds for the Group in the insurance and finance segments.

1.25.25 Impairment of securities: The Company is exposed to price volatility of the tradable securities that it holds. Among other things, as lump in capital markets abroad and in Israel, decrease in the operating results of companies in which the Company holds shares and a drop in oil prices could have adverse effect on the prices of the tradable securities held by the Group and affect the financial and accounting results of the holdings in these securities.

Breakdown of the Company's assessment of the types of risk factors and the degree of their impact on the Company's foregoing risk factors:

	Impact of the Risk Factor		
	Major	**Moderate**	**Minor**
Macro risks			
Changes in foreign currency exchange rates		X	
Interest rate fluctuations	X		
Economic slowdown and changes in the markets in which the Group operates:		X	
Capital markets:		X	
Security and political situation		X	
Changes in legislation and standards	X		
Supervision of banks		X	
Competition		X	
Impairment of available-for-sale securities		X	
Sector-specific Risks			
Financing, credit restrictions and compliance with financial covenants	X		
Environmental issues		X	
Raw materials, equipment and infrastructure		X	
Company-specific risks			
Licenses and concessions		X	
Development of the Group's gas operations	X		
Legal proceedings			X
Salary and labor relations			X
Antitrust and increased competition	X		
Restrictions on realization of holdings			X
Reliance on the results of investees and their cash flows:		X	
Loans and guarantees to investees and related companies		X	
Insurance			X
Goodwill and negative publicity			X
Expansion and integration of new business segments			X
Information Systems			X
Failure to comply with the undertakings of the parties engaged with the Group		X	

The information relating to risk factors and their effect on the Company is forward-looking information as defined in the Securities Law. This information relies, inter alia, on the Company's assessments based on past experience and familiarity with the relevant markets in its segments of operation and information regarding the relevant regulatory developments relating to the Company's operations. The Company is liable to be exposed in the future to other risk factors and the effect of each risk factor, if it materializes, could be different to the Company's assessment. As noted, forward-looking information is based on information available to the Company on reporting date. The actual results could be materially different from the results estimated or implied from this information.

NETHERLAND, SEWELL & ASSOCIATES, INC.
WORLDWIDE PETROLEUM CONSULTANTS
ENGINEERING • GEOLOGY • GEOPHYSICS • PETROPHYSICS

March 16, 2015

Delek Group Ltd.
7 Giborei Israel Street
Netanya 42504
Israel

Ladies and Gentlemen:

As independent consultants, Netherland, Sewell & Associates, Inc. (NSAI) hereby grants permission to Delek Group Ltd. to use the following NSAI reports issued to Delek Drilling Limited Partnership (Delek Drilling) to be filed with the Israel Securities Authority (ISA):

The reports dated March 13, 2013, set forth our estimates of:

- The contingent gas resources, as of December 31, 2012, to the Delek Drilling working interest in the Dolphin Discovery located in the Hanna License, offshore Israel.
- The unrisked prospective resources, as of December 31, 2012, to the Delek Drilling working interest, in two prospective reservoirs located in the Leviathan Deep Prospect, offshore Israel.
- The unrisked contingent and prospective gas resources, as of December 31, 2012, to the Delek Drilling working interest in a discovery and prospects located in the Dalit Discovery area, offshore Israel.

The report dated July 12, 2013, sets forth our estimates of:

- The unrisked contingent and prospective resources, as of June 30, 2013, to the Delek Drilling working interest in the Karish Discovery and prospects located in the Alon C License, offshore Israel.

The report dated July 11, 2014, sets forth our estimates of:

- The contingent resources, as of June 30, 2014, to the Delek Drilling working interest in the Leviathan Discovery located offshore Israel.

The report dated November 17, 2014, sets forth our estimates of:

- The unrisked contingent and prospective resources, as of September 30, 2014, to the Delek Drilling working interest for the discovery and prospective reservoirs located in the Cyprus A Area, Cypriot Block 12, offshore Cyprus.

The report dated February 16, 2015, sets forth our estimates of:

- The proved, probable, and possible reserves and future revenue, as of December 31, 2014, to the Delek Drilling working interest in certain gas properties located in Tamar and Tamar Southwest Fields, Tamar Lease I/12, offshore Israel.

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netherlandsewell.com

NETHERLAND, SEWELL & ASSOCIATES, INC.

The report dated March 16, 2015, sets forth our estimates of:

- The unrisked contingent and prospective resources, as of December 31, 2014, to the Delek Drilling working interest in a discovery and prospects located in the Tanin Complex, Alon A License, offshore Israel.

Sincerely,

NETHERLAND, SEWELL & ASSOCIATES, INC.

By: Danny D. Simmons

Danny D. Simmons, P.E.
President and Chief Operating Officer

RBT:DEC

Chapter B

Board of Directors Report on the State of the Company's Affairs

Delek Group

March 30, 2015

Delek Group Ltd.

Board of Directors' report on the state of the Company's affairs

For the year ended December 31, 2014

The Board of Directors of the Delek Group Ltd. ("the Company") hereby presents the Company's Directors' Report for the year ended December 31, 2014.

A. The Board of Directors' explanations on the state of the Company's affairs

1. Description of the Company and its business environment

The Company is a holdings and management company controlling a number of corporations (for the sake of convenience, the Company and its investees shall henceforth be referred to as "the Group" or "the Delek Group") with a range of investments in Israel and overseas in the fields of energy and infrastructure, finance and insurance, automobiles, and others. The Company's strategy is to focus on developing gas and oil assets as detailed below and to identify new opportunities in these operations.
The Company's financial data and its operating results are affected by the financial data and operating results of its investee companies, and by its sale or acquisition of holdings. The Company's cash flow is affected, among other things, by dividends and management fees received from its investees, by inflows originating from the disposal of its holdings therein, by its ability to raise financing in Israel and abroad which depends, inter alia, on the value of its holdings, financial market conditions in Israel and abroad, and by investments made by the Group and the dividends it distributes to its shareholders.

2. Principal Operations

General

A) The Company's strategy is to focus on developing its core assets in the energy segment, which primarily include oil and gas exploration, production, transport, and marketing. Therefore, last year, the Company began implementing its strategy by selling off assets not related to these core operations. These initiatives occasionally require a change in the accounting treatment of such assets, and their classification as held-for-sale.

B) The Company's comprehensive income in 2014 amounted to NIS 401 million, as compared to comprehensive income of NIS 204 million in the same period last year, an increase of NIS 197 million. The Company's comprehensive income in the fourth quarter of 2014 amounted to NIS 139 million, as compared to comprehensive income of NIS 49 million in the same period last year, an increase of NIS 90 million.[1]

The Company's loss in 2014 amounted to NIS 765 million, as compared to a profit of NIS 740 million in the same period last year. The Company's loss in the fourth quarter of 2014 amounted to NIS 120 million, as compared to a profit of NIS 125 million in the same period last year.

The Company's operating profit (before impairment) amounted to NIS 1,657 million in 2014, as compared to a profit of NIS 1,802 million in the same period last year. In the fourth quarter of the year, the Company's operating profit (before impairment) amounted to NIS 362 million, as compared to NIS 432 million in the same period last year.

[1] In this translation of the Board of Directors' Report, all amounts should be understood by the reader to be rounded to the nearest billion, million, or thousand, as the case may be.

C) Results for 2014 were significantly affected by changes in the accounting treatment of certain assets and investments, and included a number of accounting write-downs due to changes in the value of assets measured at market value or based on market value, following the Company's plans to dispose of these assets. Results were further affected by actual disposals made in the period.

Following the sale of 18% of Delek USA's shares in the second quarter of the year, and since the Company now holds a 7.5% interest in Delek USA's shares, the Company has ceased accounting for this investment as per the equity method, and has recognized a loss of NIS 263 million in the second quarter of 2014. It is noted, that this loss was previously written-down from the Company's equity, and so it did not influence the Company's equity balance. The investment in Delek USA shares is accounted for as a financial investment and is recognized according to Delek USA's market capitalization.

In light of non-binding actions taking for selling control in The Phoenix, and the increased probability that the Company will dispose of its investment in The Phoenix within a period of less than six years (pursuant to the Market Concentration Law), in 2014 the Company recognized a NIS 508 million impairment on its investment in The Phoenix.

As part of the sale of the Company's holdings in Delek Europe, a seller's loan of NIS 821 million (EUR 175 million) was provided for a period of 5.5 years at 5% interest. Under GAAP, the Company estimated the fair value of this loan and wrote down a total of NIS 188 million from its nominal value. It is noted that this write down, plus the nominal interest on the loan, will be recognized as income over the duration of the loan, for an income of NIS 80 million a year. The total loss on the sale of the Company's holdings in Delek Europe (including the write-down of the loan), amounted to NIS 210 million.

Following the final disposal of its holdings in Roadchef, the Company recognized gains of NIS 253 million in 2014.

After signing an agreement for selling control in American insurance company Republic, the Company recognized an impairment of NIS 60 million in 2014.

Following completion of the sale of all the Company's holdings in Barak Capital, the Company recognized an impairment of NIS 34 million.

After impairment testing carried out by Gadot, the Company recognized losses of NIS 30 million.

Following early repayment of debentures issued by Delek Israel, the Company recognized losses of NIS 23 million.

Summary of key one-time write-downs in the reporting period: (NIS millions)

	2014
The Phoenix	508
Recognition of currency differences on the investment in Delek USA	263
One-time expenses in natural gas operations	103
Republic	60
Barak Capital	34
Gadot	30
Delek Israel	23
Total principal one-time write-downs	**1,021**

For more information concerning the accounting write-downs, see Note 14 to the financial statements.

D) In 2014, the Company started studying possibilities of listing the Company's shares for trading on the London Stock Exchange. Due to the volatility seen in recent months on the international energy markets, as well as the fact that several regulatory issues have yet to be resolved, including questions of antitrust regulations in the Leviathan Project, the Company's Management decided that, under the said circumstances, it is better to postpone the review of possibilities for issuing and listing the Company's shares on the London Stock Exchange.

E) In February 2015, the Company completed the issue of a new debenture series, to the amount of NIS 800 million. For information and details on this debenture issue, see Note 26 to the financial statements.

Gas and oil

A) On March 27, 2014, an agreement was reached with the Antitrust Authority on a consensual decree, in lieu of the Antitrust Authority's decision concerning a restrictive trade arrangement in the Leviathan Reservoir, whereby Delek Drilling Limited Partnership and Avner Oil Exploration Limited Partnership, and Noble Energy ("the Sellers"), will sell all their holdings in the 366/Alon C license in which the Karish natural gas reservoir is located, as well as all their holdings in the 364/Alon A license ("the Alon A License") in which the Tanin natural gas reservoir is located. On December 23, 2014, the Antitrust Commissioner announced the Antitrust Authority's decision not to file the consensual decree with the Court, and that the Antitrust Commissioner was reconsidering issuing a decision whereby the partners in the Leviathan Reservoir, including the limited partnerships are party to a restrictive trade arrangement not duly authorized by the Antitrust Court.

In January 2015, the Antitrust Authority conducted a hearing for the partners in the Leviathan Project, and as of the financial statements' approval date a decision had yet to be made on the matter. At the same time, the Sellers are working with the various regulatory bodies to reach a consensual arrangement, whereby structural changes would be made which the Antitrust Authority would find sufficient to support competition in the natural gas market. The arrangement would also provide for various other regulatory issues falling under the Ministry of Energy and the Ministry of Finance's jurisdiction. These processes are being pursued to create the certainty which the limited partnerships need to make final investment decisions in developing the Leviathan Project and expanding the Tamar Project.

B) On March 27, 2014, the Ministry of National Infrastructures, Energy, and Water's Oil Commissioner ("the Ministry of Infrastructures" and "the Commissioner", respectively) granted Delek Drilling Limited Partnership and Avner Oil Exploration Limited Partnership ("the Limited Partnerships") and the other partners in the licenses, two leases in lieu of their licenses - Lease I/14 Leviathan South, and Lease I/15 Leviathan North ("the Leases"). The Leases cover the Leviathan gas field, with the I/14 Leviathan South lease included in the area of the Rachel license, and the I/15 Leviathan North lease included in the area of the Amit License.

C) In May 2014, a non-binding letter of intent for exporting natural gas was signed by the Tamar Partners and Union Fenosa Gas SA, with an estimated annual volume of 4.5 BCM for a period of 15 years. In November 2014, the letter of intent was extended until completion of negotiations. See also Note 16 to the financial statements.
Furthermore, in June 2014, a non-binding letter of intent for exporting natural gas was signed by the Leviathan Partners and BG International Limited, with an estimated annual volume of 7 BCM for a period of 15 years. See Note 16 to the financial statements.

D) In May 2014, the Limited Partnerships announced that the parties to the memorandum of understanding From February 7, 2014, for including Australian company Woodside Petroleum Ltd. to the Leviathan Project, had decided to cancel the non-binding memorandum of understanding.

E) On May 19, 2014, the Limited Partnerships completed a bonds issue to a total amount of USD 2 billion. The Limited Partnerships used the proceeds of this issue (net of issuance costs) primarily to repay the project financing and bridge loans received for the Tamar Project (to the amount of USD 1 billion); to deposit the safety buffers (to the amount of USD 100 million); and the remainder will mainly be used to finance the Limited Partnerships' operating activities, including future investments in the Limited Partnerships' oil assets.

F) On June 17, 2014, the Limited Partnerships and the trustees approved the distribution of profits to participation unit holders, to a total amount of USD 100 million in each partnership. These amounts were distributed on July 10, 2014.

Sale of Delek USA shares

G) In March 2014, the Group sold 3,000,000 shares in Delek USA in consideration for NIS 315 million. Post-sale, the Company held a 25.4% interest in Delek USA.
In May 2014, the Group issued a sales offer for the sale of shares in Delek USA. The price quoted in the tender was USD 30 per share. In all, 10,580,000 shares in Delek USA were sold in the offer (including the underwriters' exercised options), for a total consideration (before fees) of NIS 1,097 million. Subsequent to the financial position statement date, the Group sold 3.3 million shares in Delek USA in consideration for USD 110 million. Post-sale, the Group holds a 2.1% interest in Delek USA's share capital. See also Note 14 to the financial statements.

Delek Europe

H) In August 2014, a Group subsidiary completed the transaction to sell all its holdings in Delek Europe B.V. ("DEBV") and to sell the loans extended by the subsidiary to DEBV, for a total consideration of EUR 355 million (NIS 1.7 billion). Consideration was paid as follows:
1) EUR 180 million, received in cash in the third quarter of 2014.
2) The remaining consideration, to the amount of EUR 175 million, was provided by the subsidiary to the buyer as a loan with a term of 5 years and 6 months, which shall bear 5% annual interest.
3) A mechanism was also established for adding/ deducting from the remaining consideration subject to various terms.

For more information, see also Note 14 to the financial statements.

Republic

I) In October 2014, Delek Finance US Inc. (a wholly-owned overseas subsidiary - "Delek Finance"), completed a transaction selling 34% of Republic's share capital for a total consideration of USD 75 million (NIS 280 million) in cash.
The buyers gained controlling rights in Republic from the closing date, which will be yielded back to the Company at the end of three years if the buyers not exercise one of their options to buy Republic's shares, as detailed below, which would grant them more than 50% interest in Republic's share capital. As aforesaid, in addition to the said cash consideration, the buyers were granted an option to buy Republic's remaining shares (66%) in consideration for an additional exercise payment. Exercise of these options would grant the buyers a 100% interest in Republic, as follows:
- An option to buy an additional 45% of Republic's share capital, for a period of two years from the closing date, subject to such terms as specified in the agreement.
- An option to buy 21% of Republic's share capital, for a period of up to three years from the closing date, subject to such terms as specified in the agreement.

Should the said options be exercised, consideration shall be based on a valuation of USD 220 million for Republic plus annual interest as specified for each period, at an average annual rate of 5%, according to the exercise period for each option. See also Note 14 to the financial statements.

The Phoenix

J) In January 2015, the Company signed a non-binding memorandum of understanding detailing principles for reaching a binding agreement to sell control of The Phoenix Holdings Ltd. (42%-52.3% of its share capital). The total consideration for the sold shares will be equal to The Phoenix's equity on September 30, 2014, subject to the specified adjustments, multiplied by the sold interest and plus 4.75% annual interest measured from September 30, 2014 and until the closing date. Consideration will be paid in cash upon closing. The deal is subject to due diligence, successful completion of negotiations, and the signing of a binding agreement. The binding agreement will be subject to all regulatory approvals required by law. See also Note 14 to the financial statements.

Dividends

K) In March 2014, the Company's Board of Directors resolved to distribute a dividend of NIS 160 million. The dividend was distributed in April 2014.
In August 2014, the Company's Board of Directors resolved to distribute a dividend of NIS 150 million. The dividend was distributed in September 2014.
In November 2014, the Company's Board of Directors resolved to distribute a dividend of NIS 150 million. The dividend was distributed in December 2014.
Subsequent to the financial position statement date, in March 2015, the Company's Board of Directors resolved to distribute a dividend of NIS 150 million.

3. Results of Operations

A) Contribution to net profit (loss) (attributable to Company shareholders) from principal operations (NIS millions):

	2014	2013		10-12/14	10-12/13
Oil and gas exploration and production operations	93	70		30	25
Fuel operations in Israel	4	34		(35)	4
Insurance and finance operations in Israel	255	368		68	101
Automotive operations	107	125		12	17
Fuel operations in Europe	(4)	14		-	(32)
Motorway service area operations in the UK	(2)	(2)		-	(5)
Fuel operations in the USA	10	194		-	-
Overseas insurance operations	17	65		-	26
Contribution of operations before capital and other gains	**480**	**868**		**75**	**136**
Capital and other losses(1)	(1,245)	(128)		(195)	(11)
Profit (loss) attributable to Company shareholders	**(765)**	**740**		**(120)**	**125**

(1) In 2014, and in light of actions to dispose of various assets, the Company included a number of accounting write-downs due to changes in the fair value of such assets and one-time gains (losses) following their sale. For information concerning these write downs, see Section 2 above. This item also includes the results of other operations, unattributed finance expenses, other expenses, and tax expenses.

B) Revenues from operating activities

The Group's revenues in the reporting period totaled NIS 19 billion, as compared to NIS 21 billion in the same period last year, as detailed in the table below (NIS millions):

	2014	2013		10-12/2014	10-12/2013
Oil and gas exploration and production operations	1,387	1,283		373	362
Fuel operations in Israel	5,954	6,492		1,461	1,544
Insurance and finance operations in Israel *)	11,190	12,725		2,116	3,582
Other segments including adjustments	592	350		276	18
Total revenues	**19,123**	**20,850**		**4,226**	**5,506**

*) Represents insurance premiums on self-retention in life insurance and general insurance.

See also Note 43 to the financial statements - Information Regarding Operating Segments.

C) Operating profit (NIS millions):

	2014	2013		10-12/2014	10-12/2013
Oil and gas exploration and production operations	754	415		207	133
Fuel operations in Israel	65	126		(1)	17
Insurance and finance operations in Israel	843	1,279		198	299
Other segments	(5)	(18)		(42)	(17)
Operating profit (before impairment)	**1,657**	**1,802**		**362**	**432**
Impairment and other adjustments	(562)	(357)		(22)	(228)
Operating profit	**1,095**	**1,445**		**340**	**204**

D) The Group's share in the profits of associate companies and partnerships, net (NIS millions):

The following table details the Group's share in the results of its principal associates:

	2014	2013		10-12/2014	10-12/2013
Delek Automotive	107	118		12	18
IDE	55	55		6	24
The Phoenix associates	46	52		27	20
Other (1)	(13)	205		10	2
Total	**205**	**430**		**55**	**64**

(1) In 2013 - includes the cancellation of a provision for impairment of Delek Automotive.

E) Highlights from the Company's consolidated income statements (NIS millions):

	2014	2013 (*)		10-12/2014	10-12/2013 (*)
Revenues	19,123	20,850		4,226	5,506
Cost of revenues	14,193	16,227		2,847	4,248
Gross profit	**4,930**	**4,623**		**1,379**	**1,258**
Sales, marketing and gas station operating expenses	1,883	1,755		506	461
General and administrative expenses	1,253	1,261		304	349
Other expenses, net	699	162		229	244
Operating profit	1,095	1,445		340	204
Finance income	244	109		41	5
Finance expenses	(1,249)	(1,316)		(279)	(231)
Profit (loss) after financing	**90**	**238**		**102**	**(22)**
Gains (loss) from disposal of investments in investees and others, net	-	(8)		-	(8)
The Group's share in the profits of associate companies and partnerships, net	205	430		55	64
Profit before income tax	**295**	**660**		**157**	**34**
Income tax	197	492		75	107
Profit (loss) from continuing operations	**98**	**168**		**82**	**(73)**
Profit (loss) from discontinued operations,	(447)	1,167		(62)	255
Net profit (loss)	**(349)**	**1,335**		**20**	**182**
Attributable to -					
Company shareholders	(765)	740		(120)	125
Non-controlling interest	416	595		140	57
	(349)	**1,335**		**20**	**182**

(*) Re-classified, see Note 2AI to the financial statements.

F) Movement in comprehensive income (loss) (NIS millions):

	2014	2013 (*)		10-12/2014	10-12/2013 (*)
Net profit (loss)	**(349)**	**1,335**		**20**	**182**
Other comprehensive income (loss) from operating activities (post-tax)					
Actuarial gain on defined benefit plans, net	2	2		2	7
Gain on available-for-sale financial assets, net	13	209		(107)	115
Transfer to profit or loss from disposal of available-for-sale financial assets	(212)	(204)		(19)	(73)
Transfer to profit or loss for impairment of available-for-sale financial assets	45	9		37	(2)
Loss from cash flow hedges	(2)	(3)		(4)	(27)
Adjustments from translation of overseas operations	1,109	(649)		530	41
Group's share of other comprehensive income (loss) of associates, net	89	(24)		8	(9)
Total other comprehensive income (loss) from continuing operations	**1,044**	**(660)**		**447**	**52**
Total other comprehensive income (loss) from discontinued operations, net	**565**	**(198)**		**14**	**(198)**
Total comprehensive income	**1,260**	**477**		**481**	**36**
Attributable to:					
Company shareholders	401	206		139	49
Non-controlling interests	859	271		342	(13)
	1,260	**477**		**481**	**36**

(*) Re-classified, see Note 2AI to the financial statements.

G) The Company's consolidated income statements, by quarter (NIS millions):

	1-3/14	4-6/14	7-9/14	10-12/14		2014
Revenues	4,990	4,698	5,209	4,226		19,123
Cost of revenues	3,779	3,643	3,924	2,847		14,193
Gross profit	**1,211**	**1,055**	**1,285**	**1,379**		**4,930**
Sales, marketing and gas station operating expenses	439	471	467	506		1,883
General and administrative expenses	319	310	320	304		1,253
Other expenses, net	56	355	59	229		699
Profit (loss) from operating activities	**397**	**(81)**	**439**	**340**		**1,095**
Finance income	72	47	84	41		244
Finance expenses	(246)	(448)	(276)	(279)		(1,249)
Profit (loss) after financing	**223**	**(482)**	**247**	**102**		**90**
Gains (loss) from disposal of investments in investees and others, net	-	-	-	-		-
Group's share in earnings (loss) of associate companies and partnerships, net	49	37	64	55		205
Profit (loss) before income tax	**272**	**(445)**	**311**	**157**		**295**
Income tax (tax benefit)	96	(94)	120	75		197
Profit (loss) from continuing operations	**176**	**(351)**	**191**	**82**		**98**
Profit (loss) from discontinued operations, net	(248)	(215)	78	(62)		(447)
Net profit (loss)	**(72)**	**(566)**	**269**	**20**		**(349)**
Attributable to -						
Company shareholders	(195)	(600)	150	(120)		(765)
Non-controlling interest	123	34	119	140		416
	(72)	**(566)**	**269**	**20**		**(349)**

H) Movement in comprehensive income (loss), by quarter (NIS millions):

	1-3/14	4-6/14	7-9/14	10-12/14		2014
Net profit (loss)	(72)	(566)	269	20		(349)
Other comprehensive income (loss) from operating activities (post-tax):						
Actuarial gain on defined benefit plans, net	(2)	3	(1)	2		2
Gain from available-for-sale financial assets, net	99	(13)	34	(107)		13
Transfer to profit or loss from disposal of available-for-sale financial assets	(105)	(36)	(52)	(19)		(212)
Transfer to profit or loss for impairment of available-for-sale financial assets	1	5	2	37		45
Gain (loss) from cash flow hedges	2	2	(2)	(4)		(2)
Adjustments from translation of overseas operations	47	(89)	621	530		1,109
Group's share of other comprehensive income (loss) of associates, net	1	39	41	8		89
Total other comprehensive loss from continuing operations	**43**	**(89)**	**643**	**447**		**1,044**
Total other comprehensive loss from discontinued operations, net	**60**	**209**	**282**	**14**		**565**
Total comprehensive income (loss)	**31**	**(446)**	**1,194**	**481**		**1,260**
Attributable to:						
Company shareholders	(130)	(408)	800	139		401
Non-controlling interests	161	(38)	394	342		859
	31	**(446)**	**1,194**	**481**		**1,260**

4. Financial Position

The Group's total assets as of December 31, 2014, amounted to NIS 131 billion, compared with NIS 130 billion as of December 31, 2013.

Below is a description of the principal changes in assets and liabilities as of December 31, 2014, compared with December 31, 2013:

Cash and cash equivalents and short-term investments

The Group has cash and short-term investment balances of NIS 5.1 billion, consisting mainly of balances of NIS 1.9 billion in the headquarters companies, NIS 1.0 billion in The Phoenix, and NIS 2.0 billion in Delek Energy and the gas partnerships.

Total current assets

The Group's total current assets (excluding assets held for sale) as of December 31, 2014, amounted to NIS 52.9 billion, as compared to NIS 47.7 billion as of December 31, 2013. This increase in current assets was attributable to increase in cash balances and greater short-term investment balances in finance operations. On the other hand, following the de-consolidation of Delek Europe and Roadchef's current assets, and the classification of Republic's current assets as held-for-sale, current assets were reduced by NIS 3 billion.

Total non-current assets

The Group's total non-current assets, as of December 31, 2014, amounted to NIS 78.3 billion, as compared to NIS 82 billion as of December 31, 2013, a decrease of NIS 3.7 billion. This decrease was mainly due to the de-consolidation of Delek Europe, Roadchef, and Republic's assets.

Balance of short- and long-term financial liabilities

Financial liabilities (to banks and others and debenture holders), as of December 31, 2014, amounted to NIS 20.3 billion, as compared to NIS 22.5 billion as of December 31, 2013. This decrease was mainly attributable to the de-consolidation of Delek Europe, Roadchef, and Republic's liabilities. However, long-term liabilities grew by NIS 2 billion, due to a debenture issue in the Tamar Project by the Delek Drilling and Avner Partnerships.

Contingent claims

In their report, the Company's auditors draw attention to legal actions brought against Group companies. For details, see Note 31 to the financial statements.

Additional information

For additional information regarding repayments of principal and interest on the debts of headquarter companies, see Appendix A to the Board of Directors' Report.

5. Sources of Finance and Liquidity

The net financial debt of the Company and the headquarters companies as of December 31, 2014:([2])

	NIS millions
Liabilities	
Debentures	(6,083)
Bank loans	(800)
Other	(451)
Total liabilities	**(7,334)**
Assets	
Cash	1,053
Financial investments (*)	1,409
Loans (**)	1,165
Dormant shares	370
Total assets	**3,997**
Net financial liability - headquarters companies	**(3,337)**

(*) Included in this item is the Company's investment in Delek USA's shares, to an amount of NIS 473 million (holdings of 4,456,432 par value, at a share price of USD 27.28 as of December 31, 2014). This change was made as the Company no longer applies the equity method and the investment is accounted for as a financial investment measured at market value. Composition detailed in Section B6 below.

(**) The loans are comprised as follows:

Borrower	Loan balances as of December 31, 2014 (NIS millions)
Seller loans - Delek Europe (*)	659
Seller loans - Barak Capital	137
IPP	254
Other	115
Total	**1,165**

(*) The seller's loan to Delek Europe totals EUR 175 million (NIS 827 million). The loan is recognized based on a valuation measuring fair value at the loan issue date.

As of the financial statements' approval date, the Company and the headquarters companies have liquid balances of NIS 2.7 billion (furthermore and in addition to these liquid balances, the Company has guaranteed, unutilized credit facilities of NIS 0.9 billion).

(2) Headquarters companies: Delek Group, Delek Petroleum, Delek Power Plants Limited Partnership, and Delek Hungary.

6. Analysis of Operations by Segment

A) Oil and gas exploration and production operations

Operations are carried out through the Limited Partnerships, which engage in oil, natural gas and condensate exploration, development and production operations in the exclusive economic zone of Israel and Cyprus, and sell natural gas and condensate to a range of customers. In the reporting period, the Partnerships' operations focused on continuing commercial production in the Tamar Project and completing the installation of compressors in this project; production operations in the Yam Tethys Project; and investments and development feasibility studies in the Leviathan Project.

Below are the results of oil and gas exploration and production operations as included in the Group's results (NIS millions):

	2014	2013	10-12/2014	10-12/2013
Revenues from gas sales net of royalties	1,387	1,283	373	362
Operating profit	754	415	207	133
EBITDA	1,207	1,159	276	288
Finance expenses, net	481	263	88	64
Net profit attributable to Company shareholders	93	70	30	25
Gas sales in BCM (*)	7.5	6.4	2	1.9
Condensate sales in Israel - thousands of barrels (**)	348	246	86	94

(*) The data relate to sales of natural gas (100%) from the Yam Tethys and Tamar projects, rounded to one tenth of one BCM.

(**) The data relate to condensate sales (100%) from the Tamar Project, rounded to thousands of barrels.

Analysis of the results of operations in the gas segment:

Net profit attributable to Company shareholders

Oil and gas exploration and production in the reporting period yielded a profit of NIS 93 million, as compared to a profit of NIS 70 million in the same period last year.

Net profit attributable to Company shareholders was up in the reporting period, as compared to the same period last year, mainly due to an increase in revenues from natural gas and condensate sales in the Tamar Project, which were first recognized in the second quarter of 2013, net of the Partnerships' expenses on LIBOR hedges as detailed below.

In the fourth quarter of 2014, oil and gas exploration and production yielded a profit of NIS 30 million, as compared to a profit of NIS 25 million in the corresponding period last year.

Revenues

In the reporting period, the Company recorded revenues from gas and oil sales, net of royalties, to the amount of NIS 1,387 million, as compared to NIS 1,283 million in the same period last year. This increase was mainly due to the increase in net revenues from natural gas and condensate sales to various customers in the Tamar Project. Revenues net of royalties are presented after a net deduction of NIS 70 million for reconciliations between the Tamar Partners and the Yam Tethys Partners in connection with natural gas supplied to Yam Tethys Project customers, as detailed in Note 16C to the financial statements.

Operating profit

Operating profit in the reporting period amounted to NIS 754 million, compared to NIS 415 million in the same period last year. This increase in operating profit was mainly due to the start of gas production in Tamar in the second quarter of 2013. Operating profit was further affected by NIS 230 million in depreciation expenses recognized in the same period last year on investments in the Noa and Pinnacles gas reservoirs following deterioration of these reservoirs' production capacity and a decrease in proved reserves.

Finance expenses, net

Net finance expenses in the reporting period amounted to NIS 481 million, compared to NIS 263 million in the same period last year, an increase of NIS 218 million.

Finance expenses were up mainly due to finance agreements signed by the Partnerships in connection with funding for the Tamar Project and the Leviathan Project. In the corresponding period last year, the Partnerships discounted their finance expenses for development costs in the Tamar Project (during its construction) and investments in the Leviathan Project. Finance expenses were also up due to the issue of debentures in the second quarter of 2014, in lieu of repaid loans; recognition of NIS 35 million in borrowing costs on the repaid loans; and due to the Partnerships' recognition of finance expenses in the reporting period in connection with LIBOR hedges totaling NIS 112 million.

Net finance expenses in the second quarter of 2014 amounted to NIS 88 million, compared to NIS 64 million in the same period last year, an increase of NIS 24 million. This increase was mainly due to recognition of finance expenses on debentures issued as aforesaid.

Adjustment of the Limited Partnerships' results for the Group's share in oil and gas exploration and production operations: (NIS millions)

	Delek Drilling	Avner	Total
Net profit (NIS)	253	237	
Indirect holdings	60.7%	50.3%	
Group's share	**154**	**119**	**273**
Tax expenses			(53)
			220
Revenues from overriding royalty and management fees			33
Results of direct holdings in Yam Tethys (4.44%)			(23)
Write-down of surplus acquisition costs (*)			(56)
Share in development costs of international operations			(4)
General and administrative expenses			(8)
Finance expenses			(69)
Contribution to net profit from oil and gas exploration and production			**93**

(*) Mainly a current write-down of the past revaluation of the Tamar Project (made as part of the Cohen Development deal) on the Avner Partnerships' holdings in the Tamar Project.

Additional information

For more information about oil and gas exploration operations, see Note 16 to the financial statements and Section 1.7 in Part A of the periodic report - Description of the Company's Business.

B) **Fuel operations in Israel**

Data from the financial statements of Delek Israel (as included in the Delek Group's financial statements) (NIS millions):

	2014	2013	10-12/2014	10-12/2013
Revenues	5,954	6,492	1,461	1,544
Gross profit	729	739	164	176
Operating profit	65	126	(1)	17
EBITDA	185	202	29	42
Finance expenses, net	44	78	48	15
Net profit (loss)	**18**	**38**	**(35)**	**1**
Attributable to:				
Delek Israel shareholders	18	36	(35)	-
Non-controlling interests	-	2	-	1
	18	**38**	**(35)**	**1**

As of the financial position statement date, the Group maintains a 100% interest in Delek Israel. In December 2014, following early redemption of its debentures, Delek Israel is no longer a reporting entity.

Revenues

In 2014, revenues totaled NIS 6.0 billion, as compared to NIS 6.5 billion last year. In 2014, retail prices were down following a decline in global distillate prices. Total sales turnover in self-operated and franchised Menta convenience stores totaled NIS 393 million and NIS 93 million in 2014 and in the fourth quarter, respectively, as compared to NIS 369 million and NIS 89 million in the same periods last year, an increase of 7% and 4%, respectively.
Total turnover in Delek Israel-operated Menta stores totaled NIS 365 million and NIS 86 million in 2014 and in the fourth quarter, respectively, as compared to NIS 343 million and NIS 83 million in the same periods last year, an increase of 6% and 4%, respectively.
This increase in convenience store sales was attributable to growth in same-store sales, and new initiatives in convenience store operations such as meals for police officers, entry into new categories in non-foods, and continued in-store sales under the Cup 'O' Joe brand.

Gross profit

Gross profit in 2014 totaled NIS 729 million, as compared to NIS 739 million in 2013, a decrease of 1%.
Gross profit was down in the reporting year due to a NIS 6 million year-on-year increase in inventory losses, lower margins, the effects of Operation Protective Edge, and a decrease in revenue and gross profit in direct marketing operations. However, this decrease was mitigated by an higher revenues and profits in the containerization and distribution segment, and increased profits in convenience store operations.
Gross profit in the fourth quarter of 2014 amounted to NIS 164 million, as compared to NIS 176 million in the same quarter last year, a decrease of 7%. This decrease was mainly attributable to a NIS 14 million increase in inventory losses as compared to the same quarter last year. However, this decrease in gross profit was offset by higher gross profits in the containerization and distribution segment.

Sales, gas station operation and general and administrative expenses

In 2014, sales and gas station operation expenses totaled NIS 543 million, as compared to NIS 538 million in 2013, an increase of 1%. In the fourth quarter of 2014, these expenses totaled NIS 136 million, as compared to NIS 132 million in the same quarter last year.
In 2014, general and administrative expenses totaled NIS 98 million, as compared to NIS 93 million in 2013, an increase of 5%. In the fourth quarter of 2014, these expenses totaled NIS 23 million, as compared to NIS 26 million in the same quarter last year, a decrease of 12%.

Sales, gas station operation and general and administrative expenses were up due to price increases in some of the gas station operation expense items, namely - municipal taxes, electricity and water utilities fees, bad debts, and legal costs. However, Delek Israel's streamlining efforts and a decrease in marketing and clearing expenses mitigated these price increases.

Operating profit

Operating profit in 2014 amounted to NIS 65 million, as compared to NIS 126 million in 2013.

Operating profit was down in the reporting year due to a NIS 6 million increase in inventory losses, year-on-year; a NIS 10 million increase in gas station operating expenses following increases in municipal taxes, electricity and water utilities fees; and an increase in provisions for doubtful debt. Furthermore, operating profit in the previous year included one-time gains from asset disposals, to the amount of NIS 24 million. This year, operating profit included one-time expenses for updating a provision for contingent liabilities.

Finance expenses, net

In 2014, net finance expenses totaled NIS 44 million, as compared to NIS 78 million in 2013, a decrease of 44%. This increase in finance expenses was attributable to the recognition of gains on the sale of Delek Israel’s shares in Pi Glilot Ltd. In all, recognized finance income amounted to NIS 58 million.

Net finance expenses in the fourth quarter of 2014 amounted to NIS 48 million, compared with NIS 15 million in the same quarter last year, an increase of 220%. This change was mostly attributable to a one-time expense following the early redemption of debentures issued by Delek Israel, to the amount of NIS 31 million, changes in the debt mix, and a reduction in the inter-bank interest rate.

For more information about Delek Israel’s operations, see Note 31 to the financial statements and Section 1.8 in Part A of the periodic report - Description of the Company's Business.

C) **Insurance and finance operations in Israel**

As of December 31, 2014, the Group holds 52.3% of the shares of The Phoenix Holdings Ltd. For information concerning a non-binding memorandum of understanding for the sale of control in The Phoenix, see Chapter A above.

Below are the principal data from The Phoenix's consolidated income statements (NIS millions)

	2014	2013		10-12/14	10-12/13
Gross premiums earned	7,698	7,474		1,913	1,962
Premiums earned in retention	7,054	6,826		1,742	1,807
Net gains on investments, and finance income	2,774	4,547		59	1,311
Income from management fees	858	875		168	267
Payments and changes in liabilities for insurance contracts and investment contracts in retention	7,947	9,105		1,269	2,538
Commission, marketing, and other purchasing expenses	1,314	1,187		364	322
General and administrative expenses	1,030	1,027		256	296
Other expenses	36	99		14	67
Finance expenses	127	181		33	21
Share in the profits of investees accounted for as per the equity method	46	52		27	20
Profit for the period	**531**	**760**		**146**	**195**
Profit for the period attributable to Company shareholders	**504**	**739**		**137**	**192**

A significant part of The Phoenix's asset portfolio is invested on the capital market. Therefore, capital market returns for the various investment channels have a material effect on the yields achieved for The Phoenix's customers and on The Phoenix's profits. Gains and losses on investments reflect capital market performance in Israel and abroad, as well as changes in the Consumer Price index and the NIS exchange rates against the main currencies. The aggregate effect of these factors on the financial margin is the main reason for fluctuations in the reported results.

Revenues from investments, including other comprehensive income (pre-tax), amounted to NIS 2,671 million in 2014, as compared to NIS 4,562 million in 2013. Gains (losses) on investments, including other comprehensive income (pre-tax), amounted to NIS 13 million in the fourth quarter of 2014, as compared to NIS 1,284 million in the same quarter last year. Profit was down due to relatively low yields in the fourth quarter, as compared to the same quarter last year.
It is noted that a significant part of the gains (losses) is attributable to investment profit-sharing policies and did not directly influence the Company's results.
It is further noted that gains on investments include gains on the revaluation of investment property, including revaluation of residences in Ad 120, which amounted to NIS 70 million in 2014, similar to last year's figure.

Results in the reporting year were materially affected by the reduction in market interest rates. As a result of these reductions, an expense was recognized in 2014 for the increase in insurance liabilities, to the amount of NIS 198 million pre-tax, and NIS 123 million post-tax.

Revenues from management fees in 2014 totaled NIS 858 million, as compared to NIS 875 million in the previous year. This year-on-year decrease in management fees in 2013 was due to a decrease in variable management fees on profit-sharing policies marketed up to 2003.

In the fourth quarter of the year, revenues from management fees totaled NIS 168 million, as compared to NIS 267 million in the same quarter last year. This decrease was due to a decrease in variable management fees on profit-sharing policies marketed up to 2003, which amounted to a NIS 19 million refund of management fees (in light of negative fourth-quarter yields on these policies). This, compared to management fees of NIS 99 million collected in the same quarter last year.

Other expenses in 2014 amounted to NIS 36 million, as compared to NIS 99 million in 2013. Figures for 2014 and 2013 include a write-down of NIS 7 million and NIS 36 million, respectively, on provident fund operations, made in the fourth quarter of each of these years. These write-downs were mainly recorded following a decrease in management fee rates on provident funds.

Finance expenses in 2014 amounted to NIS 127 million, as compared to NIS 181 million in 2013. Finance expenses were down in 2014 mainly due to the 0.1% decrease in the CPI in the reporting year as compared to a positive change of 1.9% in the CPI in 2013. This effect was partially offset by the gains made by the USD in the fourth quarter of the year.

The share in the earnings of investees totaled NIS 46 million in the reporting period, as compared to a profit of NIS 52 million last year. Lower year-on-year profitability in 2014 was mainly attributable to an associate ("Mehadrin"), which is engaged in agricultural operations, and whose profitability was cut by lower sales turnover following a year-on-year decrease in both quantities and market price on crops.

Key data according to The Phoenix's operating segments:

	2014	2013	10-12/14	10-12/13
Profit from life insurance and long term savings segment	104	372	44	103
Profit (loss) from healthcare insurance segment	50	219	(24)	22
Profit from general insurance segment	340	353	101	76
Profit from financial services segment	119	72	29	13
Total profit from operating segments	**613**	**1,016**	**150**	**214**
Profit not attributed to reporting segments	157	134	50	83
Company's share in the net results of investees not included in the reported segments	13	28	7	8
Profit before income tax	783	1,178	207	305
Income tax	252	418	61	110
Profit for the period	**531**	**760**	**146**	**195**
Profit for the period attributable to Company	**504**	**739**	**137**	**192**

Additional information

For more information about The Phoenix's operations, see Note 14 to the financial statements and Section 1.9 in Part A of the periodic report - Description of the Company's Business.

D) **Automotive operations**

As of the financial position statement date, the Group holds 24.2% of Delek Automotive (Delek Automotive is a public company which publishes its financial statements). The investment in Delek Automotive is presented as per the equity method.
The results of Delek Automotive's operations are included under the 'Group's share in the profits of associates, net' item. Below is an analysis of the results of automotive operations.

Following are the results of Delek Automotive Systems Ltd.'s ("Delek Automotive') operations (as included in the Delek Group's statements (*)) (NIS millions):

	2014	2013		10-12/2014	10-12/2013
Revenues	3,678	3,467		624	623
Gross profit	671	570		100	107
Sales, marketing, and general and administrative expenses	133	114		31	33
Operating profit	532	460		62	77
EBITDA	549	475		66	81
Finance income, net (*)	160	208		22	39
Net profit	**509**	**502**		**64**	**89**

(*) Delek Automotive recognized the revaluation of its investment in Mobileye in profit or loss, while the Group recognized the changes in the fair value of the investment in other comprehensive income. In 2014, Delek Automotive recognized NIS 325 million in income, net of taxes, in profit or loss for appreciation of its investment in Mobileye, while the Group recognized this appreciation under comprehensive income. However, the Company recognized profits of NIS 27 million (the Company's share) following cancellation of part of the other comprehensive income balance after revaluation of Mobileye.

Breakdown of Delek Automotive's sales by number of cars sold:

	2014	2013	10-12/14	10-12/13
MAZDA vehicles	17,095	10,689	3,098	2,335
FORD vehicles	8,170	12,802	918	1,696
BMW / MINI vehicles	2,236	1,942	427	302
Total vehicles sold	**27,501**	**25,433**	**4,443**	**4,333**
Delek Automotive's share of all vehicles sold in Israel (based on Licensing Bureau data)	11%	12%		

For more information about Delek Automotive, see Note 14 to the financial statements, and Section 1.10 in Part A to the periodic report - Description of the Company's Business.

E) **Additional Operations**

1) **Infrastructures**

The Group's infrastructures operations are carried out through Delek Power Plants Limited Partnership ("Delek Power Plants"), which coordinates the development and operation of power plants in Israel through its subsidiaries. The Group also holds 50% of IDE Technologies Ltd. ("IDE"). The infrastructures segment's contribution to the Group's net profit in the reporting period amounted to NIS 76 million, compared with NIS 51 million in the same period last year. This contribution is due to IDE's profit of NIS 55 million, and a profit of NIS 21 million recorded by IPP Delek Ashkelon Ltd. ("Delek Ashkelon").

Starting April 2013, Delek Ashkelon recognizes an expense in its financial statements in connection with consumer debts for supply of electricity by IEC to the power plant's consumers in times of gas shortages. Delek Ashkelon is awaiting publication of the Electricity Authority's decision on collection of these consumer debts. As of December 31, 2014, the provision for consumer debts amounted to NIS 44 million, and the Company maintains a bank deposit balance against this amount.

In the reporting period, IPP Delek Sorek Ltd. ("Delek Sorek") signed several agreements with a gas supplier, and build-operate-maintain contractors for constructing and operating the power plant.

In May 2014, a finance agreement was signed between Delek Sorek, the Group and Delek Power Plants, and Bank Hapoalim Ltd. and Poalim Trust Services Ltd., to finance construction of the power plant in Sorek. The agreement is subject, as specified in the criteria issued by the Public Utility Authority - Electricity, to the Electricity Authority approving the rates. Under the financing agreement, the Group provided guarantees, while Delek Sorek and Delek Power Plants pledged assets and rights.

In June 2014, Delek Sorek filed an appeal with the Supreme Court against the Ministry of Energy and Water and the Electricity Authority, following the Electricity Authority's refusal to approve the power plant's rates based on the rate guidelines issued for the power plant, as the Electricity Authority argues that the guidelines expired after fulfillment of the quota specified in the scope clause. In December 2014, the Supreme Court issued a contingent order to the Electricity Authority, requiring that it explain why it refuses to approve Delek Sorek's rates as required. It is noted that lacking the rate approval, Delek Sorek will not be able to comply with the finance agreement signed with Bank Hapoalim. As common in this industry, this document was signed as a non-recourse agreement.

2) **Biochemicals**

Gadot Biochemical Industries Ltd. ("Gadot"), is a manufacturer of food supplements and chemicals for the food, detergents and toiletries industries, in which the Group holds a 100% interest as of the financial position statement date.

Gadot's contribution to the Group's net profit in the reporting period amounted to a loss of NIS 89 million, compared with a loss of NIS 79 million in the same period last year.

In July 2014, following early redemption of its debentures, Gadot ceased being a reporting entity.

For information concerning Gadot's write-down of property, plant and equipment in 2014, see Note 17 to the financial statements.

3) **Republic Companies, Inc**

Following on Chapter A above, concerning the sale of 34% of Republic's share capital. Post-sale, the Company holds a 66% interest in Republic's share capital and controlling rights in Republic have transferred to the Buyers. From this date, the investment in Republic is presented as a held-for-sale financial asset, and changes in fair value are recognized in profit or loss. The Buyers were also granted options exercisable over periods of up to three years. Changes in the fair value of these options will also be recognized in profit or loss. See also Note 14 to the financial statements.

Republic's revenues in 2014 amounted to USD 664 million, as compared to USD 705 million in the same period last year. Losses in 2014 amounted to USD 15 million, as compared to profits of USD 19 million in the same period last year. Republic's equity as of December 31, 2014, amounted to USD 215 million.

For more information concerning additional operations, see Note 14 to the financial statements and Section 1.11 in Part A of the periodic report - Description of the Company's Business.

B. Market Risk Exposure and Management

1. A) Company operations focus mainly on holding and managing shares in its subsidiaries. These are long-term investments and therefore these holdings are not hedged.

Risk management in subsidiary and associate companies is determined and carried out directly by the investees. Some of these companies are public companies and are listed on the stock exchange, and therefore proper disclosure of this subject is made in their financial statements.

B) The currency risk management officer in the Company is Mr. Ido Adar, MBA. In recent years, Mr. Adar has served as Company Treasurer.

2. Description of market risks

A) As stated above, the Group is mainly a holdings and management company, and its principal exposure results from the market risks of its subsidiaries and associates (“Investees").

The principal risks in these companies are as follows:

- Changes in currency exchange rates
- Changes in interest rates
- Exposure to changes in the CPI
- Economic slowdown and changes in the markets in which the Group operates
  Changes in those markets, especially economic slowdowns (mainly in Israel), is liable to adversely affect the operations of the Group and the investees.
- Changes in natural gas and condensate prices
  Agreements for the sale of natural gas from the Tamar Project specify gas prices based on various price formulas which include, inter alia, linkage to the US CPI, the power generation rate as determined from time to time by the Public Utility Authority - Electricity ("the Power Generation Rate"), and Brent barrel prices. As of the publication date, 35% of the minimum annual (take or pay) quantity of natural gas which the Limited Partnerships expect to sell in the next 5 years is derived from natural gas sales agreements linked to the Power General Rate; 14% of the take or pay quantity is derived from gas sales agreements linked to Brent barrel prices; and 51% of the take or pay quantity is derived from gas sales agreements linked to the US CPI. It is noted that Brent barrel prices have dropped significantly in the second half of 2014. Furthermore, according to the Electricity Authority's decision of January 21, 2015, the Power Generation Rate (weighted generation component) dropped significantly.
  A change in one of the above linkage components and/or in the price of alternative fuels will affect the Limited Partnerships' selling price for natural gas and/or condensate sold to its customers, as well as the economic viability of development and production operations from the Limited Partnerships' existing reservoir discoveries and/or any future reservoir discoveries, as well as the Limited Partnerships' decisions in connection thereto.
  The aforesaid notwithstanding, the Limited Partnerships' exposure to changes in the Power Generation Rate and Brent oil prices is hedged as specified in the relevant agreements, as all natural gas sales agreements linked as aforesaid include a "minimum price".
- Capital market conditions
  Changes in the prices of marketable securities held by the Group expose it to risks stemming, inter alia, from capital market volatility. A slump in capital markets in Israel and abroad could adversely affect the Group’s ability to find sources of financing where necessary, as well as its ability to generate capital gains from the disposal of its investments. Likewise, a slump in capital markets could impede the ability of the Group and the investees to raise capital, and lead to a possible fall in the prices of the investees' securities following their issue on the various securities exchanges.

For more information, see Note 27 to the financial statements.

B) The Group is exposed to changes in the prices of raw materials and other prices that can materially affect the Group’s assets and liabilities, including trade payables, trade receivables in Group companies, the value of their inventories, and other assets and liabilities.

3. Market risk management policies

- The Limited Partnerships - Delek Drilling and Avner - tend to finance their investments in USD. The Limited Partnerships' income income-generating assets which are intended to finance principal and interest repayments, are in USD, as are all of their other assets, and therefore they are not economically exposed to changes in foreign currency exchange rates.

- Subsidiaries customarily use, from time to time, currency options and other derivatives. These transactions are made with large financial corporations in Israel and overseas, for hedging and other purposes.

4. Supervision and implementation of market risk management policies

- The investees manage their market risks under the supervision of their boards of directors or through special board committees. The Group also receives assistance from external advisors with expertise in these markets.

- Risk management issues are also monitored through internal controls implemented by the Group and the investees.

5. Sensitivity tests for changes in market factors

In accordance with the amendment to the Second Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970, the Group tested sensitivity to changes in risk factors that influence the fair value of "sensitive instruments".

Sensitivity to foreign currency risks was tested for positions exposed to changes in the various exchange rates against the functional currency used by the Group companies. For example, for foreign currency positions in companies whose functional currency is the euro, the tests were for sensitive instruments that are exposed to the exchange rate of other foreign currencies against the euro.

1) Sensitivity of financial instruments in the ordinary course of business:

Parameters, assumptions and models

A) The fair value of marketable securities is the market value of these instruments.

B) The fair value of loans and debentures was measured by discounting future cash flows using an interest rate which reflects the financing costs of the Group and its subsidiaries as of the reporting date.

C) The fair value of options and changes in fair value according to sensitivity tests were measured using the Black&Scholes model, using spot prices, standard deviations and interest rates as detailed in the tables below.

D) The fair value of futures contracts and changes in fair value according to sensitivity tests were measured by discounting each of the two “legs” to the transaction, utilizing spot prices and interest rates as detailed in the tables below.

E) Sensitivity tests to changes in the interest rate on fixed-rate loans and debentures were carried out by duration.

F) Variable-rate loans and debentures were not included in the sensitivity tests to interest rates, as the effect of interest rate changes on their fair value is negligible.

G) Parameters:

Parameter	Source/Measurement method
NIS/Forex exchange rate	Representative rates
Forex/Forex exchange rate	Calculated from representative rates
Interest rates	Using the risk-free interest rate curve

H) Daily changes exceeding 10% in relevant risk factors:

Risks	Maximum change	Notes
Interest rates	20%	Or two percentage points (200 base points), the higher of the two.
Share prices	20%	

Summary (NIS millions)

Sensitive instrument	Profit/(loss) from changes			Fair value	Profit/(loss) from changes		
	(*)	10%	5%		-5%	-10%	(*)
USD/NIS		88.4	44.2	419.9	(44.2)	(88.4)	
EUR/NIS		75.6	37.8	611.5	(37.8)	(75.6)	
GBP/NIS		6.1	3.0	60.5	(3.0)	(6.1)	
AUD/NIS		57.4	28.7	574.5	(28.7)	(57.4)	
Nominal NIS-based interest rates	111.0	9.0	4.5	(3,106.0)	(4.5)	(9.0)	(109.2)
Real NIS-based interest rates	416.9	41.5	20.7	(5,577.8)	(20.7)	(41.5)	(415.5)
USD-based interest rates	773.7	182.5	91.2	(7,228.2)	(91.2)	(182.5)	(774.4)
EUR-based interest rates	(62.8)	(31.1)	(15.6)	657.5	15.6	31.1	62.3
Israeli CPI (**)		(10.9)	(5.5)	(5,607.4)	5.5	10.9	
Shares	418.1	209.0	104.5	2,090.3	(104.5)	(209.0)	(418.1)
Fuel	32.5	16.3	8.1	162.5	(8.1)	(16.3)	(32.5)

(*) See Section (h) above.

(**) CPI sensitivity was tested at 0.1% and 0.2%.

Sensitivity to changes in the Israeli CPI (NIS millions)

Sensitive instrument	Profit/(loss) from changes		Fair value	Profit/(loss) from changes	
	0.20%	0.10%		-0.10%	-0.20%
Executive loans	0.0	0.0	1.8	(0.0)	(0.0)
Other receivables excluding maturities	0.0	0.0	4.5	(0.0)	(0.0)
Taxes receivable	0.0	0.0	13.0	(0.0)	(0.0)
Loans to customers	0.1	0.0	29.7	(0.0)	(0.1)
Loans to associate companies	0.0	0.0	16.0	(0.0)	(0.0)
Taxes payable	(0.0)	(0.0)	(1.0)	0.0	0.0
Other payables	(0.1)	(0.0)	(48.1)	0.0	0.1
Corporate bonds	0.0	0.0	0.4	(0.0)	(0.0)
Issued debentures	(7.9)	(4.0)	(3,961.5)	4.0	7.9
Non-marketable debentures	(2.5)	(1.3)	(1,260.1)	1.3	2.5
Bank credit	(0.8)	(0.4)	(410.8)	0.4	0.8
Trade receivables	0.0	0.0	3.7	(0.0)	(0.0)
Trade payables	(0.0)	(0.0)	(1.6)	0.0	0.0
Other accounts payable	(0.0)	(0.0)	(0.0)	0.0	0.0
Government bonds	0.0	0.0	9.4	(0.0)	(0.0)
Israeli CP/NIS futures contracts	0.3	0.1	(2.6)	(0.1)	(0.3)
Total	**(10.9)**	**(5.5)**	**(5,607.4)**	**5.5**	**10.9**

Sensitivity to changes in exchange rates (NIS millions)

A. Sensitivity to changes in the USD/NIS exchange rate

Sensitive instrument	Profit/(loss) from changes		Fair value	Profit/(loss) from changes	
	10%	5%		-5%	-10%
	4.278	4.083	3.889	3.695	3.500
Cash and cash equivalents	17.4	8.7	201.5	(8.7)	(17.4)
Short-term investments	0.4	0.2	5.5	(0.2)	(0.4)
Trade and receivables	7.7	3.9	77.0	(3.9)	(7.7)
Other receivables	3.9	1.9	47.1	(1.9)	(3.9)
Loans to customers	0.2	0.1	2.5	(0.1)	(0.2)
Investments in associate companies	3.7	1.9	37.0	(1.9)	(3.7)
Other payables	2.0	1.0	(58.7)	(1.0)	(2.0)
Liabilities to suppliers and other creditors	(39.9)	(19.9)	(398.9)	19.9	39.9
Long-term debit balances and loans	(1.0)	(0.5)	(10.2)	0.5	1.0
Other long-term liabilities	(0.1)	(0.1)	(1.5)	0.1	0.1
USD/NIS futures contracts	53.0	26.5	(0.0)	(26.5)	(53.0)
Futures contracts on commodities	0.0	0.0	0.4	(0.0)	(0.0)
Other liabilities	(1.6)	(0.8)	(16.0)	0.8	1.6
Shares	82.7	41.3	826.7	(41.3)	(82.7)
Participation units	(0.0)	(0.0)	0.5	0.0	0.0
Available for sale financial assets	(0.7)	(0.3)	6.8	0.3	0.7
Trade payables	(0.7)	(0.3)	(6.8)	0.3	0.7
Other accounts payable	(0.0)	(0.0)	(0.1)	0.0	0.0
Bank deposits	(4.6)	(2.3)	46.3	2.3	4.6
Other long-term assets	0.4	0.2	3.9	(0.2)	(0.4)
Bank credit	(25.7)	(12.9)	(257.5)	12.9	25.7
Surplus liabilities, net	(8.6)	(4.3)	(85.6)	4.3	8.6
Total	**88.4**	**44.2**	**419.9**	**(44.2)**	**(88.4)**

B. Sensitivity to changes in the EUR/NIS exchange rate

Sensitive instrument	Profit/(loss) from changes		Fair value	Profit/(loss) from changes	
	10%	5%		-5%	-10%
	5.197	**4.961**	**4.725**	**4.488**	**4.252**
Trade payables	(4.8)	(2.4)	(47.8)	2.4	4.8
Cash and cash equivalents	0.0	0.0	0.0	(0.0)	(0.0)
Trade receivables	0.3	0.1	2.8	(0.1)	(0.3)
Liabilities to suppliers and other creditors	(0.1)	(0.1)	(1.1)	0.1	0.1
Seller loan	65.9	32.9	658.5	(32.9)	(65.9)
EUR/NIS futures contracts	14.4	7.2	(1.0)	(7.2)	(14.4)
Total	**75.6**	**37.8**	**611.5**	**(37.8)**	**(75.6)**

C. Sensitivity to changes in the GBP/NIS exchange rate

Sensitive instrument	Profit/(loss) from changes		Fair value	Profit/(loss) from changes	
	10%	5%		-5%	-10%
	6.670	**6.367**	**6.064**	**5.760**	**5.457**
Cash and cash equivalents	6.1	3.1	61.0	(3.1)	(6.1)
Trade payables	(0.0)	(0.0)	(0.5)	0.0	0.0
Total	**6.1**	**3.0**	**60.5**	**(3.0)**	**(6.1)**

D. Sensitivity to changes in the AUD/NIS exchange rate

Sensitive instrument	Profit/(loss) from changes		Fair value	Profit/(loss) from changes	
	10%	5%		-5%	-10%
	3.506	**3.346**	**3.187**	**3.028**	**2.868**
Cash and cash equivalents	0.6	0.3	6.0	(0.3)	(0.6)
Shares	60.8	30.4	608.0	(30.4)	(60.8)
Short-term loan	(4.0)	(2.0)	(39.5)	2.0	4.0
Total	**57.4**	**28.7**	**574.5**	**(28.7)**	**(57.4)**

<u>Sensitivity to changes in interest rates (NIS millions)</u>

- **Sensitivity to changes in nominal NIS-based interest rates**

Sensitive instrument	Profit/(loss) from changes			Fair value	Profit/(loss) from changes		
	(*)	10%	5%		-5%	-10%	(*)
Investments in associates	(18.7)	(8.3)	(4.1)	224.6	4.1	8.3	18.7
Corporate bonds	(0.2)	(0.0)	(0.0)	4.0	0.0	0.0	0.2
Issued debentures	98.1	11.6	5.8	(2,696.9)	(5.8)	(11.6)	(97.7)
Government bonds	(0.8)	(0.0)	(0.0)	17.0	0.0	0.0	0.4
Loans to customers	(2.4)	(0.6)	(0.3)	39.3	0.3	0.6	2.4
Bank credit	33.0	6.3	3.2	(690.4)	(3.2)	(6.3)	(33.0)
USD/NIS futures contracts	0.8	0.0	0.0	(0.0)	(0.0)	(0.0)	(0.1)
CPI/NIS futures contracts	0.7	0.0	0.0	(2.6)	(0.0)	(0.0)	(0.1)
EUR/NIS futures contracts	0.6	0.0	0.0	(1.0)	(0.0)	(0.0)	(0.1)
Total	**111.0**	**9.0**	**4.5**	**(3,106.0)**	**(4.5)**	**(9.0)**	**(109.2)**

(*) See Section (h) above.

- **Sensitivity to changes in real NIS-based interest rates**

Sensitive instrument	Profit/(loss) from changes			Fair value	Profit/(loss) from changes		
	(*)	10%	5%		-5%	-10%	(*)
Corporate bonds	(0.0)	(0.0)	(0.0)	0.4	0.0	0.0	0.0
Executive loans	(0.1)	(0.0)	(0.0)	1.8	0.0	0.0	0.1
Loans to customers	(2.4)	(0.7)	(0.4)	29.7	0.4	0.7	2.4
Loans to associates	(3.4)	(0.9)	(0.4)	16.0	0.4	0.9	3.4
Bank credit	1.5	0.1	0.0	(150.2)	(0.0)	(0.1)	(1.5)
Issued debentures	352.0	38.2	19.1	(3,961.5)	(19.1)	(38.2)	(350.6)
Non-marketable debentures	57.7	3.7	1.8	(1,260.1)	(1.8)	(3.7)	(57.7)
Bank credit	12.7	1.3	0.7	(260.6)	(0.7)	(1.3)	(12.7)
Government bonds	(0.4)	(0.0)	(0.0)	9.4	0.0	0.0	0.4
CPI/NIS futures contracts	(0.6)	(0.2)	(0.1)	(2.6)	0.1	0.2	0.6
Total	**416.9**	**41.5**	**20.7**	**(5,577.8)**	**(20.7)**	**(41.5)**	**(415.5)**

(*) See Section (h) above.

- **Sensitivity to changes in USD-based interest rate**

Sensitive instrument	Profit/(loss) from changes			Fair value	Profit/(loss) from changes		
	(*)	10%	5%		-5%	-10%	(*)
Israeli government bonds abroad	(0.1)	(0.0)	(0.0)	0.7	0.0	0.0	0.1
USD-based corporate bonds	(0.5)	(0.1)	(0.0)	8.3	0.0	0.1	0.5
Foreign debentures	(11.7)	(3.8)	(1.9)	449.9	1.9	3.8	11.7
ETFs	(30.8)	(4.9)	(2.4)	195.3	2.4	4.9	30.8
Debentures (liability)	817.2	191.0	95.5	(7,794.1)	(95.5)	(191.0)	(817.2)
Short-term credit	0.4	0.2	0.1	(56.6)	(0.1)	(0.2)	(0.4)
Classified long-term loan	0.3	0.1	0.1	(34.1)	(0.1)	(0.1)	(0.3)
Loans to customers	(0.4)	(0.2)	(0.1)	2.5	0.1	0.2	0.4
USD/NIS futures contracts	(0.8)	(0.0)	(0.0)	(0.0)	0.0	0.0	0.1
Total	**773.7**	**182.5**	**91.2**	**(7,228.2)**	**(91.2)**	**(182.5)**	**(774.4)**

(*) See Section (h) above.

- **Sensitivity to changes in EUR-based interest rates**

Sensitive instrument	Profit/(loss) from changes			Fair value	Profit/(loss) from changes		
	(*)	10%	5%		-5%	-10%	(*)
EUR/NIS futures contracts	(0.5)	(0.0)	(0.0)	(1.0)	0.0	0.0	0.0
Seller loan	(62.3)	(31.1)	(15.6)	658.5	15.6	31.1	62.3
Total	**(62.8)**	**(31.1)**	**(15.6)**	**657.5**	**15.6**	**31.1**	**62.3**

(*) See Section (h) above.

Sensitivity to changes in share prices (NIS millions)

Sensitive instrument	Profit/(loss) from changes			Fair value	Profit/(loss) from changes		
	(*)	10%	5%		-5%	-10%	(*)
Shares	418.0	209.0	104.5	2,089.8	(104.5)	(209.0)	(418.0)
Participation units	0.1	0.0	0.0	0.5	(0.0)	(0.0)	(0.1)
Total	**418.1**	**209.0**	**104.5**	**2,090.3**	**(104.5)**	**(209.0)**	**(418.1)**

(*) See Section (h) above.

Sensitivity to changes in fuel prices (NIS millions)

Sensitive instrument	Profit/(loss) from changes			Fair value	Profit/(loss) from changes		
	(*)	10%	5%		-5%	-10%	(*)
Fuel inventory	32.5	16.3	8.1	162.5	(8.1)	(16.3)	(32.5)
Total	**32.5**	**16.3**	**8.1**	**162.5**	**(8.1)**	**(16.3)**	**(32.5)**

(*) See Section (h) above.

Sensitivity to changes in Republic's value (NIS millions)

Sensitive instrument	Profit/(loss) from changes			Fair value	Profit/(loss) from changes		
	30%	20%	10%		-10%	-20%	-30%
Holdings in Republic	169.2	112.8	56.4	563.9	(56.4)	(112.8)	(169.2)
Options on Republic	(114.5)	(70.0)	(31.7)	(62.4)	24.5	41.9	53.0
Total	**54.7**	**42.7**	**24.6**	**501.5**	**(31.9)**	**(70.9)**	**(116.2)**

6. Market risks in headquarters companies

As noted in Chapter 5A above, the Company and its fully-owned headquarters companies hold cash and short-term investments (including investments in available for sale financial assets), which as of December 31, 2014, amounted to NIS 2,462 million. The following table details the composition of these items as of December 31, 2014 (NIS millions):

	Balance as of December 31, 2014
Cash and deposits	1,053
Foreign securities portfolio	923
Investment in Delek USA	473
Securities traded on the TASE	10
Others (mainly government bonds)	3
Total	**2,462**

The following table details Israeli CPI data and exchange rates for the primary currencies used by the Group:

As of	EUR representative exchange rate NIS	USD representative exchange rate NIS	GBP representative exchange rate NIS	Known CPI Points *)
Dec. 31, 2014	4.725	3.889	6.064	119.77
Dec. 31, 2013	4.782	3.471	5.742	119.89
Dec. 31, 2012	4.921	3.733	6.036	117.64
Change during the year	%	%	%	%
2014	(1.2)	12.0	5.6	(0.1)
2013	(2.8)	(7.0)	(4.9)	1.9

*) 2006 = base index.

7. Linkage bases report for 2014:

For information concerning linkage bases, see Note 27 to the financial statements, and Note 2 to the Company's separate financial statements.

C. Aspects of Corporate Governance

1. Corporate responsibility and philanthropy

The Company supports the community directly and through its subsidiaries in a broad range of fields.
As a leading commercial group, the Group is committed to principles of corporate responsibility in both social and environmental matters.
The Group is proud to be a member in the Maala organization which promotes corporate responsibility in Israel. The Group's community involvement is carried out through the Delek Science, Education and Culture Foundation Ltd. ("the Delek Foundation"), for all the Group companies, except The Phoenix which has its own philanthropy foundation. In addition to monetary donations, Group employees volunteer both individually and collectively in the community, placing special emphasis on youths aged 18-30 (youth development programs).

The Delek Foundation, together with the Zionism 2000 organization has partnered with the One of Us military school, to support its students. The military school seeks to bridge gaps in Israeli society, empower underprivileged youths, and reinforce their association and identification with Israel and Israeli society.
Through this project, Company employees are offered several avenues for volunteering directly with students in joint projects under the military school program's vision, and to assist students as they enlist in the IDF.
Furthermore, the Company, through the Delek Foundation, is sponsoring the Olympic committee in Israel and the Israeli Olympic delegation to the 2016 summer Olympics in Rio de Janeiro. The Company is also personally sponsoring outstanding Olympic rhythmic gymnast, Neta Rivkin, and outstanding Olympic windsurfer, Nimrod Mashiach.

In 2014, the Company and its investees donated a total of NIS 9 million through the Delek Foundation. The bulk of this amount was utilized for welfare, assistance, health and education for organizations and individuals, and to fully cover academic tuition costs for discharged IDF combat soldiers, as well as scholarships for underprivileged students in Netanya College, who are unable to cover the full cost of their tuition.

2. Directors with accounting and financial expertise and independent directors

A) The Company's Board of Directors has determined that there shall be a minimum of two directors having accounting and financial expertise, as the Board of Directors believes the above minimum number allows the Board of Directors to fulfill its duties by law and pursuant to the Company's constituent documents in all matters pertaining to examination of the Company's financial position and the preparation and approval of its financial statements. In practice, as of the publication date, the Company has 10 directors, of which 5 have accounting and financial expertise.

B) In addition to the above, according to Company procedure, the Company's auditors are invited to attend all Board of Directors meetings in which the financial statements are discussed, and the auditors are at the Board of Directors' service to provide any explanation and clarification required in connection with the financial statements.

C) The following directors have accounting and financial expertise: Dr. Moshe Bareket, Mr. Arie Zeif (external director), Mr. Avi Harel, Prof. Ben-Zion Zilberfarb (external director), and Mr. Moshe Amit.
For information concerning their relevant experience and education, see Regulation 26 in Part D of the periodic report.

D) Independent directors - In its articles, the Company has not adopted the "provision on the percentage of independent directors" as defined in Section 219(e) of the Companies Law.

3. Disclosure concerning the Company's internal auditor

A) The Company's internal auditor

1) Name of auditor: Michael Grinberg

2) Start of tenure: Jan. 1, 2002

3) Qualifications:

The internal auditor meets the conditions set forth in Section 3(a) of the Internal Auditing Law. The internal auditor is qualified as follows: Certified Public Accountant, holds a BA in accounting and economics, a member of the Office of Internal Auditors in Israel and the Israel Institute of Internal Auditors, has considerable experience in the field of auditing (22 years in internal auditing functions).

4) The internal auditor is in compliance with the provisions of Section 146(b) of the Companies Law, and Section 8 of the Internal Auditing Law.

5) Commercial ties: The internal auditor is a full-time employee of Delek Group Ltd.
The internal auditor also serves as internal auditor in Delek Energy Systems Ltd., Delek Drilling, Avner Oil Exploration, Delek Automotive Systems Ltd., and Cohen Development and Industrial Buildings Ltd.

The internal auditor is considered a member of management and is regularly invited to participate in meetings of the Company's management, but does not take part in decision making.

The internal auditor is not a principal shareholder in the corporation, nor is he a relative of a principal shareholder in the corporation, nor is he the auditing accountant of any person acting on behalf of a principal shareholder in the corporation.

6) The internal auditor does not perform any other function in the Company other than that of internal auditor, except supervising the "hotline". Furthermore, the internal auditor does not perform any function outside of the corporation which gives rise or which may give rise to a conflict of interests with his function as internal auditor. The Company believes that the internal auditor's service in the subsidiaries as aforesaid does not give rise to conflicts of interest with his position as internal auditor of the Company.

B) Method of appointment

The internal auditor's appointment was approved by the Company's Board of Directors on January 1, 2002, following the Audit Committee's recommendation.
The reasons for approving his appointment include his education, skills, and considerable experience in internal auditing.

C) Auditor's superior

The internal auditor reports directly to the chairman of the Delek Group.

D) Work plan

The corporation's internal audit department implements an annual work plan.

Considerations in determining the internal auditing work plan

The annual work plan is formulated, inter alia, based on the following: the risks underlying the Company's operations, previous experience, opportunities for streamlining and savings, regulation of Company operations, and review of the implementation of previous audit report recommendations.
The work plan is formulated, inter alia, in view of the risk survey carried out in October 2010.
The work plan includes certain regulatory issues which are re-examined each year.
The aforesaid auditing activities are carried out bearing in mind that the Group constitutes a holdings management company, and that its main subsidiaries employ separate internal auditors and maintain independent audit committees. The annual audit plan is proposed by the internal auditor. Special emphases are occasionally added by the Audit Committee.
Transactions listed under Section 270 of the Companies Law, which were carried out in the reporting year, are examined by the internal auditor as part of his annual work plan. Furthermore, the internal auditor reviews other material transactions as per the annual audit plan.

As the Company is a holdings management company, the audit plan is comprised to two main parts:

1) Audit of the Company's own operations (including, inter alia, compliance with procedures, cost control, management of Company funds, reporting procedures, statutory compliance and control over resolution performance).
2) Ongoing monitoring of internal auditing in investees, as detailed below:

Persons involved in determining the work plan
The internal auditor and the Board of Directors' Audit Committee.

Persons receiving and approving the work plan
The Board of Directors' Audit Committee.

Judgment in deviating from the work plan
Management, the Audit Committee, and the chairman of the Board of Directors can extend the scope of the plan, or order specific changes, upon the internal auditor's request or recommendation, or as instructed by the Committee.

E) Auditing of material investees

Internal auditing includes ongoing monitoring of adequate and proper internal auditing activities in all of the Group's investees.
All material investees employ internal auditors (as in-house employees or through outsourcing). Audit reports are discussed by the audit committees and/or by the boards of directors of these corporations, which include directors also serving as Company officers. The internal auditor reviews auditing activities in all investees, so as to verify that proper auditing is carried out in all investees.

F) Scope of employment

The corporation's internal auditor is a full-time employee and serves as internal auditor of the Company and some of the corporations that constitute material holdings of the Company, as follows:
Delek Energy Systems, Delek Drilling, Avner Oil and Gas, Delek Automotive Systems, and Cohen Development and Industrial Buildings Ltd.

In 2014, the annual number of hours worked by the internal auditor and other internal auditors employed on an outsourcing basis in the Company and in the Group companies amounted to 35,740 work hours.

Hours invested in internal auditing activities:

Company	Work Hours	Comments
The Company	500 (*)	By the Group's internal auditor
Delek Automotive Systems	800	By the Group's internal auditor
Delek Energy Systems	200	By the Group's internal auditor
Delek Drilling	300	By the Group's internal auditor
Avner Oil Exploration	300	By the Group's internal auditor
The Phoenix	30,000	External auditors
Delek Israel	3,100	External auditor
IDE Technologies	450	External auditor
Cohen Development and Industrial Buildings	90	The Group's internal auditor

(*) Including ongoing review of internal auditing activities in all direct and indirect Company investees.

The Company's Board of Directors believes that the internal auditor's work plan and the number of work hours allocated for its implementation meet the Company's needs. The Company can expand the scope of internal auditing activities if necessary.

G) The audit

In accordance with the internal auditor's declaration, audits are carried out in accordance with the internal auditing standards employed in Israel and around the world, and in accordance with internal audit professional guidelines, including the standards set forth by the Institute of Internal Auditors in Israel (IIA) and in the US (CIA), and in accordance with the Internal Auditing Law, 1992, and the Companies Law.
The Board of Directors is satisfied that the internal auditors has complied with all the aforesaid requirements.

H) Access to information

The internal auditor has full, unrestricted, constant and direct access to all of the Company's information systems, including financial data.

I) Internal audit report

Internal audit reports are submitted in writing, circulated, and discussed by the Company's Audit Committee. Furthermore, specific meetings and discussions are held by the audit committees of investees, concerning audit findings.

Reports on the internal auditor's findings in the Company and its investees were submitted on the following dates: May 2014, June 2014, July 2014, December 2014.
The internal auditor's reports were discussed by the Audit Committee on the following dates: November 2014, December 2014, March 2015.

Reports were submitted to the Chairman of the Board, to the CEO of the Company, and to the members of the Company's Audit Committee

J) Board of Directors' assessment of the internal auditor's work

The Company's Board of Directors believes that the scope of internal auditing in 2014, the nature and continuity of these activities and the Company's internal auditor's work plan are reasonable, and achieve the purposes of the internal auditing function.

K) Remuneration

The internal auditor's employment terms are as follows:

Annual salary of NIS 720,000, including an annual bonus determined by the Company's CEO.
The Board of Directors believes the internal auditor's remuneration does not affect or undermine the exercise of his professional judgment.

4. Auditors' Fees

	For the year ended December 31							
	2014				2013			
	Audit and tax services		Other services		Audit and tax services		Other services	
	Hours	NIS thousands	Hours	NIS thousands	Hours	NIS thousands	Hours	NIS thousands
The Company and wholly owned HQ companies								
Kost Forer Gabbay and Kasierer	7,158	1,876	1,004	815	8,355	2,023	2,268	814
Kost Forer Gabbay and Kasierer and other auditors for assessments on overseas issues by the Company	818	327	3,402	1,656	-	-	-	-
Other consolidated companies								
Gadot Biochemical Industries Ltd.								
Kost Forer Gabbay and Kasierer	1,411	340	-	-	1,392	354	300	69
Other auditors	-	-	-	-	323	148	403	224
Delek The Israel Fuel Corporation Ltd.								
Kost Forer Gabbay and Kasierer	7,650	1,452	1,012	362	8,900	1,497	1,207	483
Ziv Haft	957	120	-	-	845	120	-	-
The Phoenix Holdings Ltd.								
Mainly Kost Forer Gabbay and Kasierer and Pahen Kaneh and Co.	24,168	3,618	4,515	1,020	12,444	2,235	2,313	894
Kesselman & Kesselman	756	120	77	59	16,875	2,325	2,303	677
Delek Energy Systems Ltd.								
Mainly Ziv Haft	5,259	1,132	1,046	464	5,051	1,135	370	149
Kost Forer Gabbay and Kasierer	647	125	-	-	601	125	-	-
Avner Oil Exploration Limited Partnership								
Kost Forer Gabbay and Kasierer	3,306	668	677	527	3,050	611	282	178
Mainly Ziv Haft	759	149	-	-	628	125	-	-
Republic Group								
KPMG	-	-	-	-	5,990	2,660	520	201
Delek Europe								
Ernst & Young Netherland	-	-	-	-	8,518	5,542	165	102
Roadchef								
Ernst & Young England	-	-	-	-	3,216	2,084	609	587

5. Disclosure on the financial statements' approval process

The Company's Board of Directors is the corporate organ charged with overall supervision and approval of the financial statements. For more information concerning the financial statements' approval process in the Company, see the corporate governance questionnaire attached to Chapter 4 - Additional Information about the Company.

6. Classification of Non-Significant Transactions

On March 30, 2009, the Company's Board of Directors resolved to adopt, for the first time, rules and guidelines for classifying a transaction as a non-significant transaction pursuant to the Securities Regulations (Periodic and Immediate Reports), 1970 ("Reporting Regulations"), both as regards transactions with principal shareholders listed in the financial statements, and as regards controlling shareholder transactions. Following discussions with the Israel Securities Authority, on August 30, 2009, the Company's Board of Directors resolved to set forth stricter guidelines for classifying transactions as non-significant, as detailed below. These guidelines and principles were determined, inter alia, with attention to the nature of the Company as one of the largest holdings companies in Israel with very extensive operations, to the value of the Company's assets, the diversity of its operations, the nature of its transactions, and the extent of their cumulative effect on the Company's operations and the results thereof.

The Company's Board of Directors has determined that a transaction will be deemed non-significant if it meets all of the following conditions:

A) Its value does not exceed 0.1% of the Company's equity net of non-controlling interest, as stated in the Company's most recent annual financial statements.

B) It does not constitute an extraordinary transaction (as defined in the Companies Law).

C) The transaction is also qualitatively non-significant.

D) In long-term transactions (e.g. - multi-year property leases), the non-significance of the transaction will be examined on an annual basis (for example - does the annual lease exceed the aforesaid amount).

E) In insurance transactions, the premium will be examined as representing the transaction's value, as opposed to the scope of the insurance coverage provided.

F) Each transaction will be examined individually, but the non-significance of related or contingent transactions will be examined in aggregate.

F) Where a question arises concerning the application of the above criteria, the Company will exercise judgment and will examine non-significance based on the aim of the reporting regulations and guidelines above.

On December 28, 2014, the Company's Board of Directors resolved to amend the Company's procedure for non-significant transactions, so that a transaction where the Company signs joint agreements for receiving consultancy services from employees or third parties, in such fields as (without limitation): law, regulation, finance and/or investments, tax and media, will be considered non-significant if it meets all the rules set forth in the Company's non-significant transactions procedures, provided that expenses for the transaction do not exceed NIS 1 million, and the terms of the transaction for the Company are no different than its terms for the associate or the controlling shareholder, pro rata. For long-term transactions, compliance with non-significant value will be tested on an annual basis (for each calendar year). For example, in a long-term contract, scope of employment will be measured using the annual consultancy fees/wages. Each year, the Audit Committee will check that transactions specified in this report meet the above non-significance criteria.

7. Remuneration of principal shareholders and senior officers

On September 11, 2013, the general meeting approved the Company's remuneration policy for its officers, as recommended by the Remuneration Committee and approved by the Board of Directors. The remuneration policy was formulated together with professional consultants specializing in the formulation of officer remuneration policies. In formulating the remuneration policy, the Remuneration Committee met several times and discussed the remuneration policy and various issues related thereto, including various alternatives for remuneration mechanisms and their impact on the Company's strategic goals and its ability to retain these officers in the future. The Remuneration Committee also conducted an ethical evaluation of the fairness of the remuneration policy, to verify that it guarantees fair and reasonable remuneration, while taking into account all the various interests of the Company's shareholders and stakeholders. The Remuneration Committee and the Board of Directors considered the remuneration policy according to the provisions of Amendment 20, and determined that the remuneration policy complies with the requirements of Amendment 20. The remuneration policy was shaped, inter alia, according to considerations set forth in the Companies Law and which are listed in Section 267B to the Companies Law, and according to additional considerations and principles as specified in the immediate report for the summoning of the Company's general meeting, dated August 28, 2013 (ref. no. 2013-01-129078).

The Company's Board of Directors, in its meeting of March 29, 2015, and March 30, 2015, reviewed the terms of employment and remuneration of those Company officers listed in Chapter 4, as required under Regulation 10B(4) to the Securities Regulations (Periodic and Immediate Reports).

The Company's Board of Directors found the remuneration of Company officers receiving remuneration directly from the Company and listed in Regulation 21 in Part 4 of the periodic report, Mr. Gabriel Last, Mr. Asaf Bartfeld, and the Company's other directors, to comply with the Company's remuneration policy.

As concerns Mr. Gidon Tadmor, who is responsible for oil and gas operations in the Company, the Board of Directors determined the following:

Mr. Gidon Tadmor's employment agreement was approved and signed prior to Amendment 20 to the Companies Law coming into force and approval of the Company's remuneration policy (November 1, 2012), and ended October 30, 2014.
On December 3, 2014, following approval by the Company's Remuneration Committee and the Board of Directors on September 16, 2014, the Company's general meeting approved that Mr. Tadmor be granted a bonus of NIS 1,400 thousand for 2013.
Concerning the terms of Mr. Tadmor's service and employment, the Board of Directors decided that the overall terms of Mr. Tadmor's service and employment meet the Company's remuneration policy and the maximum amounts set therein.
After discussing Mr. Gidon Tadmor's remuneration and in light of the material presented to the Board of Directors, the Board members expressed their opinion that the said remuneration is fair and reasonable under the circumstances and matches Mr. Gidon Tadmor's significant contribution to advancing the Company's oil and gas operations which is the Company's main growth driver. The Board of Directors has determined that Mr. Gidon Tadmor has extensive professional and managerial experience in the energy industry, and particularly in oil and natural gas exploration and production activities, and he has been performing his duties with great success for many years. The Company would like to see Mr. Gidon Tadmor continue leading its energy operations, and assist in formulating and implementing its strategy, and will act to formulate and approve a new agreement in lieu of the one that has ended.
On November 6, 2014, the Company's Remuneration Committee approved that Tadmor Ltd. be paid an annual fee equal to the maximum fee actually paid to senior VPs in the Delek Group and which matches the Company's remuneration plan, as an interim arrangement until a new agreement be formulated and signed with Gidon Tadmor.

As concerns Mr. Amir Lang, VP Business Development in the Company, the Board of Directors determined the following:

The terms of Mr. Lang's employment are reasonable compared to the average and median salaries in the Company. Under the circumstances, the ratio between the terms of Mr. Lang's employment and the average and median terms of employment for the other employees of the Company, considering Mr. Lang's position and his responsibilities - is reasonable. The Company's Board of Directors does not believe these ratios will adversely affect labor relations in the Company. The ratio between the variable and fixed components in Mr. Lang's remuneration deviates from the ratios specified in the remuneration policy for Company officers, due to the special bonus given to Mr. Lang in 2014, which adequately reflected Mr. Lang's contribution to the Company and completion of the sale of all of the Company's subsidiary, Delek Europe Holdings Ltd.'s, holdings in Delek Europe BV to a foreign fund in consideration for EUR 355 million (NIS 1.7 billion). This deal was mainly beneficial in implementing the Delek Group's strategic focus on oil and gas operations, while disposing of significant non-core assets and generating cash flows for reducing the Company's financial debt. The special bonus was approved by the Company's general meeting on December 3, 2014. For more information, see the Company's immediate reports of October 26, 2014 (ref. no. 2014-01-181236) and December 3, 2014 (ref. no. 2014-01-213597), included here by way of reference.

The remuneration of the other officers listed under Regulation 21, serving as officers in a company under the Company's control, was reviewed and approved by the independent organs of those companies paying such remuneration. The Company's Board of Directors reviewed this process, as follows:

Remuneration is paid to officers in The Phoenix. Mr. Yitzhak Oz, Mr. Eyal Lapidot, Mr. Shimon Kalman, Mr. Roy Yakir, and Mr. Moshe Sasson receive the remuneration specified in Regulation 21 from The Phoenix, which is a Company-controlled public company whose shares are listed on the TASE and the said remuneration is reviewed and approved by the independent organs of The Phoenix.

The remuneration of each of the above officers was presented to the Board of Directors by the CEO of the Company, Mr. Asaf Bartfeld, who also serves as chairman in The Phoenix, which reviewed the relevant remuneration. This presentation was accompanied by documents submitted to The Phoenix's board of directors, detailing the information and criteria used by The Phoenix's board of directors to determine the reasonability of the remuneration for each of the officers in the reporting period. These documents further detailed that each of the above officers meets the requirements of his office, based on which The Phoenix's board of directors determined whether the terms and the remuneration are fair and reasonable. This review was followed by a presentation of the report issued by The Phoenix's board of directors, and the details included in that report on each officer. After reviewing the processes implemented in The Phoenix, the Company's Board of Directors believes that the subsidiary's examination of the reasonability and fairness of the remuneration was adequate.

D. Disclosure relating to the Company's financial reporting

1. Critical accounting estimates

For information about main accounting estimates, see Note 2B to the financial statements.

2. Events after the financial position statement date

For details of material events after the financial position statement date, see Chapter A to the Board of Directors' Report.

E. Dedicated disclosure for debenture holders

Series	Issue date	Original par value	Par value balance as of Dec. 31, 2014	Nominal interest rate	Linkage	Carrying amount as of Dec. 31, 2014	Interest accrued in the books	Repayment years	Stock exchange value as of Dec. 31, 2014	Material series	Trustee
		NIS millions				NIS millions					
B11	7/2006	468	357	5.40%	Israeli CPI	424	5	2018	Non-marketable	No	BLL Trust Company, 8 Rothschild Blvd. Tel Aviv Tel: 03-5170777 - Idit Prizar
B12	11/2006	1,100	596	5.35%	Israeli CPI	714	8	2015-2017	Non-marketable	Yes	Reznick Trusts Ltd., 14 Yad Harutzim St. Tel Aviv Tel: 03-6393311 - Liat Bachar-Segal
B13	3/2007	913	548	4.6%	Israeli CPI	665	8	2019-2021	757	Yes	Hermetic Trust (1975) Ltd. 113 Hayarkon St. Tel Aviv Tel: 03-5274867 - Dan Avnon
B14	7/2009+6/2010	419	419	8.5%	-	419	7	2018	508	No	Reznick Trusts Ltd., 14 Yad Harutzim St. Tel Aviv Tel: 03-6393311 - Liat Bachar-Segal
B15	7/2009+ 11/2009+ 7/2011+ 11/2011	1,486	1,486	8.5%	-	1,486	26	2015-2017	1,674	Yes	Reznick Trusts Ltd., 14 Yad Harutzim St. Tel Aviv Tel: 03-6393311 - Liat Bachar-Segal
B16	9/2009	260	130	5.5%	-	130	2	2015	136	No	Strauss Lazar Trust Ltd. 17 Yitzchak Sadeh St. Tel Aviv Tel: 03-6237777 - Uri Lazar
B17	9/2009	90	45	Variable	-	45	-	2015	46	No	Strauss Lazar Trust Ltd. 17 Yitzchak Sadeh St. Tel Aviv Tel: 03-6237777 - Uri Lazar
B18	+ 11/2009 6/2010+7/2011	1,062	1,062	6.1%	Israeli CPI	1,156	12	2016-2017 2019-2022	1,393	Yes	Reznick Trusts Ltd., 14 Yad Harutzim St. Tel Aviv Tel: 03-6393311 - Liat Bachar-Segal
B19	11/2010	560	560	4.65%	Israeli CPI	595	4	2019-2022	673	Yes	Gafni Trusts Ltd. 4 Hataas St., Ramat Gan Tel: 03-6070370 - Tzuri Galili
B22	6/2007	500	375	4.50%	Israeli CPI	451	-	2019-2021	506	Yes	Aurora Fidelity Trust Ltd. 12 Menachem Begin Rd., Ramat Gan Tel: 03-7510566 - Iris Shalbin

Notes:

1. The Company meets all the terms of the debentures. Furthermore, the Company meets all the terms of its obligations under the deed of trust.

2. Information regarding the debenture ratings:

Series		Rating company	Current rating	Rating upon issue		Rating company	Current rating	Rating upon issue
B11		Midroog	A1	-		S&P Maalot	A	AA
B12		Midroog	A1	-		S&P Maalot	A	AA
B13		Midroog	A1	-		S&P Maalot	A	AA
B14		Midroog	A1	A1		S&P Maalot	-	-
B15		Midroog	A1	A1		S&P Maalot	-	-
B16		Midroog	A1	A1		S&P Maalot	-	-
B17		Midroog	A1	A1		S&P Maalot	-	-
B18		Midroog	A1	A1		S&P Maalot	-	-
B19		Midroog	A1	A1		S&P Maalot	-	-
B22		Midroog	A1	-		S&P Maalot	A	AA

3. In 2014, Series B23 was repaid in full.

Details of the Company's liability certificates:

In June 2014, S&P Maalot confirmed its A rating for S&P Maalot-rated debenture series.
In February 2015, S&P Maalot announced its A rating for a debentures issue of up to NIS 800 million par value.

In February 2015, Midroog issued a rating report, in which it re-affirmed its A1-stable rating for Midroog-rated series. Midroog also announced that an A1-stable rating for the issue of debentures to the amount of NIS 800 million par value.

Financial covenants

Subsequent to the financial position statement date, in February 2015, the Company issued a new debenture series (Series B31), to the par value amount of NIS 800 million.
The deed of trust for this series specified the following financial covenants:

- Minimum equity: The Company's minimum equity will not fall below NIS 2,400 million according to its audited or reviewed consolidated financial statements, as applicable, for three consecutive quarters.

- Ratio of equity to balance sheet total: The Company's equity will not fall below 15% of its balance sheet total according to the Company's audited or reviewed separate financial statements, as applicable, for three consecutive quarters.

Equity, meaning the Company's total equity attributable to Company shareholders, excluding minority interests, as defined in GAAP.

As of the financial statements' approval date, the Company is in compliance with these financial covenants.

F. Additional information

1. Buyback of securities

On December 8, 2014, the Company's Board of Directors approved a plan to buy back shares in the Company through a wholly-owned Company subsidiary, to an amount of up to NIS 200 million. For more information, see the Company's immediate report of December 8, 2014 (ref. no. 2014-01-217392), included here by way of reference.

After publication of the aforesaid buy-back plan, the investee partnership purchased 132,392 shares in consideration for NIS 132 million.

2. Dividends

In March 2014, the Company's Board of Directors resolved to distribute a dividend of NIS 160 million. The dividend was distributed in April 2014.
In August 2014, the Company's Board of Directors resolved to distribute a dividend of NIS 150 million. The dividend was distributed in September 2014.
In November 2014, the Company's Board of Directors resolved to distribute a dividend of NIS 150 million. The dividend was distributed in December 2014.
Subsequent to the financial position statement date, in March 2015, the Company's Board of Directors resolved to distribute a dividend of NIS 150 million.

3. Company employees

The Board of Directors would like to thank the Company's management, the management of the Company's investees, and to all the employees for their dedicated work and their contribution to the advancement of the Company.

Sincerely

Asaf Bartfeld	**Gabriel Last**
CEO	Chairman of the Board

Signature date: March 30, 2015

Appendix A to the Board of Directors' Report

Breakdown of principal and interest payments on the debentures and bank loans of the headquarters companies as of December 31, 2014 (NIS millions):

Delek Group - Headquarters

		2015	2016	2017	2018	2019	2020 onwards	Total
Debentures	**Principal**	908	926	926	844	714	1,770	6,088
	Interest	379	316	249	167	119	139	1,369
Bank loans	**Principal**	28	77	31	140	16	-	292
	Interest	9	7	4	1	-	-	21
	Total	**1,324**	**1,326**	**1,210**	**1,152**	**849**	**1,909**	**7,770**

The Delek Group also has guaranteed bank credit facilities of NIS 1.3 billion, of which NIS 0.5 billion had been utilized as of December 31, 2014. As of the financial statements' approval date, unutilized guaranteed bank credit facilities amounted to NIS 0.9 billion.

Appendix B to the Board of Directors' Report

The Group hereby appends the following economic study to its financial statements:

Valuation of the investment in the shares of The Phoenix Holdings Ltd.

Jerusalem, March 25, 2015

The Delek Group Ltd.
7 Giborei Yisrael, St.
Netanya

Dear Sirs,

Review of the value of the investment of Delek Group in shares of The Phoenix Holdings Ltd.

General

1. I the undersigned, Prof. Yoram Eden, CPA, was asked by you to give my professional opinion on the accounting question set out in section 3 below.

2. Background and the relevant facts

   2.1 Delek Group ("Delek") holds 52.32% of the share capital of The Phoenix Holdings Ltd. ("The Phoenix" or "the Company").

   2.2 The balance of the equity attributed to the majority shareholders of The Phoenix, as included in the balance sheet as of September 30, 2014, was NIS 3,710.4 million. The market capitalization of The Phoenix on the same date was NIS 2,958.8 million. The balance of the equity attributed to the majority shareholders of The Phoenix as of December 31, 2014 was NIS 3,805 million, and the market capitalization of The Phoenix on the same date was NIS 2,581.8 million. The market capitalization on the date of writing this opinion (at the closing price on March 25, 2015) ,was NIS 2,946.7 million. As noted in section 2.1, Delek Group holds 52.32% of the issued and paid up share capital of The Phoenix. Delek Group's investment in The Phoenix was included in the balance sheet of the Group as of December 31, 2014 at NIS 1,790 million (before the deduction necessitated by this opinion), where the market capitalization of the investment on the same date amounts to NIS 1,350.7 million (=52.32%*2,581.8), and on the date of writing this report, NIS 1,542 million.

   2.3 In December 2013 the Knesset enacted the Promotion of Competition and Reduction of Market Concentration Law, 2013 ("Market Concentration Law"), which lays down, inter alia, a duty to separate holdings in substantial non-financial operations from substantial financial operations as they are defined in the Market Concentration Law.

   As I understand it, Delek Group has holdings in substantial non-financial companies and in substantial financial companies such as The Phoenix Insurance Co. Ltd. ("The Phoenix Insurance") and Excellence Investments Ltd. ("Excellence"). In view of the provisions of the Market Concentration Law, Delek Group will be required, within six years (from the end of 2013), to separate its substantial non-financial operations from its substantial financial operations. Such separation can ostensibly be achieved in several alternative ways, such as the sale of the non-financial operations, the sale of companies that have holdings in financial operations, or the sale of the operations themselves, certain structural changes, etc.

2.4 In 2014, Delek Group negotiated with a foreign company, Kushner Funding LLC, for the sale of control in The Phoenix, and even signed with that company,[1] on July 4, 2014, a non-binding memorandum of understanding which set out the principles for drafting a binding agreement for the sale of control in the Company (approx. 47%). The overall consideration for the shares being purchased was supposed to be a sum equal to the equity of The Phoenix as of December 31, 2013, multiplied by the price of the shares being sold from the issued capital of the Company plus interest at an agreed rate that would be added to the consideration commencing January 1, 2014.

2.5 However, as arises from an immediate report published by Delek on December 14, 2014, the negotiations fell through and "Delek is reviewing and moving forward with other options for the sale of its shares in The Phoenix".

2.6 On January 27, 2015, Delek published another immediate report, concerning the signing of a non-binding agreement of understandings with a foreign listed company, Fosun International Limited, whose holdings include insurance operations, setting out the principles for drafting a binding agreement for the sale of control in The Phoenix (42%- 53.2% of the share capital of The Phoenix). The overall consideration for the shares being sold would be a sum equal to the equity of The Phoenix as of September 30, 2014, subject to defined adjustments, multiplied by the price of the shares being sold from the issued capital of the Company, plus interest an agreed rate (4.75% p.a.) which would be added to the consideration commencing September 30, 2014 through the date of closing the transaction. The consideration would be paid in cash on the date of closing the transaction.

3. **The professional accounting question discussed in this opinion**

Is Delek Group required, under Israeli GAAP, to make an additional provision for impairment of value in respect of its investment in shares of The Phoenix, in its financial statements as of December 31, 2014.

4. **For the purpose of my work I drew on the following accounting standards, financial statements and data:**

4.1 The Phoenix audited financial statements for 2013 and for previous years.

4.2 The Phoenix reviewed financial statements for the interim period ended September 30, 2014.

4.3 Audited financial statements of Excellence for 2013 and reviewed financial statements of Excellence for the interim period ended September 30, 2014.

4.4 IAS 36 – Impairment of Assets – Impairment of Value of Assets ("IAS 36").

4.5 An announcement by Maalot dated January 18, 2015, ratifying a rating of ILAA+/Stable for The Phoenix Insurance Co. Ltd. , and a rating of ILA+/Stable for The Phoenix Holdings Ltd.

4.6 A Midroog announcement, dated November 12, 2014, leaving in place the rating of Debentures Series 1 and 2 of The Phoenix Holdings at Aa3 with stable outlook.

4.7 A presentation to analysts of The Phoenix which was attached to an immediate report published by the Company on November 25, 2014.

[1] See the immediate report published by The Phoenix on July 6, 2014.

4.8 Insurance Circular 2015-1-2 dated January 12, 2015, issued by the Commissioner of Insurance, on "Calculation of Insurance reserves in Non-Life Insurance".

4.9 Position of the Supervisor of the Capital Market dated January 12, 2015. on "Best Practice for Calculation of Insurance Reserves in Non-Life Insurance for Financial Reporting".

4.10 My opinion dated March 27, 2014 ("First Prior Opinion"), which estimated the value in use of Delek's investment in The Phoenix, which assumed that the Market Concentration Law would require Delek Group to sell its holdings in The Phoenix (which holds, inter alia, the financial companies The Phoenix Insurance and Excellence) in the period allocated by the Market Concentration Law, i.e. up to six years.

4.11 Revision of the First Prior Opinion dated August 27, 2014, which assumed that Delek would sell its holdings in the Company within a period of 18 – 30 months (i.e. between December 31, 2014 and December 31, 2016). The revision also included a reassessment and update of some of the assumptions made in the First Prior Opinion, in view of the changes in the interest environment and in view of rw business results of the Company in the last quarter of 2013 and the first quarter of 2014 ("Second Prior Opinion").

4.12 An updated forecast for the profits of The Phoenix for the years 2015 – 2018, prepared during 2015 and delivered to me by Delek Group ("Delek Forecast") and used in my preparation of the Second Prior Opinion. The Delek Forecast was updated by Delek's management in light of the results of operations of The Phoenix in the third quarter of the year.

4.13 The response of the Companies Department at the Securities Authority, dated March 18, 2014, to the request of Discount Investments Co. for preliminary guidance on accounting questions relating to the Market Concentration Law.

4.14 I wish to point out that in preparing this opinion, I had before me the business results of The Phoenix for the third quarter of 2014 and for prior years. For the purposes of this opinion, I requested and received certain data only from the draft financial statements of The Phoenix as of December 31, 2014.

5. I have no knowledge of any information that may indicate the implausibility of the data I have drawn on. I did not consider the data independently, and therefore this opinion does not validate their verity, integrity or accuracy.

6. **Use of forward looking information**

6.1 For this paper, I assessed the projected profits from the insurance portfolios (life insurance, pension and non-life insurance lines – from both existing portfolios and future portfolios) of the Company in the years 2015-2018 ("Forecast Period"). I made the profit estimate in the Forecast Period using forward looking information that included, inter alia, forecasts, assessments and estimates relating to future events or matters, that may or may not come to pass and that are beyond the control of The Phoenix and/or Delek Group. Such forward looking information does not constitute proven fact, and is based solely on my subjective assessment, which relied on general information available to me at the time of writing.

6.2 I also made an estimate of the profits of Excellence and of other companies in The Phoenix Group in the Forecast Period, in which I also related to forward looking information provided by Delek's management, on the expected profit in each of its segments of operation. Such forward looking information is uncertain information as to the future, is based on information in

the Company's possession at the time of the assessment, and includes estimations or intentions of the Company's management at the time of writing. If these estimations of the management fail to materialize, the actual results may differ materially from the assessed results or the results implied by such information.

7. **Methodology**

7.1 IAS 36 states that in determining value in use –

"Estimates of future cash flows shall include:

c. Projections of cash inflows from continuing use of the asset;

d. Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed or allocated on a reasonable and consistent basis, to the asset; and

e. net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life."[2]

7.2 IAS 36 states, (in its sections 52 and 53) that calculation of the projected cash flow from disposal of the asset should be made in the following manner:

7.3 "52. The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life shall be the amount that an entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

53. *The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is determined* ***in a similar way to an asset's fair value less costs to sell****…*" (emphasis added).

7.4 Expectation for the period of Delek's holding in The Phoenix

Delek's management estimates, in view of sections 2.3 – 2.6 above, that the expectation for Delek's holding in The Phoenix is approximately three years.

7.5 Accordingly, I decided to estimate the value in use in a manner that takes into account the cash inflows to The Phoenix through the date of the forecast disposal (i.e. about three years from the end of 2014), and to estimate the sum to be received by Delek Group from the sale of The Phoenix shares at the end of the period. In addition, I made a sensitivity analysis of changes of six months in the holding period. i.e. a holding period of 2.5 – 3.5 years respectively.

In the Second Prior Opinion I applied a similar methodology but assumed that the disposal date would be 24 months from June 30, 2014. The change in the assumption for expectation of the holding stems primarily from an assessment of difficulties and uncertainty for the sale of the holdings in The Phoenix to outside buyers (as described in sections 2.4 – 2.6 above).

7.6 For calculating the value in use I took into account the aggregate amount of:

a. Profits after tax, discounted at the discount rate after tax over the Forecast Period .[3]

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[2] See section 39 of IAS 36.

[3] According to the directives of IAS 36, for reviewing impairment the cash flows should be discounted before tax at the discount rate before tax. A decision should be made that owing to the time gap between the date of collection of the premiums and the date of payment of the claims, and owing to accumulation to the insurance reserves, the cash inflows are not, of themselves, relevant for estimating the value in use of investment in an insurance company. The

b. The adjusted market capitalization of the Company as of December 31, 2014, discounted from the end of the Forecast Period as of December 31, 2014.

Parenthetically, I note that the value of The Phoenix derived from the non-binding agreement of understandings as of December 31, 2014 is NIS 3,754 million,[4] which is considerably higher than the market capitalization of the Company as of December 31, 2014 which, as noted in section 2.2, is only NIS 2,581.8 million.

c. In addition, I decided to adjust the market price of the shares as of the end of the period by the amount of the difference between the carrying value and the market cap of the deferred debt certificates of The Phoenix Insurance and the debentures of The Phoenix Holdings, as described in section 18 below.

8. **Summary of the opinion**

From my examination, as of December 31, 2014 the recoverable amount of Delek's investment in The Phoenix is approximately NIS 58 million less than the equity of the investment, assuming disposal of the investment on December 31, 2017. Accordingly, an additional impairment loss of approximately NIS 58 million (before tax) should be recognized.

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relevant datum, and the one I used, is the amount of profits. The discount after tax mad in this opinion is a reasonable proximation to discount before tax..

[4] Including NIS 44 million in interest, charged from September 30, 2014..

Opinion

9. **Balance of Delek's investment in The Phoenix**

As described in section 2.2 above, the investment of Delek Group in the Phoenix was included in the balance sheet of Delek Group as of December 31, 2014 at a value of Nis 1,790 million (before the deduction necessitated by this opinion), where the market capitalization of the investment as of the same date amounts to NIS 1,350.7 million (=52.32%*2,581.9).

10. **Results of operations of Phoenix in the first nine months of 2014**

10.1 The share of Company shareholders in comprehensive income in the first nine months of 2014 amounted to NIS 351 million,[5] compared with comprehensive income of NIS 567 million in the corresponding period in 2013 and comprehensive income NIS 744 million for the whole of 2013.

10.2 Table 1 shows condensed data for comprehensive income of the Company for the three years 2011 – 2013 and for the nine months ended September 30. 2014 and 2013 respectively:

Table 1 – The Phoenix Holdings Ltd. – Condensed comprehensive income data (consolidated) (in NIS millions):

	Nine months ended September 30		Year ended December 31		
	2014	**2013***	**2013**	**2012**	**2011**
Comprehensive income from life insurance and long-term savings segment	62	262	367	141	(14)
Comprehensive income from health insurance operations	72	197	219	116	118
Comprehensive income from non-life insurance segments	218	294	366	234	64
Comprehensive income from financial services segment	90	59	73	78	95
Total comprehensive income from segments of operation	442	812	1,025	569	263
Profit (loss) not from reported segments of operation	99	83	144	40	(142)
Company's share in net results of investees not from reported segments of operation	6	20	28	31	(31)
Profit before income tax	547	915	1,197	640	90
Income tax	179	330	431	221	104
Comprehensive income for the period	**368**	**585**	**766**	**419**	**(14)**
Comprehensive income for the period attributed to Company shareholders	**351**	**567**	**744**	**403**	**(30)**

* Restated.

10.3 The Company's business results in the first nine months of the year were affected by non-recurring actuarial amendments to the insurance reserves following a lowering of the risk-free interest rates. The fall in the interest rates led to an increase of NIS 223 million (NIS 139 million after tax) in the insurance liabilities in the life insurance and long-time savings segment (of which an increase of NIS 21 million before tax and NIS 13 million after tax in the third quarter of 2014). The fall in the interest rates also resulted in an expense of NIS 25 million in the non-life insurance segment (owing to an increase in the insurance liabilities in the compulsory auto segment and in the other liabilities segment).

[5] In the First Prior Opinion I estimated comprehensive income after tax for the whole of 2014 at NIS 417.3 million.

11. Review method

11.1 Company profit forecast

I estimated the expected profit (after deduction of finance expenses and taxes) for The Phoenix Holdings in the Forecast Period. To do so, and using a similar methodology to that applied in the two prior opinions, I estimated the expected profit of The Phoenix Insurance, the investee insurance agencies, Excellence and the subsidiary The Phoenix Investments & Finance Ltd. I also took into account the finance expenses that will be incurred by The Phoenix Holdings which stem from the debentures it has issued. The estimated profit of The Phoenix was based on the latest forecast of Delek. I made a number of adjustments to the forecasts as I deemed necessary. Because of its materiality and to simplify the forecast, and similarly to the prior opinions, I did not include in it the profits projected from the operations of the subsidiary Ad 120 Senior Citizens Residential Centers Ltd. The omission of this company's results from the profit forecast did not materially impact the results of the review.

11.2 I capitalized the expected profit at the weighted capital cost of The Phoenix Holdings approximately 9%, as explained in section 19.

11.3 Consistently with the two prior opinions, I assumed, also, that the future (not discounted) value of the Company at the end of the Forecast Period (eliminating the profit accrued in the Forecast Period, which, as mentioned, was capitalized separately), will be the same as today's market cap, NIS 2,581.8 million plus an adjustment. The adjustment is in the amount of the difference between the fair value and the equity value of the Company's financial liabilities as of December 31, 2014 (approximately NIS 206.5 million), less the tax implications (approx. NIS 71.6 million), a total of NIS 134.9 million – see section 18. The adjusted future value is therefore approximately NIS 2,716.7 million (=2,581.8+134.9).

11.4 I discounted the forecast adjusted future value in the Forecast Period (NIS 2,755.0 million) at a discount rate of 9%, and I added the discounted amount to the discounted profit expected at the end of the Forecast Period.

11.5 I multiplied the result obtained from the calculation described in section 11.4 by the percentage of Delek Group's direct holding in The Phoenix (52.31%). The result obtained reflects, to the best of my understanding, the value in use of Delek's investment in The Phoenix, in a scenario in which Delek must sell its holdings in The Phoenix as one unit at the end of the Forecast Period.

11.6 I analyzed sensitivity to changes of 0.5% in the discount rate in a range from 8.5% to 10%.

11.7 In addition, I reviewed the value in use by the same methodology, assuming that the Forecast Period to disposal would be 30, 36 and 42 months. To do so, I assumed that profits would be split equally between the two halves of the year.

12. Profit forecast for the years 2014 – 2018

12.1 Forecast for profit of The Phoenix Insurance (without the holdings in the insurance agencies)

The Phoenix Insurance makes it profit in the following segments of operation: a. life insurance and long-term savings; b. health insurance; c. non-life insurance; d. revenues and expenses not attributed to the other segments of operation; e. finance expenses in respect of liability certificates issued by the Company should be deducted from the amount obtained from the above four segments of operation.

12.2 Life insurance and long-term savings segment

12.2.1 For a forecast for the coming years, existing policies in The Phoenix insurance portfolio were sorted into four layers: (1) policies issued up to and including 1990; (2) policies issued from 1991 up to and including 2003; (3) policies issued from 2004 onwards; (4) policies that have no savings component.

Below is a brief explanation of the characteristics of each layer.

a. CPI-linked insurance policies issued up to and including 1990
The funds from savings in the policies are backed 70% by CPI-linked designated government bonds. Most of the profit from these policies stems from a fixed financial margin guaranteed to the insurance companies by means of the designated bonds (see section 12.2.3(a)).

b. Profit-sharing insurance policies issued from 1991 up to and including 2003
For these policies, The Phoenix is entitled to fixed management fees of 0.6% and to variable management fees of approximately 15% of the real return obtained (less the management fees). The right to collect the variable management fees depends on obtaining a cumulative positive yield for the savers in these policies. If the yield is negative, no management fees are paid if the calculation shows that the profit obtained does not exceed the cumulative losses in the policies.

c. Insurance policies issued from 2004 onwards
For these policies The Phoenix is entitled to fixed management fees only. Pursuant to the Management Fee Regulations, the fixed management fees are expected to fall to 1.10% in 2015 and to 1.05% from 2016 onwards.

d. Policies with no savings component
Risk policies only. In recent years this segment of operations has been an important growth engine in the Company's profits.

12.2.2 Table 2 shows details about the premium volumes, profit (before tax) and insurance reserves achieved in each of the years 2011-2013 and in the first nine months of 2014:

Table 2 – Life insurance, revenue from premiums, reported profit and insurance reserves (in NIS millions)

	1-9/2014	2013	2012	2011
Policies up to 1990				
Premiums	112	157	181	192
Reported pre-tax profit	(104)	91	(27)	30
Insurance reserves	9,766	9,377	8,887	8,382
Policies 1991-2003				
Premiums	899	1,192	1,201	1,218
Reported pre-tax profit	179	286	99	21
Insurance reserves	22,078	20,802	18,213	15,793
Policies after 2004				
Premiums	1,572	2,061	1,964	1,878
Of which, new annualized premium	135	140	405	303
One-time premium	487	660	698	734
Profit (loss) before tax	(91)	(90)	(76)	(81)
Insurance reserve	12,413	10,037	6,901	5,504
Policies with no savings component				
Premiums	364	451	406	381
Of which, new annualized premium	54	49	61	53
Profit (loss) before tax	52	81	88	75
Insurance reserve	666	644	579	529
Total				
Premiums	2,947	3,861	3,753	3,670
Reported pre-tax profit	36	368	84	44
Insurance reserves	44,923	40,860	34,580	30,207

12.2.3 To prepare the forecast for the next years of operation, the following assumptions were made:

a. General assumption for the yield on investments of the insurance reserves
I assumed that the yield in the coming periods would be a rel yield of 2.5%. I further assumed that the average rate of rise in the CPI for the next two years (2015 and 2016) would be 0.9% and the average rate of rise in the CPI for the years 2017 and 2018 would be 1.4%.

b. Policies issued up to and including 1990
(1) Revenue from premiums: NIS 132 million in 2015; NIS 121 million in 2016; NIS 113 million in 2017, and NIS 106 million in the whole of 2018.
(2) Savings component from the premium and the reserve – 70% in 2015; 71% in 2016; 72% in 2017, and 73% in 2018.
(3) Designated bond component – 70%, and the free investment component – 30% of the reserve. The bonds yield 4.8% linked.
(4) Yield guaranteed for policyholders – 3.8% linked.
(5) Expenses (including in respect of extension of the separate life expectancy by means of factor K over the years) – NIS 20 million in each of the years 2015 – 2018.

c. Policies issued from 1991 up to and including 2003
(1) Revenue from premiums: NIS 1,189 million in 2015. Revenue from premiums will decrease by an annual rate of 0.8% from 2016 onwards.

(2) Savings component from the premium and the reserve – 90%.

(3) Fixed management fees of 0.6% of accrual and variable management fees of 15% of the net real return after deduction of fixed management fees.

(4) Percentage of expenses out of premium – 7.5% per year (including a provision for extension of the separate life expectancy by means of factor K over the years)

d. Policies issued after 2004

(1) Revenue from premiums expected in 2015 – NIS 2,031 million. Management's forecast includes new annualized premium of NIS 174 million, and additional non-recurring premium of NIS 500 million. The forecast is that the new annualized premium will increase in the coming years by 3.5%, while the non-recurring will stabilize at NIS 500 million.

(2) Cancellation rates: 7% in 2015, 6% in 2016 and 5% in each of the years 2017 and 2018.

(3) Savings component from the premium and the reserve – 98%.

(4) Fixed management fees at 1.10% in 2015, 1.05% in 2016, 1.03% in 2017 and 1.0% in 2018.

(5) Expenses out of premium – 7% per year throughout the Forecast Period.

e. Policies with no savings component

(1) Expected revenue from premiums: NIS 539 million in 2015, NIS 586 million in 2016, NIS 657 million in 2017, and NIS 734 million in 2018.

(2) Cancellation rate: 7% throughout the Forecast Period.

12.2.4 Profit rate from premium: 14% throughout the Forecast Period.

12.2.5 Table 3 below shows projected revenue from the existing portfolio. It should be noted that owing to a change in the supervisory directives and a ban on the sale of life insurance policies for savings (including senior employees insurance) that includes assurance of guaranteed pension prepayments for policyholders who are less than 55 years old, it can be expected that policyholders who hold the existing policies will hold on to them for as long as possible. This assumption supports the assumptions of the forecast concerning the development of revenue from premiums shown in Table 3.

12.2.6 Consideration should be given to the fact that the new insurance policies that the Company has been issuing since 2004, although contributing to an increase in the embedded value of the life insurance portfolio, are the cause of an accounting loss reported in the first years after their issue. The profit embedded in these policies will be reflected in the financial statements of later years. In this paper I assumed that the Company's management will continue to devote most of its efforts to enhancement of the Company's value, and therefore will continue to market these policies even though the negative cash flow stemming from them in the Forecast Period results in a decrease in the value in use of Delek's investment in The Phoenix.

Table 3 – Life insurance, projected revenue from premiums, projected profit and insurance reserves in 2014-2016 (in NIS millions)

	1-9/2014	2015	2016	1-6/2017	2017	2018
Policies up to 1990						
Premiums	112	132	121	56	56	53
Reported profit before tax	(104)	10	9	4	4	4
Insurance reserve	9,766	9,306	9,050	8,992	8,934	8,923
Policies 1991-2003						
Premiums	899	1,189	1,179	585	585	580
Reported profit before tax	179	115	128	71	71	79
Insurance reserve	22,078	23,517	24,972	25,771	26,569	27,382
Policies after 2004						
Premiums	1,572	2,031	2,132	1,125	1,125	1,184
Profit (loss) before tax	(91)	(44)	(40)	(16)	(16)	(13)
Insurance reserve	12,413	11,885	13,507	14,447	15,387	16,365
Policies without savings component						
Premiums	364	522	586	329	329	367
Profit (loss) before tax	52	73	82	46	46	51
Insurance reserve	666	701	736	756	776	798
Total						
Premiums	2,947	3,874	4,018	2,095	2,095	2,184
Profit before tax	**36**	**154**	**179**	**105**	**105**	**21**
Insurance reserve	44,923	45,409	48,265	49,965	51,666	53,468

12.2.7 I also added to the Company's projected revenue from life insurance the projected revenue from pension fund and provident fund management. Table 4A shows condensed data on the Company's pension fund management operation:

Table 4A – Condensed data – Pension fund management

	1-9/2014	2013	2012
Assets under management in NIS billions	11.0	8.5	6.6
Contribution fees in NIS millions	1,741	1,582	1.360
Revenue from management fees	88	97	86
Pre-tax profit	8	6	7

I assumed that the pre-tax profit from the Company's pension fund management operation would be NIS 11 million in 2015, NIS 14 million in 2016, NIS 16 million in 2017, and NIS 18 million in 2018.

12.2.8 The Phoenix Insurance also manages provident funds and study funds, through The Phoenix Provident and Pension. Table 4B shows condensed data on the Company's provident fund management operation. It should be borne in mind that the data relate to the provident fund management operation managed at the level of The Phoenix Insurance, and they do not include the provident fund management operation managed by Excellence Investments,[6] which I discuss separately in section 14 below.

[6] The consolidated balance sheet of The Phoenix Holdings includes the provident fund operations of The Phoenix Insurance and Excellence consolidated.

Table 4B – Condensed data –
Provident fund management at The Phoenix Insurance

	1-9/2014	6-12/2013
Assets under management in NIS billions	2.5	2.3
Contribution fees in NIS millions	154	249
Revenue from management fees	2	4

I assumed that in each of the years 2015 – 2018, the Company would achieve a pre-tax profit of NIS 2 million from the provident fund operation.

12.2.9 Table 5 shows the projected pre-tax profit from operations in the life insurance and long-term savings segment:

Table 5 – Projected pre-tax profit from the life insurance and long-term savings segment (in NIS millions)

	1-9/2014	2015	2016	1-6/2017	7-12/2017	1-6/2018
Profit from life insurance:						
Policies issued up to 1990	(104)	10	9	4	4	4
Policies issued 1991-2003	179	115	128	71	71	79
Policies issued after 2004	(91)	(44)	(40)	(16)	(16)	(13)
Policies with no savings component	52	73	82	46	46	51
Interim total	36	154	179	105	105	121
Profit from pension fund management	8	11	14	8	8	9
Profit from provident fund management	2	2	2	1	1	1
Total	**46**	**167**	**195**	**114**	**114**	**131**

12.3 Health segment

12.3.1 The health segment consists of two main areas of operation: long-term care insurance and medical expenses insurance. In long-term care insurance the Company sells group policies and individual policies. The sale of group policies for long-term care is expected to end after 2015.

12.3.2 Table 6 provides data on Company revenues from premiums, pre-tax profit and insurance liabilities in each of the years 2011-2013 and in the first nine months of 2014.

Table 6 – Health insurance – revenue from premiums, reported profit and insurance liabilities (in NIS million)

	1-9/2014* reviewed	2013*	2012	2011
Long-term care				
Premiums	279	349	326	308
Reported pre-tax profit	16	29	(22)	(32)
Insurance liabilitiest	1,448	1,141	1,051	893
Medical expenses				
Premiums	891	1,058	947	839
Reported pre-tax profit	57	190	137	150
Insurance liabilities, net	462	576	488	445
Total				
Premiums	1,170	1,407	1,273	1,147
Reported pre-tax profit	73	219	116	118
Insurance liabilities, net	1,910	1,717	1,539	1,339

* Not including one-time revenue of NIS 72 million from a reinsurance transaction.

12.3.3 For preparing the forecast for the coming years of operation, the following assumptions were made (consistently with the assumptions of the previous opinion, with the requisite changes):

a. Long-term care insurance

(1) The sale of group policies will end at the end of 2015.

(2) Revenues from individual insurance premiums in 2015 will be NIS 145 million, and will increase to NIS 302 million in 2016 (most of the increase stems from the transition from group insurance to individual insurance), and thereafter will increase by 5% annually.

(3) The rate of insurance profit before tax from long-term care insurance was negligible and even negative. The forecast assumes that in 2015 a loss of NIS 2 million will be recorded, whereas in 2016 a profit close to zero will be achieved. In 2017 the profit will be 1% of the premium turnover, and in 2018 will increase to 2% of the premium turnover.

b. Medical expenses insurance

(1) Revenue from premiums in 2014 will be NIS 1,195 million, after which it will increase at an annual rate of 7% (the increase rate for the endire market), and the Company is expected to retain its market share in this field (which is about 23%).

(2) The rate of insurance profit before tax is expected to be 9% in the Forecast Period.

12.3.4 Table 7 shows projected revenues and pre-tax profit of The Phoenix in health insurance:

Table 7 – Health insurances – Projected revenue and pre-tax profit (in NIS millions)

	1-9/2014	2015	2015	1-6/2017	7-12/2017	1-6/2018
Long-term care insurance						
Group premiums	176	512	-	-	-	-
Individual premiums	103	145	302	159	159	167
Aggregate pre-tax profit	16	(2)	-	2	2	3
Medical expenses insurance						
Premiums	891	1,195	1,278	684	684	732
Reported pre-tax profit	57	108	115	62	62	66
Total						
Premiums	630	1,447	1,581	1,581	1,581	1,581
Pre-tax profit	73	106	115	63	63	69

12.4 Non-life insurance

12.4.1 The Company operates in four main areas of non-life insurance: a. auto property insurance (CASCO); b. compulsory auto insurance; c. other property insurance; d. other liability insurances.

12.4.2 Table 8 shows data on the Company's revenues from premiums, pre-tax profit and insurance reserves (in retention) in each of the above four areas of operation and in each of the years 2010 – 2013 and the first nine months of 2014.

Table 8 – Non-life insurance – Revenue from premiums, reported profit and insurance reserves (in NIS millions)

	1-9/2014 Reviewed	2013	2012	2011
Auto property insurance				
Gross premiums*	646	821	763	728
Reported profit (loss) including reported (in retention)	36	34	(7)	(20)
Insurance reserve (retention)	602	566	520	483
Compulsory auto insurance				
Gross premiums	351	425	384	374
Premiums in retention	344	416	370	360
Reported comprehensive income (in retention)	71	135	150	28
Net insurance reserve	2,198	2,076	1,958	1,845
Other property insurance				
Gross premiums	536	663	623	602
Premiums in retention	236	297	285	279
Reported comprehensive income (in retention)	64	25	48	37
Net insurance reserve	226	236	203	179
Liabilities insurance				
Gross premiums	290	360	354	347
Premiums in retention	231	273	265	254
Reported comprehensive income (in retention)	46	166	43	20
Net insurance reserve	1,401	1,349	1,378	1,299
Total				
Gross premiums	1,823	2,269	2,125	2,050
Premiums in retention	1,457	1,807	1,683	1,621
Reported comprehensive income (in retention)	217	360	234	65
Insurance reserve, in retention	4,427	4,227	4,059	3,806

* In auto property insurances the Company has no need of reinsurance.

12.4.3 The "accrual" method, customary in accounting reporting on profit from compulsory auto insurances and other liability insurances, should also be considered. In this method, the insurance profit in these lines in the first three years after the underwriting year is accrued to the insurance reserve (including imputed investment profit of 3% linked to the CPI). The profit is "released" to the profit and loss report only at the end of the three years after the underwriting year. For example, profit in 2010 was recognized only in the profit and loss report of 2012. As a result of this way of reporting, the insurance profit stated in each year in these lines does not actually reflect the underwriting results of that underwriting year. The fact that according to the Commissioner's circular (see section 4.8 above), the insurance companies will release that entire accrual amount in the compulsory auto and liabilities lines at the end of 2015,[7] and will be required at that time to apply "best practice" (se section 4.9 above), which is intended to increase the existing safety margins in assessing pending claims today. I assumed that these changes will not have a material impact on the profit from non-life insurance business that will be reported in 2015, and therefore they are not reflected in this forecast.

12.4.4 The results reported in the non-life insurance segment are extremely sensitive to the investment profit achieved in the capital market each year. I assumed that the rate of real yield on the investments of the insurance reserves in each of the years of the Forecast Period will be 2.5%, and that the average annual rate of rise in the CPI will be 0.9% in 2015 and 2016, and 1.4% in 2017 and 2018.

12.4.5 To prepare the forecast for the coming years of operation, the following assumptions were made:

a. <u>Auto property insurance</u>
   (1) Revenues from premiums – NIS 890 million in 2015; thereafter I assumed a nominal annual increase of 3.3%, stemming from expected growth in the overall market.
   (2) Combined ratio – 98% in 2015, 99% in 2016, and 100% from 2017 onwards.

b. <u>Compulsory auto insurance</u>
   (1) Gross revenues from premiums – NIS 448 million in 2015. Thereafter I assumed a nominal annual increase of 2.5%, stemming mainly from expected growth in the overall market, and partly also from an increase in the Company's market share.
   (2) Premium transferred to reinsurance – 2%.
   (3) Combined ratio – 94% in 2015, 95% in 2016, 96% in 2017, and 97% in 2018.

c. <u>Other property insurance</u>
   (1) Revenues from premiums – NIS 703 million. Thereafter I assumed a nominal annual increase of 4%, stemming mainly from expected growth in the overall market, and partly also from an increase in the Company's market share.
   (2) Premium transferred to reinsurance – 54% in 2015 and 53% in 2016.

[7] The circular permitted the insurance companies to release the accrued amount at the end of 2014, with certain restrictions. Most of the insurance companies , The Phoenix among them, will release the accrued amount only at the end of 2015.

(3) Revenues from reinsurance commission – 15% of the transferred premium.

(4) Combined ratio – 82%.

d. Other liability insurances

(1) Revenues from premiums – NIS 384 million in 2015, and NIS 397 million in 2016. Thereafter I assumed nominal annual increase of 3.3%, stemming from expected growth in the overall market

(2) Premium transferred to reinsurance – approx. 24%.

(3) Revenue from reinsurance commission at 6.0% of the transferred premium.

(4) Combined ratio – 93% in 2015, 94% in 2016, 95% in 2017 and 96% in 2018.

12.4.6 Table 9 shows the forecast for revenues and pre-tax profit of The Phoenix in non-life insurance.

Table 9 – Non-life insurance – Projected revenues and pre-tax profit (in NIS millions)

	1-9/2014	2015	2016	1-6/2017 Forecast	7-12/2017	1-6/2018
Auto property insurance						
Gross premiums	646	890	919	475	475	491
Reported profit (loss)	36	38	30	13	13	13
Insurance reserve	602	622	642	653	664	675
Compulsory auto insurance						
Gross premiums	351	448	460	236	236	242
Premiums in retention	344	439	451	231	231	237
Reported profit (in retention)	71	103	100	55	55	54
Net insurance reserve	2,198	2,255	2,312	2,342	2,371	2,401
Other property insurance						
Gross premiums	536	703	731	381	381	396
Net premiums	236	323	344	183	183	390
Reported profit (in retention)	64	85	87	44	44	44
Net insurance reserve	226	213	222	227	231	236
Liabilities insurance						
Gross premiums	290	384	397	205	205	212
Net premiums in retention	231	292	302	156	156	161
Reported profit (in retention)	46	69	68	37	37	36
Net insurance reserve	1,401	1,393	1,439	1,463	1,487	1,511
Total						
Gross premiums	1,823	2,425	2,508	1,296	1,296	1,340
Net premiums	1,457	54	2,015	1,044	1,044	1,278
Reported pre-tax profit	217	295	285	149	149	147
Insurance reserve	4,427	4,483	4,616	4,685	4,753	4,823

12.5 Revenues and expenses not attributed to the other segments of operation

12.5.1 As transpires from the draft financial statements of The Phoenix Insurance as of December 31, 2014, the Company had other financial investments amounting to approximately NIS 83 million which were not attributed to the segments of operation. The Company also held, as of December 31, 2014, balances of cash and cash equivalents of NIS 40 million which were not attributed to the segments of operation.

12.5.2 I assumed a nominal annual return of 2.5% from these investments throughout the Forecast Period. I also assumed that the sum invested would not vary during the

Forecast Period, i.e. all the additions to equity that would stem from the profit would be distributed as dividend. I further assumed that there would be no change in the amount of the deferred debt certificates in the Forecast Period (since they would be recycled at each due date).

12.5.3 I assumed that general and administrative expenses not attributed to the segments of operation would amount to NIS 79.4 million in 2015, NIS 80.6 million in 2016, NIS 83.0 million in 2018, as shown in Table 10.

Table 10 – Revenues and expenses not attributed to the segments of operation (in NIS millions)

	2015	2016	1-6/2017	7-12/2017	1-6/2018
Revenue from investments	61.3	61.3	35.1	35.1	35.1
G&A expenses	(79.4)	(80.5)	(40.9)	(40.9)	(41.5)
Total	**(18.1)**	**(19.3)**	**(5.8)**	**(5.8)**	**(6.4)**

12.6 Finance expenses in respect of deferred bonds

12.6.1 The balance of deferred debt certificates included in the draft financial statements as of December 31, 2014 of The Phoenix is NIS 1,740 million. The interest expense (including linkage) expected to apply in 2015 is NIS 84 million.

12.6.2 I added to this expense the expected linkage differences at the projected rate of inflation of 0.9% p.a..

12.6.3 The methodology applied in this paper, whereby The Phoenix Insurance will tolerate the volume of its financial debt at the same level throughout the Forecast Period, means that it will have similar real financial expenses in each of the years of the forecast. In nominal amounts, the expected interest expense in 2016 will be NIS 84.4 million.

12.6.4 The total statutory tax rate applicable to The Phoenix Insurance (corporate tax and profit tax) from 2014 onwards is 37.71%. I assumed that the Company will commit to that tax rate on its future profits.

12.7 Forecast of profit after tax of The Phoenix Insurance

Table 11 shows the profit forecast of The Phoenix Insurance, and completes the discussion in sections 12.1 – 12.6.

Table 11 – Profit forecast (after tax) of The Phoenix Insurance (in NIS millions)

	2015	2016	1-6/2017	7-12/2017	1-6/2018
Profit from life insurance segment	166.8	194.7	113.8	113.8	130.9
Profit from health insurance segment	105.6	115.1	63.1	63.1	69.2
Profit from non-life insurance segment	295.2	285.0	148.7	148.7	147.0
Revenues and expenses not attributed to the segments of operation	(18.1)	(19.3)	(5.8)	(5.8)	(6.4)
Finance expenses	(84.0)	(84.8)	(42.7)	(42.7)	(43.0)
Interim total	465.5	490.7	277.2	277.2	297.7
Tax expense 37.71%	(175.5)	(185.0)	(104.5)	(104.5)	(112.3)
Total	**290.0**	**305.7**	**172.7**	**172.7**	**185.4**

13. **Projected profits from the insurance agencies**

13.1 The Phoenix Insurance holds a number of substantial insurance agencies that are incorporated as companies, as shown in Table 12.

Table 12 – Insurance agencies held by The Phoenix Insurance

Company name	Holding %
Shekel Insurance Agency (2008) Ltd.	100%
Agam Leaders Insurance Agency (2003) Ltd.*	70%
Kela Insurance Agency (1967) Ltd.**	85%
The Employee Benefit Experts, Benefit Ltd.	100%
Cohen-Givon Insurance Agency Ltd.	52%
Ramon Granit Insurance Agency (1994) Ltd.***	50%
Oren Mizrach Insurance Agency Ltd.	50%

* Directly and indirectly through Agam Leaders Holdings (2001) Ltd. The Company has an agreement enabling it, on certain terms to buy the balance of the shares.

** The Company has an agreement for purchase of he balance of the shares.

*** Directly and indirectly through Granit Insurance Agency HISH (1991) Ltd.

13.2 The Phoenix share in the profit after tax of the above companies [which are incorporated under The Phoenix Insurance Agencies (1989) Ltd.] is expected to be NIS 59 million in 2014 (compared with a profit of NIS 53.5 million in 2013).

13.3 The forecast in my previous opinion balanced between the following two considerations:

13.3.3 The latest regulatory changes, which include a ban on marketing new savings policies that contain guaranteed payments on account of pension and a reduction of the dependence of employees on the employer's arrangement agency. These changes could potentially lead to a significant decrease in the projected profits of the insurance agencies.

13.3.4 I assumed that this harm can be compensated for by the projected profits of the insurance agencies by focusing their efforts on the sale of risk policies only, and pension products.

13.4 In my previous opinions I assumed that the share of The Phoenix in th profits of the insurance agencies after tax would be NIS 46.1 million in 2015 and NIS 46.8 million in 2016.

13.5 Based on the foregoing and for the sake of caution, I decided not to change that assessment in this paper, as shown in Table 13.

Table 13 – Projected profit (after tax) of the insurance agencies (in NIS millions)

	2014	2015	12016	1-6/2017	7-12/2017	1-6/2018
Profit after tax (26.5%)	59.0	46.1	46.8	23.8	23.8	24.1

14. **Forecast of the Company's share in the profits of Excellence Investments**

14.1 Excellence is a public company. At the time of writing, The Phoenix holding in the share capital of Excellence is 89.81%.

14.2 Excellence and its subsidiaries operate in the following segments of operation:

a. Investment management

- Management and marketing of investment portfolios in Israel and abroad;
- Management of mutual funds;
- Management of the Ritt Foundation and other management services.

b. Investment banking and underwriting

c. Issue of embedded products

d. Issue of financial instruments

- Issue and trading in deposit certificates under the Paz brand.
- Issue and trading in ETFs and deposit funds under the Kessem brand.

e. Stock exchange and trading services

f. Provident funds and pension funds

- Management of provident funds, study funds, central compensation funds;
- Management of pension funds.

14.3 Table 14 shows the condensed profit and loss report of Excellence, prepared so as to show the contribution of each of its segments of operation.

Table 14 – Excellence – Condensed data of results (in NIS millions)

	Nine months ended Sept. 30		Year ended December 31			
	2014	2013	2014	2013	2012	2011
Investment management						
Revenues	114	112	154	148	152	171
Segment profit before finance	18	23	23	15	26	38
Segment profit after finance expenses	16	15	21	6	8	11
Investment banking and underwriting						
Revenues	9	10	10	14	6	8
Segment profit after finance expenses	5	5	5	7	2	4
Issue of embedded products						
Revenues	1	2	1	3	(1)	7
Segment profit (loss) after finance expenses	(1)	(1)	(1)	(1)	(6)	*
Issue of ETFs and deposit funds						
Revenues	102	90	134	122	127	132
Segment profit after finance expenses	54	45	70	60	66	74
Stock exchange and trading services						
Revenues	37	36	48	49	51	47
Segment profit after finance expenses	11	11	13	15	17	16
Provident and pension funds						
Revenues	131	138	174	182	207	219

	Nine months ended Sept. 30		Year ended December 31			
Segment profit after finance expenses	19	29	26	30	53	53
Other						
Revenues	2	(4)	4	(3)	8	*
Segment profit after finance expenses	1	(4)		(3)	9	*
Total revenues	395	384	525	515	550	584
Total operating profit	104	100	134	114	149	158
Other income				2		1
Income tax	(32)	(36)	(42)	(44)	(55)	(50)
Share in profits (losses) of investees	2	2	3	2	(1)	(1)
Total profit for the period	74	66	95	74	93	108
Share of Company shareholders	66	56	85	65	86	101
Non-controlling interest	8	10	10	9	7	7
	74	66	95	74	93	108

* Less than NIS 1 million.

14.4 The business results of Excellence are affected by two opposing trends: 1) an increase in the volume of assets under management (AUM) in the investments segment and in the pension funds and provident funds segment, and 2) a decrease in the average management fees it collects following regulation and increased competition in this field. Total AUM of the Excellence Group companies as of December 31, 2014 amount to NIS 91.2 billion.

14.5 I also remarked on the fact that Excellence's employees opted to join the Histadrut (New General Workers Federation) and even declared a labor dispute in September 2014. The negotiations prior to signing a collective labor agreement in the company could mean an increase in the wage expense and less flexibility for Excellence's management.

14.6 Bearing this in mind, I estimate the profit of Excellence attributed to its shareholders in each of the years 2015 – 2018 at NIS 90 million (in real terms), as shown in Table 15 below. This assessment is in the lowest range of estimated normalized revenue of Excellence as calculated by CPA Uri Cohen for a review of possible harm to the value of The Phoenix investment in Excellence.

Table 15 – Company's share in the profits of Excellence (in NIS millions)

	1-9/2014	2015	2016	1-6/2017	9-12/2017	1-6/2018
Net profit attributed to the shareholders	66.0	90.0	90.8	46.0	46.0	46.7
Share of The Phoenix 89.81%	**59.3**	**80.8**	**81.6**	**41.3**	**41.3**	**41.9**

15. Share of The Phoenix in other companies

15.1 The Phoenix Investments holds, in addition to its 89.81% holding in the equity of Excellence Investments, 41.42% of the share capital of Mehadrin Ltd., a public company, 49% of Gamma Management and Clearing Ltd., 66.67% of the equity of Phoeniclass Ltd., and 100% of the share capital of Atara Technology and Ventures Ltd.

15.2 Table 16 below shows projected revenues of The Phoenix Investments (eliminating its share in the profits of Excellence Investments, which are estimated separately as described in section 14 above).

15.3 In the first nine months of the year, The Phoenix Investments posted a net profit of NIS 78 million, of which NIS 59 million is its share in the profits of Excellence Investments.

15.4 It should be borne in mind that most of the profit of Mehadrin are attained in the first and fourth quarters of the year, and therefore it can be assumed that the profit in the fourth quarter of 2014 will be proportionately greater than the quarterly average of the first three quarter of the year.

15.5 I was told that the Company's management expects a one-time profit of NIS 60 million (before tax) in 2016, as a result of the disposal of real estate held by Phoeniclass Ltd.

15.6 Table 16 shows projected profit of The Phoenix Investments (eliminating the profits of Excellence and other inter-company operations):

Table 16 – The Phoenix Holdings – Projected profit (excluding Excellence and inter-company operations) (in NIS millions)

	2015	2016	1-6/2017	7-12/2017	1-6/2018
The Phoenix Investments – separate	10	10	5	5	5
One-time profit at Phoeniclass	-	60	-	-	-
Interim total	10	70	5	5	5
Tax 26.5%	3	19	1	1	1
Total after tax	7	51	4	4	4
Share in profits of investees*	22	23	12	12	12
Total after tax (26.5%)	**29**	**74**	**16**	**16**	**16**

* Mainly Mehadrin and Gamma.

16. Finance expenses and profit from investments in The Phoenix Holdings

16.1 The balance of the debentures included in the draft financial statements as of December 31, 2014 of The Phoenix Holdings (separate) is approximately NIS 899 million. The interest expense (without linkage) expected to apply in 2016 is NIS 30.0 million.

16.2 Linkage differences at the projected inflation rate (average annual rate of 0.9% in 2015 and 2016) in the relevant period as defined in this paper, should be added to these interest expenses.

16.3 As of December 31, 2014 The Phoenix Holdings has a holding amounting to NIS 83.3 million in an investment portfolio, and an additional NIS 40.8 million in cash and cash equivalent balances. I assumed that these balances would yield investment profits at a weighted annual real rate of 2.0% in each of the years 2015 and 2016,

16.4 Using the methodology applied in this paper, I assumed that the Company would not change the structure of its equity and therefore would maintain the level of its financial debt by recycling liabilities in a way that would tolerate similar finance expenses, and would see similar investment profits, in real terms, in each of the forecast years (2015 – 2018).

16.5 Table 17 shows the projected finance expenses and investment profits in The Phoenix Holdings:

Table 17 – The Phoenix Holdings – Finance expenses and investment profits (in NIS millions)

	2015	2016	1-6/2017	7-12/2017	2018
Finance expenses	(38.3)	(38.3)	(21.4)	(21.4)	(21.5)
Investment profits	3.6	3.6	2.1	2.1	2.1
Interim total	**(34.7)**	**(34.7)**	**(19.3)**	**(19.3)**	**(19.4)**
Tax implication – 26.5%	9.2	9.2	5.1	5.1	5.1
Total	**(25.5)**	**(25.5)**	**(14.2)**	**(14.2)**	**(14.3)**

17. **Forecast summary**

The summary of the profit forecast for the next 3.5 years (2015 – June 2018), incorporating the data of Tables 11, 13, 15, 16 and 17, is shown in Table 18.

Table 18 – The Phoenix Holdings – Summary of profit forecast (in NIS millions)

	2015	2016	1-6/2017	7-12/2017	1-6/2018
Profit of The Phoenix Insurance	290.0	305.7	172.7	172.7	185.4
Profit from insurance agencies	46.1	46.8	23.8	23.8	24.1
Share in profits of Excellence	80.8	81.6	41.3	41.3	41.9
Profit from other investees	29.40	74.5	15.7	15.7	15.7
Finance expenses and investment profit at The Phoenix Holdings	(25.5)	(25.5)	(14.2)	(14.2)	(14.3)
Total	**420.8**	**482.9**	**239.2**	**239.2**	**252.9**

18. **Adjustment to the market capitalization of the Company**

18.1 As of December 31, 2014, there is a gap between the equity value of the Company's financial liabilities and their fair value, as shown in Table 19:

Table 19 – The Phoenix Holdings – Carrying value and fair value of financial liabilities (in NIS millions)

	Carrying value	Fair value	Difference	Tax implications*	Net difference
Deferred debt certificates	1,739.9	1,890.6	150.7	56.8	93.9
Debentures	888.8	944.6	55.8	14.8	41.0
Total	2,628.7	2,835.3	206.5	71.6	134.9

* The deferred debt certificates were issued by The Phoenix Insurance, and therefore the tax shield for them is 37.71%. The tax shield for the debentures issued by The Phoenix Holdings, however, is 26.5%.

18.2 The difference between the carrying value and the fair value of the deferred debt certificates and the debentures reflects a difference between the returns at which these financial instruments are traded today and the returns required by the investors on the issue date. It can be assumed, therefore, that the investors in the capital market subtract the financial liabilities from the operating value of the Company at their fair value rather than at their carrying value. Accordingly, I believe that in order to estimate the operating value in use of the investment, this difference (net of the tax implications) should be added to the market cap of the Company. The adjusted market cap of the Company as of December 31, 2014 is therefore NIS 2,716.7 million (=2,581.8+134.9).

19. **Discount rate**

19.1 As in my previous opinion, I assumed that operations will be financed entirely from the equity of The Phoenix – 60% Tier 1 capital and 40% Tier 2 capital.

19.2 I estimated the cost of Tier 1 capital using the Capital Asset Pricing Model (CAPM): Ke = Rf + β*(Rm-Rf)

where:

Ke - equity capital cost

Rf - risk-free interest rate

Rm-Rf - market risk premium

β - method risk factor – the ratio of non-distributable risk of the share to the standard deviation of the market portfolio. This factor reflects the extent of sensitivity of the return on the share to changes in the rate of return of the market portfolio.

19.3 The nominal rate of return on risk-free assets according to an interest rate company – the risk-free rate of return, Rf, for 24 months was approximately 0.51% at the end of December 2014. The method risk factor of The Phoenix is 1.20%.[8] The accepted risk premium in the capital market in Israel is 6.80%.[9] These data lead, according to the CAPM formula, to an equity capital cost of 8.67% (=0.51%+1.20*6.80%).

19.4 At the beginning of 2015, Maalot ratified an issuer rating of A+ with stable outlook for The Phoenix Holdings.[10] In November 2014 Midroog published a higher issuer rating of Aa3 (corresponds to AA-) for The Phoenix Holdings. For reasons of caution, I decided to adopt the lower rating of Maalot. The rate of return required for debt at an A+ rating for a period of 24 months, according to an interest rate company, was 2.626% at the end of December 2014. Deduction of the tax shield of 26.5% we find that the price of the debt is 1.93% (=[2.626%*(1-26.5%).

19.5 The weighted average cost of capital (WACC) of The Phoenix is therefore 5.97% (8.67%*60% + 1.93%*40%).

19.6 In the Second Previous Report I decided, for estimating the value in use of the investment, to add an additional risk premium of 3.0% to the WACC. This premium reflects also the regulatory risks stemming from operations in a controlled market, and from an assertion that there is a bubble in the debentures market owing to the low interest environment. In this opinion, I decided to adopt that additional risk premium of 3.0%. The WACC including the risk premium is 9.0% (=6.0%+3.0%).

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8 Based on 103 weekly observations in 2013 – 2014 and indicating beta of 1.275. Another review, based on daily observations in 2014, indicates beta of 1.170. I used the average of these two reviews.

9 According to data published on the Damodaran website at the beginning of 2015, the risk premium for Israel as of December 31, 2014 is 6.80%.

10 I note parenthetically that the issuer rating of The Phoenix Insurance in the same rating announcement, is AA+ with stable outlook.

20. **Discount results**

Table 20 shows the results of the discount to 100% of the value in use of the Company in a test period of 20 months.

Table 20 – Estimated Company value (in NIS millions)
assuming disposal of the investment at the end of December 2017

	2015	2016	2017	End of 2017	Total
Profit forecast	420.8	482.9	478.5		
Adjusted future market cap				2,716.7	
Discount period (years)	0.5	1.5	2.5	3.0	
Discount rate 9%	**403.0**	**424.4**	**385.7**	**2,097.8**	**3,310.9**

21. **Conclusion arising from the review**

21.1 As noted, Delek holds approximately 52.31% of the equity of The Phoenix. The recoverable amount of the investment is NIS 1,732 million (=52.31%*3,310.9), which is NIS 58.0 million less than the equity value of the investment (=1,732.0-1,790.0).

21.2 This sum is significantly lower than the value derived from the total consideration (including interest commencing September 30, 2014) of NIS 3,754 million for 100% of the Company's shares, as stated in the non-binding memorandum of understandings from Hod Shintar 2015 for the sale of The Phoenix shares (see section 2.6 above).

22. **Sensitivity analysis**

22.1 Table 21 shows an analysis of sensitivity to changes of 0.5% in the discount rate in a range from 8.5% to 10.00%.

Table 21 – Analysis of sensitivity to changes in the discount rate (in NIS millions)

Discount rate	8.50%	9.00%	9.50%	10.00%
Discounted value	3,348.4	3,310.9	3,274.1	3,237.9
The Phoenix share	52.31%	52.31%	52.31%	52.31%
Recoverable amount	1,751.6	1,732.0	1,712.7	1,693.8
Equity value	1,790.0	1,790.0	1,790.0	1,790.0
Difference	(38.4)	(58.0)	(77.3)	(96.2)

22.2 I made an additional sensitivity analysis to examine a scenario in which the holding period is shortened from 36 months to 30 months (i.e. disposal on June 30, 2016). Another sensitivity analysis examined a scenario in which the holding period to disposal of the investment was 42 months (i.e. through June 30, 2018). The results are shown in Tables 22 and 23.

Table 22 – Analysis of sensitivity to shortening the holdings period to 30 months (in NIS millions)

Discount rate	8.50%	9.00%	9.50%	10.00%
Discounted value	3,245.9	3,214.6	3,183.9	3,153.6
The Phoenix share	52.31%	52.31%	52.31%	52.31%
Recoverable amount	1,697.9	1,681.6	1,655.5	1,649.6
Equity value	1,791.0	1,791.0	1,791.0	1,791.0
Difference	(93.1)	(109.4)	(125.5)	(141.4)

Table 22 – Analysis of sensitivity to extending the holdings period to 42 months (in NIS millions)

Discount rate	8.50%	9.00%	9.50%	10.00%
Discounted value	3,630.9	3,413.6	3,558.5	3,564.7
The Phoenix share	52.31%	52.31%	52.31%	52.31%
Recoverable amount	1,899.3	1,785.6	1,861.4	1,864.7
Equity value	1,791.0	1,791.0	1,791.0	1,791.0
Difference	108.3	(5.4)	70.4	73.7

22.3 The analysis teaches that shortening the holding period from 36 months to 30 months will prevent the Company from benefiting from the surplus profits of the second half of 2017, and therefore, despite shortening the discount period, will lead to a smaller recoverable amount of the investment. However, lengthening the holding period to the end of 2018 will bring an increase in the recoverable amount. In this scenario of a 42-month holding period, the recoverable amount is not less than the equity value of the investment.

Summary

23. Based on my examination, as of December 31,2014 the recoverable amount of Delek's investment in The Phoenix is NIS 58.0 million less than the equity value of the investment. Accordingly, a loss of NIS 58.0 million (before tax) from impairment should be recognized.

24. I am aware that you wish to use this paper for preparing the financial statements of Delek Group as of December 31, 2014, and if necessary also to attach it to the financial statements and to publish it, and I consent to that.

25. I wish to note that I have no personal interest in the shares of the companies mentioned in this paper. Furtermore, the fees paid to me for the preparation of this opinion are not contingent upon the results of the assessment.

26. I would add that to the end of 2008, I served as a member of the "extended nostro" investment committee of The Phoenix and that in the past I prepared a number of economic / accounting opinions for The Phoenix Group on an ad hoc basis. In 2010 I prepared a fairness opinion for Delek Group on Delek Motorway Services, and in 2013 I prepared an economic opinion for Delek on a class action and in connection with a motion for assessment relief filed against the Company following a full tender offer for the shares of Gadoi Biochemical Industries Ltd. In addition, I have prepared in the past and I prepare today, on an ad hoc basis, a number of economic opinions for companies in Delek Group, including Delek The Israel Fuel Co. Ltd. and Gadot Biochemical Industries Ltd.

Yours sincerely,

Prof. Yoram Eden, CPA

Appendix A – Prof. Yoram Eden, CPA

The following are details of my education and professional experience:

1. **Academic education:**

Full professor, academic track, Administration College

Ph.D. in accounting and financing - Tel-Aviv University

MBA (cum laude) – Tel-Aviv University

B.A. in accounting – Tel-Aviv University

B.A. in economics – The Hebrew University of Jerusalem

2. **Training and academic and professional activities:**

2.1 Academic activities:

Between 2000 and 2007 I served as dean of the School of Business Administration, the academic track, Administration College.

Guest lecturer in Baruch College, City University of New-York.

Academic editor of the "Accountant" periodical since October 1991.

Between 2000 and 2006 I served as a senior member of the academic staff on the Auditor's Council.

I presently chair the examinations committee of the Auditor's Council.

Between 2000 and 2004, I served as a member of the Education Committee of IFAC (International Federation of Accountants).

I have published numerous articles in the professional press and academic periodicals in Israel and overseas.

2.2 Training and professional activities:

I have been a licensed CPA since July 1978.

I have been a member of the Institute of Certified Public Accountants in Israel since 1988.

I am a director and chairman of the investment committee of Infinity – Central Provident Pension Funds Ltd.

Appendix C to the Board of Directors' Report

The following is a current rating report issued by Standard & Poor's Maalot Ltd. and Midroog Ltd., for the Company's debentures.

STANDARD & POOR'S MAALOT
McGRAW HILL FINANCIAL

Delek Group Ltd.

February 5, 2015

New Issue

'ilA' Rating Assigned To Proposed Bond Issue Of Up To NIS 400 Million (par value)

Primary Credit Analyst

Zvi Boimer, 972-3-7539700 zvi.boimer@standardandpoors.com

Secondary Credit Analyst

Yuval Torbati, 972-3-7539700 yuval.torbati@standardandpoors.com

New Issue

‘ilA’ Rating Assigned To Proposed Bond Issue Of Up To NIS 400 Million (par value)

Standard & Poor’s Maalot assigned its ‘ilA’ rating to bonds of up to NIS 400 million (par value), to be issued by Delek Group Ltd. (ilA/Stable) through a new bond series. The proceeds will be used for debt refinancing.

For additional information and rating rationale for Delek Group Ltd., see Rating Update published May 15, 2014.

Ratings List

	Current Rating
Delek Group Ltd.	
Issuer Rating	ilA/Stable
Series 11 Bonds	ilA
Series 12 Bonds	ilA
Series 13 Bonds	ilA
Series 22 Bonds	ilA

STANDARD & POOR'S MAALOT
McGRAW HILL FINANCIAL

Delek Group Ltd.

February 19, 2015

New Issue

'ilA' Rating Assigned To Proposed Bond Issue Of Up To NIS 800 Million (par value)

Primary Credit Analyst

Zvi Boimer, 972-3-7539700 zvi.boimer@standardandpoors.com

Secondary Credit Analyst

Yuval Torbati, 972-3-7539700 yuval.torbati@standardandpoors.com

New Issue

‘ilA’ Rating Assigned To Proposed Bond Issue Of Up To NIS 800 Million (par value)

Standard & Poor’s Maalot assigned its ‘ilA’ rating to bonds of up to NIS 800 million (par value), to be issued by Delek Group Ltd. (ilA/Stable) through a new bond series 31. The proceeds will be used for debt refinancing.

This certificate replaces the one published on February 5, 2015.

For additional information and rating rationale for Delek Group Ltd, see Rating Update published May 15, 2014.

Ratings List

	Current Rating
Delek Group Ltd.	
Issuer Rating	ilA/Stable
Series 11 Bonds	ilA
Series 12 Bonds	ilA
Series 13 Bonds	ilA
Series 22 Bonds	ilA
Series 31 Bonds	ilA

Delek Group Ltd.

Rating Action | February 2015

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DELEK GROUP LTD.

Series Rating	A1	Outlook: **Stable**

Midroog reaffirms an A1/stable rating for bonds issued by Delek Group Ltd. ("Delek Group" or "the Company"). Midroog also affirms the A1/stable rating for new bond series of up to NIS 400 million par value to be issued by the Company. The issue proceeds will be used to refinance debt and to finance the Company's business activity.

The rating of the issue relates to its structure based on data provided to Midroog by February 17, 2015. If this structure changes, Midroog may reconsider and revise its rating.

Following are the series of bonds in circulation issued by the Company and rated by Midroog:

Bond series	Security No.	Issue date	Annual coupon	Linkage	Balance as of September 30, 2014, book value	Repayment years as of September 30, 2014
11	Untraded	July 2006	5.40%	CPI	425	2018
12	Untraded	Nov. 2006	4.35%	CPI	715	2015-2017
13	1105543	Mar. 2007	4.60%	CPI	666	2019-2021
14	1115062	July 2009	8.50%	Fixed-interest	419	2018
15	1115070	July 2009	8.50%	Fixed-interest	1,486	2015-2017
16	1115385	Sept. 2009	5.50%	Fixed-interest	130	2015
17	1115401	Sept. 2009	Variable	Fixed-interest	45	2015
18	1115823	Nov. 2006	6.10%	CPI	1,159	2016-2022
19	1121326	Nov. 2006	4.65%	CPI	596	2019-2022
22	1106046	June 2007	4.50%	CPI	453	2019-2021
23	1107465	Oct. 2007	4.75%	CPI	382	2014

*On October 7, 2014, Series 23 was repaid in full.

Rating Rationale

The rating is supported by the Company's broad, diverse holdings portfolio, which is based mainly on holdings in the Avner and Delek Drilling limited partnerships, which dominate the Israeli natural gas market through their holdings in the Tamar and Leviathan natural gas fields and which constitute the Company's core holdings. However, we see a threat to the Group's status in the domestic gas market subsequent to latest regulatory move, which is to start looking into the state of concentration in the gas market. The Company has other holdings in a range of industries (insurance, fuel, infrastructures). But as we have said before, and going by its extensive asset sales in the last two years, we project that the Company will sell most of these other holdings in the near and medium run, pursuant to its strategy of concentrating on its core energy business. We therefore anticipate that the

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Company will continue its trend of increasing the weight of its energy holdings, mainly upstream.

The Company has demonstrated its ability to sell assets at a scope and timing that exceeded our expectations. These sales, totaling more than NIS 6 billion in the last two years, reduced debt and substantially improved leverage levels, though leverage has climbed anew since November 2014 following the drop in the market caps of the partnerships, due to regulatory threats relating to the structure of the gas economy as well as the slump in global oil prices. We anticipate that debt will continue to decrease as additional non-core assets are relinquished, including substantial ones such as Phoenix and IDE. The Company's financial profile is characterized, on the one hand, by good financial flexibility relying on a reasonable level of leverage and an absence of encumbrances on most of its assets, and on the other hand, by weak permanent cash flows from affiliated companies and a low current coverage ratio.

Regarding the regulatory scrutiny the Israeli natural gas market is undergoing, we tested a number of scenarios, noting on the one hand the regulator's aspiration to enhance competition and on the other hand, the national importance to the entire Israeli economy of continuing to develop gas reserves. In these scenarios we examined the reasonable possibility that the partnerships may sell the Tamar field in the medium to long run and/or that an arrangement is reached under which gas prices are controlled. In our opinion, the materialization of these scenarios, together with the Company's strategy of concentrating on energy, could reduce the diversification of the Company's core assets and change the risk profile of its portfolio, which is characterized by a certain balance between a holding in a producing field (Tamar) and gas discoveries (mainly Leviathan). However, the implementation of these moves, their scope, their timing and their ramifications for the Company's financial profile remains quite uncertain. A material future change in the risk profile of the portfolio, with emphasis on orienting it towards developing oil and gas reserves, could lead to reconsideration of the rating with a negative outlook, considering among other things the financial structure and leverage that characterize the portfolio following material asset sales.

In recent months the Company made a material investment in securities of multinational energy companies. In Midroog's opinion, the investment in these shares is characterized, alongside high liquidity, by high concentration, exposing the Company to market risks, especially to the volatility of the global energy industry.

The company has been distributing 50% of its net profit as dividends in recent years subsequent to high capital gains from its asset sales. On the one hand, the dividend distributions were backed by significant cash flow from asset sales and reduced debt, as said above. However, the distributions are a weight from the perspective of accruing repayments

and the absence of permanent operating cash flows. We expect dividend distribution to continue according to the Company's policy, funded mainly by asset sales.

The Company's liquidity is high and is based mainly on its liquid balances, which however decreased sharply since the last balance sheet date due to the purchase of securities, repayment of long-term credit, and a dividend distribution, and on signed and available credit facilities of significant size and a portfolio of tradable securities. We expect the Company to maintain cash reserves of at least NIS 1 billion at all times.

Delek Group (expanded solo[1]) - Financial Summary (NISm)

	Sept. 30, 2014	Sept. 30, 2014	FY2013	FY2012	FY2011	FY2010
Net profit (loss) attributed to shareholders*	(645)	643	740	464	2,634	1,701
Shareholders equity attributed to shareholders	5,274	5,437	5,357	4,957	4,546	2,652
Debt, solo and headquarters companies**	8,166	8,254	7,811	9,190	8,888	8,366
Liquid portfolio, solo and headquarters companies	3,359	1,456	972	1,710	1,078	2,699
Net debt	**4,807**	6,798	6,839	7,480	7,810	5,667
Dividends from investees	**380**	314	404	172	192	343
Dividends paid to Company shareholders*	**(380)**	(531)	(531)	(265)	(505)	(1,143)

* The net profit recorded for 2014 was due, among other things, to a roughly NIS 450 million drop in the value of the Phoenix stake, an NIS 364 million booked loss for ceasing to use the equity method in evaluating its investment in Delek US, and an NIS 188 million deduction from the face value of a loan granted to the buyers of Delek Europe, under a fair value evaluation of the loan. These losses were partly offset by an NIS 253 million gain on divesting Roadchef.

** We estimate the liquid portfolio balance as of the date of this report at about NIS 400 million. The drop in liquid balances compared with September 30, 2014 is due to the following: repaying a roughly NIS 1.1 billion credit facility, repaying an NIS 370 million bank loan, paying about NIS 1.0 billion for shares in energy companies, paying NIS 350 million on a dividend distribution and buying back shares.

*** After the balance sheet date, the Company distributed NIS 150 million in dividends.

[1] Excluding the subsidiary Delek Energy Systems (87.1%).

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Key Rating Developments

Regulatory arrangements now under consideration for the gas economy may lead the Company to divest a major gas asset in the medium to long run, affecting its business and financial profile

During the last two years, the Company divested some non-core assets and in our opinion, it means to continue pursuing that strategy. Recently it announced an agreement to sell its holdings, in whole or in part, in Phoenix, according to its share in the company's book shareholders equity, which is estimated at about NIS 1.9 billion (if it sells its entire 52% stake). We still see uncertainty regarding whether the sale will take place, approval of which also depends on external factors, and regarding its scope and timing.

The Company presently focuses on energy through direct and indirect holdings in the Avner and Delek Drilling limited partnerships, which in turn have holdings in the Tamar and Leviathan fields, as well as some smaller ones. The structure of the natural gas market in Israel is being revisited by various regulatory authorities through the Kandel Commission, with an emphasis on reducing its present structural concentration. The results of the inquiry remain uncertain, as does the long-term significance of the decisions and arrangements to be handed down.

Midroog studied a number of scenarios for the partnerships to divest one of the big gas fields within some years, including the main scenario, of selling Tamar and/or for price controls to be imposed over gas. We believe the sale of Tamar could, in the medium to long run, reduce diversification among its core assets and worsen its business risk, which is presently characterized by a certain balance between a holding in a producing field (Tamar) and gas discoveries, the biggest being Leviathan, but Karish, Tanin and Aphrodite as well, which involve a greater business risk because of the heavy investment required, establishment risks, and the lack of signed agreements to buy the gas. However, selling a material gas asset like Tamar, if it happens, would contribute to the Company's liquidity and could reduce its leverage, alongside the possibility of additional material investments in the energy industry. Midroog will continue to watch the regulatory developments and arrangements and their implications for the Company's assets structure, on the backdrop of its investments strategy and future financial profile.

Moderate leverage supports financial flexibility, but we see asset values becoming more volatile

Total gross debt as of September 30, 2014 amounted to about NIS 8.1 billion (plus Delek Energy Systems, about NIS 9.4 billion), of which about NIS 6.5 billion was bonds and the rest short-term bank credit, which is tapped from time to time. Since the date of the last Monitoring Report, the Company has improved its net Loan-To-Value ratio (expanded solo) from about 56% to about 45% around the date of this report – measured today according to

the present value of the shares (or about 38% based on the average market value of the holdings)[2].

The present leverage ratio reflects the decline in the values of the gas partnerships since Q414, following the plunge in oil prices and the regulatory developments, and the contraction of liquid balances following investment in overseas energy companies, as said above.

In our opinion, the regulatory moves that have begun may continue to weigh on the share prices of the partnerships, especially if the scenario of price controls materializes. Meanwhile, selling non-core assets as described above could, in the short to medium run, reduce debt and/or increase cash balances, thus lowering the leverage ratio, all other things being equal. The destination of proceeds from these asset sales remains uncertain, and will depend on the Group's policy. In our opinion, the Group's leverage ratio in the short to medium term will run between 35%-55%. The ceiling of that range reflects the scenario of price controls being imposed on the gas partnerships in the near term, and the floor represents the sale of non-core assets.

Weak regular dividends relative to current costs

We project that regular dividend distribution from associated companies will range between NIS 100-200 million a year in the next two years, chiefly from Delek Automotive, Phoenix and Delek USA. This range is still based on the assumption that the gas partnerships will not be paying significant dividends in the next few years. If in the past we assumed that surplus cash from Tamar would be directed towards the heavy investments required in Leviathan, according to the strategy of the partnerships, this assumption might change if the present regulatory situation delays the development of Leviathan and/or if there is material change in assets structure. In any case, the visibility of cash flows from the partnerships to Delek Group remains hazy. We estimate the Company's net administration costs and financing costs for the year to come at about NIS 465 million. Coverage of interest and headquarters through dividends should therefore be in the range of 0.2-0.4, compared with 0.8-0.9 in the

[2] In calculating the Company's leverage, we add Delek Energy Systems (87%) to the headquarters companies, pursuant to our assessment that Delek Energy Systems is presently operating as a Delek Group headquarters company for all intents and purposes, including shared management; its assets are highly material to Delek Group's activity and the Company even tried to buy back the minority stake held by the public several times. Financial investments in foreign energy company shares are calculated under assets and are not deducted from the debt as cash equivalents. Also, seller's loans extended during asset sales are on the asset side, at their full value. Adjusted debt consists of book solo debt, added to the debt of the fully-owned headquarters companies and a number of external guarantees to subsidiaries. Investment values are taken according to the market value of quoted holdings and the book value of unquoted holdings.

last two years (excluding the special dividend Delek Energy Systems received from the partnerships in 2014).

Good financial flexibility is partially offset by substantial dividend distribution

The Company is characterized by relatively good financial flexibility, given its moderate leverage, a high component of tradable assets, some of which are managed as financial assets, and a high component of assets free of encumbrances. As of the report date, about 20% of the company's assets value was encumbered. We assess that the Company's anticipated return to raising debt on the capital market, for the first time since November 2011, contributes to its financial flexibility and diversifies its financing sources. Additional moves to smooth the repayment schedule and/or sell non-core assets are highly probable. The Company's policy is to distribute 50% of its annual net profit, which it has done in recent years. In our opinion, this policy will not change in the near run (and has been accompanied by share buybacks in recent months). In 2013-2014 the Company carried out significant dividend distributions of about NIS 530 million each year. In our opinion, these distributions are negative for the Company's rating, but are partly supported by the material asset sales the Company has been carrying out. We assume material asset sales in the future will be accompanied by additional substantial dividend distributions. A dividend distribution not backed by cash flow from asset sales would have a negative rating effect.

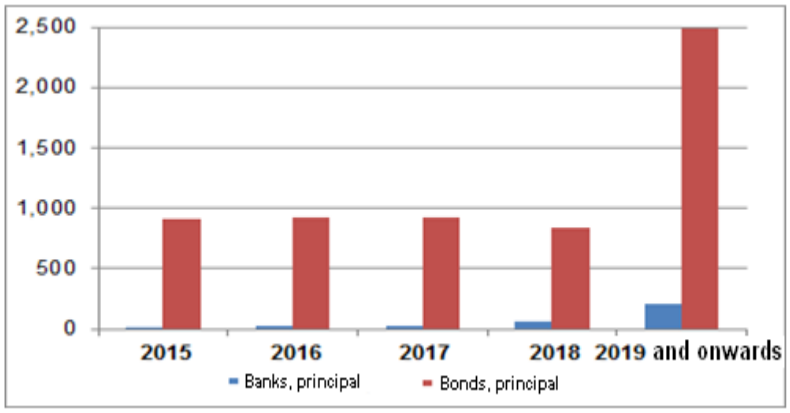
Good liquidity based largely on signed credit facilities and the securities portfolio

In our opinion, the Company's solo cash balance as of the report date is about NIS 400 million, alongside which it has a liquid portfolio of securities worth about NIS 1.0 billion and credit facilities at a number of banks, signed and unused, amounting to about NIS 1.3 billion. These sources constitute, in our opinion, the basis to service debt in the next two years, amounting to NIS 1.3 billion principal and interest each year, alongside refinancing debt and asset sales.

In our opinion, Delek Energy Systems, which has debt servicing needs of between NIS 200-300 million a year in the years to come, will finance these needs by refinancing bank debt, among other things in view of the very low leverage, LTV ratio that we estimate will move between 10%-20%.

We expect the company to maintain a cash balance of at least NIS 1.0 billion.

Repayment schedule for long-term debt: the Company and headquarters companies (excluding Delek Energy Systems) as of September 30, 2014 (NISm)



Rating Outlook

Factors that could lower the rating

- A material change in the business profile of the holdings portfolio, including making new high-risk investments
- Significant dividend distribution that impairs the Company's liquidity
- Failing to sustain substantial liquidity balances relative to debt servicing needs
- An increase in the ratio of adjusted net debt to the adjusted value of the holdings portfolio beyond 50%

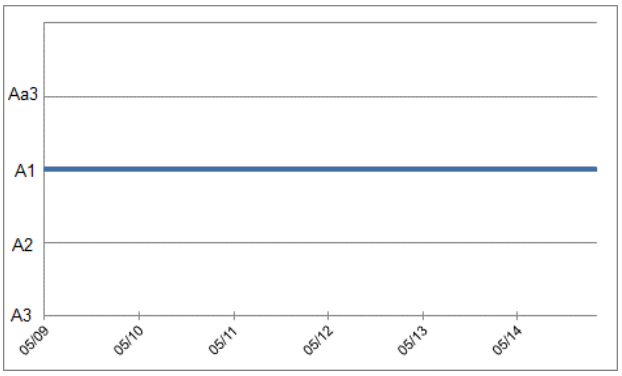
About the Company

Delek Group is a holding company that controls companies in a range of sectors in Israel and abroad. The Company's holdings in the fuel sector in Israel and abroad include Delek Israel (a private company) and Delek US (7.5%). The Company also owns a controlling interest in Delek Energy Systems (87.1%), Delek Automotive (23.0%) and Phoenix Insurance Holdings (52.3%), which owns Phoenix Insurance Company Ltd. (100%) and Excellence Investment House Ltd. (89.8%).

Delek Energy Systems operates in drilling and exploration for gas and oil, through its holding in the limited partnerships Delek Drilling (50.1%) and Avner Oil & Gas Exploration (46.6%). The Company also directly holds stakes in Delek Drilling (6.1%) and Avner (8.45%). The bulk of Delek Drilling's and Avner's value stems from owning rights in the Tamar and Dalit natural

gas drilling projects (15.6% each) and rights in Leviathan (23% each). The Group also owns 50.0% of the share capital of IDE Technologies Ltd., which builds, sets up and operates desalination plants in Israel and around the world, and 100% of the share capital of IPP Delek Ashkelon Ltd, which operates a private power plant with an installed capacity of 140 MW. Mr. Yitzhak Tshuva is the principal shareholder, owning approximately 61.8% of the Company's shares. The rest of the shares are held by the public.

Rating History



Related Reports

Delek Group Ltd., Issuer Comment, December 2014

Announcement by the Antitrust Commissioner – The Natural Gas Industry in Israel – Sector Comment, December 2014

Delek and Avner (Tamar Bond) Ltd. Senior Debt – Abbreviated Initial Rating Report, June 2014

Delek Group, Monitoring Report, July 2013

Rating Methodology for Holding Companies, December 2011

Date of report: February 17, 2015

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Obligations Rating Scale

Investment grade	**Aaa**	Obligations rated Aaa are those that, in Midroog's judgment, are of the highest quality and involve minimal credit risk.
	Aa	Obligations rated Aa are those that, in Midroog's judgment, are of high quality and involve very low credit risk.
	A	Obligations rated A are considered by Midroog to be in the upper-end of the middle rating, and involve low credit risk.
	Baa	Obligations rated Baa are those that, in Midroog's judgment, involve moderate credit risk. They are considered medium grade obligations, and could have certain speculative characteristics.
Speculative Investment	**Ba**	Obligations rated Ba are those that, in Midroog's judgment, contain speculative elements, and involve a significant degree of credit risk.
	B	Obligations rated B are those that, in Midroog's judgment, are speculative and involve a high credit risk.
	Caa	Obligations rated Caa are those that, in Midroog's judgment, have weak standing and involve a very high credit risk.
	Ca	Obligations rated Ca are very speculative investments, and are likely to be in, or very near to, a situation of insolvency, with some prospect of recovery of principal and interest.
	C	Obligations rated C are assigned the lowest rating, and are generally in a situation of insolvency, with poor prospects of repayment of principal and interest.

Midroog applies numerical modifiers 1, 2 and 3 in each of the rating categories from Aa to Caa. Modifier 1 indicates that the bond ranks in the higher end of the letter-rating category. Modifier 2 indicates that the bonds are in the middle of the letter-rating category; and modifier 3 indicates that the bonds are in the lower end of the letter-rating category.

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Report No. CHD050215000M

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Midroog is a 51% subsidiary of Moody's. Nevertheless, Midroog's rating process is entirely independent of Moody's and Midroog has its own policies, procedures and independent rating committee; however, its methodologies are based on those of Moody's.

For further information on the rating procedures of Midroog or of its rating committee, please refer to the relevant pages on Midroog's website.

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Delek Group Ltd.

Rating Action Update | February 2015

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DELEK GROUP LTD.

Series Rating	A1	Outlook: **Stable**

Further to the rating action report published on February 17, 2015, Midroog announces that the A1/stable rating applies to up to NIS 800 million face value in bonds to be issued by Delek Group Ltd., through a new bond series, rather than to NIS 400 million as stated in the abovementioned report. The issue proceeds will be used to refinance debt and to finance the Company's business activity.

For details on the considerations behind the rating, see the Midroog report from February 17, 2015.

This report relates to an issue structure based on data supplied to Midroog by February 19, 2015. If this structure changes, Midroog may reconsider and revise its rating.

Related Reports

Delek Group, Rating Action Report, February 2015

Delek Group Ltd., Issuer Comment, December 2014

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Rating Methodology for Holding Companies, December 2011

Date of report: February 19**, 2015**

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Report No. CDG010215800M

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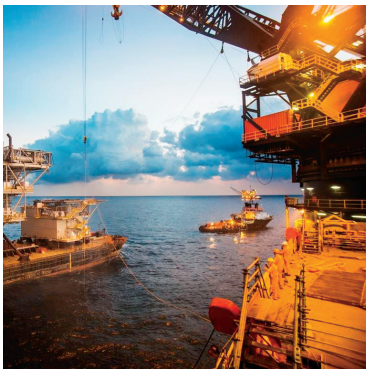
Chapter C



Financial Statements

Delek Group

Delek Group Ltd.

Consolidated financial statements

December 31, 2014

Contents

Consolidated Balance Sheets

	Note	December 31 2014	December 31 2013
		NIS million	
Current assets			
Cash and cash equivalents	3	2,556	2,716
Performance-based cash and cash equivalents in insurance companies	4	2,651	2,241
Short-term investments of the finance sector (mainly exchange-traded funds and deposits)	5	38,684	32,494
Short-term investments in insurance companies	11	1,513	1,989
Other short-term investments	6	2,632	711
Trade receivables	7	1,492	2,432
Insurance premium receivable	8	598	920
Other receivables	9	824	934
Current tax assets		61	48
Reinsurance assets	29	499	1,799
Inventories	10	268	889
Deferred acquisition costs in insurance companies	18	426	470
		52,204	47,643
Assets held for sale		-	69
		52,204	47,712
Non-current assets			
Financial investments of insurance companies	11	47,392	44,094
Long-term loans, deposits and receivables	12	1,553	700
Available-for-sale financial assets	13	57	65
Financial assets at fair value through profit or loss	13	1,038	-
Financial derivatives		-	67
Investments in associates	14	2,176	4,381
Investment property	15	3,005	2,782
Investments in oil and gas exploration and production	16	16,483	14,307
Reinsurance assets	29	900	1,460
Property, plant and equipment, net	17	2,592	5,021
Deferred acquisition costs in insurance companies	18	932	840
Structured bonds	19	427	2,760
Goodwill	20	1,789	3,555
Other intangible assets, net	20	576	2,318
Deferred taxes	41F	53	409
		78,973	82,759
		131,177	130,471

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

Consolidated Balance Sheets

	Note	December 31 2014	December 31 2013
		NIS million	
Current liabilities			
Interest bearing loans and borrowings	21	3,195	6,360
Trade payables	22	792	1,724
Other payables	23	3,047	4,511
Exchange-traded funds and deposit	24	37,972	31,967
Current tax liabilities		392	330
Financial derivatives		4	26
Liabilities for insurance contracts	29	4,046	5,976
		49,448	50,894
Non-current liabilities			
Loans from banks and others	25	1,051	5,035
Debentures	26	16,041	10,826
Structured bonds	19	432	2,758
Financial derivatives		58	116
Liabilities for employee benefits	28	131	213
Liabilities for insurance contracts	29	49,484	45,532
Provisions and other liabilities	30	416	693
Deferred taxes	41F	2,888	3,499
		70,501	68,672
Capital	33		
Share capital		13	13
Share premium		1,917	1,917
Retained earnings		2,924	4,156
Exchange differences on translation of foreign operations		320	(822)
Capital reserve from transactions with holders of non-controlling interests		330	363
Other reserves		(77)	(108)
Treasury shares		(223)	(162)
Total equity attributable to equity holders of the Company		5,204	5,357
Non-controlling interests		6,024	5,548
Total capital		11,228	10,905
		131,177	130,471

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

March 30, 2015			
Date of approval of the financial statements	Gabriel Last Chairman of the Board	Asi Bartfeld CEO	Barak Mashraki CFO

Consolidated Statements of Income

	Note	Year ended December 31		
		2014	2013 *)	2012 *)
		NIS million (Other than earnings (loss) per share)		
Revenue	43B	19,123	20,850	18,859
Cost of revenues	35	14,193	16,227	15,149
Gross income		4,930	4,623	3,710
Selling, marketing and gas station operating expenses	36	1,883	1,755	1,679
General and administrative expenses	37	1,253	1,261	1,223
Other expenses, net	38	699	162	45
Operating income		1,095	1,445	763
Finance income	39	244	109	299
Finance expenses	39	(1,249)	(1,316)	(1,302)
		90	238	(240)
Gain (loss) from disposal of investments in partnerships and investees, net	14	-	(8)	60
Group's share in earnings of associates, net		205	430	166
Income (loss) before taxes on income		295	660	(14)
Taxes on income	41G	197	492	77
Gain (loss) from continuing operations		98	168	(91)
Income (loss) from discontinued operations, net	14J	(447)	1,167	1,093
Net income (loss)		(349)	1,335	1,002
Attributable to:				
Equity holders of the Company		(765)	740	464
Non-controlling interests		416	595	538
		(349)	1,335	1,002
Net earnings (loss) per share attributable to equity holders of the Company (NIS)	42			
Basic loss from continuing operations		(27.6)	(14.3)	(20.7)
Basic earnings (loss) from discontinued operations		(38.7)	79.3	62.0
Basic earnings (loss)		(66.3)	65.0	41.3
Diluted loss from continuing operations		(27.6)	(14.4)	(20.9)
Diluted earnings (loss) from discontinued operations		(38.7)	78.9	61.1
Diluted earnings (loss)		(66.3)	64.5	40.2

*) Restated, see Note 2JJ

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

Consolidated Statements of Comprehensive Income

	Year ended December 31		
	2014	2013 *)	2012 *)
		NIS million	
Net income (loss)	(349)	1,335	1,002
Other comprehensive income (loss) (net of tax effect):			
Amounts not reclassified to profit or loss:			
Actuarial gain for defined benefit plans	2	4	-
Total	2	4	-
Amounts classified or reclassified to profit or loss under specific conditions:			
Gain from available-for-sale financial assets	13	209	238
Transfer to statement of income for disposal of available-for-sale financial assets	(212)	(204)	(197)
Transfer to statement of income for impairment of available-for-sale financial assets	45	9	69
Gain (loss) for cash flow hedges	(2)	(3)	10
Exchange differences on translation of foreign operations	1,109	(649)	(245)
Other comprehensive income (loss) attributable to associates, net	89	(24)	5
Total	1,042	(662)	(120)
Total other comprehensive income (loss) from continuing operations	1,044	(658)	(120)
Total other comprehensive income (loss) from discontinued operations, net	565	(200)	(121)
Total other comprehensive income (loss)	1,609	(858)	(241)
Total comprehensive income	1,260	477	761
Attributable to:			
Equity holders of the Company	401	206	355
Non-controlling interests	859	271	406
	1,260	477	761

*) Restated, see Note 2JJ

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

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company									
	Share capital	Share premium	Retained earnings	Exchange differences on translation of foreign operations	Capital reserve from transactions with non-controlling interests	Other reserves*)	Treasury shares	Total	Non-controlling interests	Total equity
	NIS million									
Balance as of January 1, 2014	13	1,917	4,156	(822)	363	(108)	(162)	5,357	5,548	10,905
Net income (loss)	-	-	(765)	-	-	-	-	(765)	416	(349)
Other comprehensive income (loss)	-	-	(7)	1,142	-	31	-	1,166	443	1,609
Total comprehensive income (loss)	-	-	(772)	1,142	-	31	-	401	859 **)	1,260
Acquisition of treasury shares	-	-	-	-	-	-	(61)	(61)	-	(61)
Dividends	-	-	(460)	-	-	-	-	(460)	-	(460)
Cost of share-based payment, net	-	-	-	-	-	-	-	-	3	3
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	(357)	(357)
Expiry of options in a subsidiary	-	-	-	-	2	-	-	2	(2)	-
Acquisition of shares from holders of non-controlling interests	-	-	-	-	(35)	-	-	(35)	(13)	(48)
Issue of shares to holders of non-controlling interests	-	-	-	-	-	-	-	-	1	1
Deconsolidation of a company	-	-	-	-	-	-	-	-	(15)	(15)
Balance as of December 31, 2014	13	1,917	2,924	320	330	(77)	(223)	5,204	6,024	11,228

*) Mainly capital reserve for available-for-sale financial assets

**) Composition of comprehensive income of non-controlling interests:

Net income attributable to non-controlling interests	416
Loss from available-for-sale financial assets, net	(32)
Actuarial gain for defined benefit plans, net	2
Exchange differences on translation of foreign operations	473
Total comprehensive income attributable to non-controlling interests	859

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

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company										
	Share capital	Share premium	Options and proceeds for option conversion	Retained earnings	Exchange differences on translation of foreign operations	Capital reserve from transactions with non-controlling interests	Other reserves*)	Treasury shares	Total	Non-controlling interests	Total capital
	NIS million										
Balance as of January 1, 2013	13	1,631	25	3,980	(274)	(181)	(85)	(152)	4,957	7,921	12,878
Net income	-	-	-	740	-	-	-	-	740	595	1,335
Other comprehensive income (loss)	-	-	-	37	(548)	-	(23)	-	(534)	(324)	(858)
Total comprehensive income (loss)	-	-	-	777	(548)	-	(23)	-	206	271 ***)	477
Acquisition of treasury shares	-	-	-	-	-	-	-	(41)	(41)	-	(41)
Sale of treasury shares	-	66	-	-	-	-	-	31	97	-	97
Dividends	-	-	-	(601)	-	-	-	-	(601)	-	(601)
Cost of share-based payment, net	-	-	-	-	-	-	-	-	-	28	28
Exercise of options for Company shares	-*)	220	(25)	-	-	-	-	-	195	-	195
Exercise of options for shares by non-controlling controlling shareholder	-	-	-	-	-	(19)	-	-	(19)	13	(6)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(237)	(237)
Expiry of options in a subsidiary	-	-	-	-	-	10	-	-	10	(10)	-
Acquisition of non-controlling interests	-	-	-	-	-	(9)	-	-	(9)	(116)	(125)
Deconsolidation of a company	-	-	-	-	-	-	-	-	-	(2,915)	(2,915)
Sale of shares to holders of non-controlling interests, net	-	-	-	-	-	562	-	-	562	593	1,155
Balance as of December 31, 2013	13	1,917	-	4,156	(822)	363	(108)	(162)	5,357	5,548	10,905

*) Amounts to less than NIS 1 million

**) Mainly capital reserve for available-for-sale financial assets

***) Composition of comprehensive income of non-controlling interests:

Net income attributable to non-controlling interests	595
Gain from available-for-sale financial assets, net	3
Actuarial gain for defined benefit plans, net	2
Exchange differences on translation of foreign operations	(328)
Share in other comprehensive loss, net of associates	(1)
Total comprehensive income attributable to non-controlling interests	271

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

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company										
	Share capital	Share premium	Options and proceeds for option conversion	Retained earnings	Exchange differences on translation of foreign operations	Capital reserve from transactions with non-controlling interests	Other reserves*)	Treasury shares	Total	Non-controlling interests	Total capital
	NIS million										
Balance as of January 1, 2012	13	1,624	32	3,781	(140)	(451)	(110)	(131)	4,618	6,319	10,937
Net income	-	-	-	464	-	-	-	-	464	538	1,002
Other comprehensive income (loss)	-	-	-	-	(134)	-	25	-	(109)	(132)	(241)
Total comprehensive income (loss)	-	-	-	464	(134)	-	25	-	355	406 **)	761
Acquisition of treasury shares	-	-	-	-	-	-	-	(21)	(21)	-	(21)
Expiry of conversion option	-	7	(7)	-	-	-	-	-	-	-	-
Dividends	-	-	-	(265)	-	-	-	-	(265)	-	(265)
Cost of share-based payment, net	-	-	-	-	-	-	-	-	-	59	59
Exercise of options for shares by non-controlling interests controlling shareholder	-	-	-	-	-	45	-	-	45	122	167
Acquisitions from holders of non-controlling interests	-	-	-	-	-	(55)	-	-	(55)	(16)	(71)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(74)	(74)
Issue of shares to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	679	679
Deconsolidation of a company	-	-	-	-	-	-	-	-	-	(17)	(17)
Sale of shares to holders of non-controlling interests, net	-	-	-	-	-	280	-	-	280	443	723
Balance as of December 31, 2012	13	1,631	25	3,980	(274)	(181)	(85)	(152)	4,957	7,921	12,878

*) Mainly capital reserve for available-for-sale financial assets

**) Composition of comprehensive income of non-controlling interests:

Net income attributable to non-controlling interests	538
Gain from available-for-sale financial assets, net	70
Gain from cash flow hedges, net	11
Exchange differences on translation of foreign operations	(219)
Share in other comprehensive income, net of associates	6
Total comprehensive income attributable to non-controlling interests	406

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

Consolidated Statements of Cash Flows

	Year ended December 31		
	2014	2013	2012
	NIS million		
Cash flows from operating activities			
Net income (loss)	(349)	1,335	1,002
Adjustments to reconcile cash flows from operating activities (a)	2,112	1,020	2,916
Net cash from operating activities	1,763	2,355	3,918
Cash flows from investing activities			
Purchase of property, plant and equipment, investment property and intangible assets	(854)	(1,180)	(1,283)
Proceeds from sale of property, plant and equipment and investment property	18	73	53
Proceeds from sale (acquisition) of financial assets, net	(988)	21	607
Repayment (providing) of loans to associates, net	(7)	2	9
Short-term investments, net	(880)	31	200
Investment in long-term bank deposits, net	(181)	(238)	(4)
Increase in joint ventures for oil and gas exploration	(799)	(1,338)	(2,669)
Proceeds from lease of oil and gas assets	155	-	-
Proceeds from sale of investments in associates, net (including taxes paid)	1,198	384	-
Cash added (derecognized) from disposal of investments in previously consolidated subsidiaries (c)	949	(1,420)	99
Investment in associate companies and partnerships	(59)	(14)	(181)
Acquisition of operations (b)	-	(24)	(93)
Repayment (provision) of loans to others, net	(43)	241	(15)
Net cash used for investment activities	(1,491)	(3,462)	(3,277)

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

Consolidated Statements of Cash Flows (Contd.)

	Year ended December 31		
	2014	2013	2012
		NIS million	
Cash flow from finance activities			
Short-term loans from banks and others, net	22	(1,170)	341
Sale of shares to holders of non-controlling interests, net	-	1,035	815
Acquisition of shares from holders of non-controlling interests	(48)	(168)	(64)
Receipt of long-term loans	1,144	2,376	7,469
Repayment of long-term loans	(5,313)	(1,705)	(4,775)
Issue of shares to holders of non-controlling interests	1	-	688
Exercise of options for subsidiary shares	-	4	37
Dividend paid	(530)	(531)	(265)
Dividend paid to holders of non-controlling interests in subsidiaries	(357)	(231)	(64)
Exercise of options for Company shares	-	195	-
Acquisition of treasury shares by a subsidiary partnership	(61)	(41)	(21)
Sale of treasury shares	-	97	-
Payment of contingent liability for a put option to holders of non-controlling interests	(5)	(60)	(16)
Issue of debentures (less issuance expenses)	7,237	211	117
Payment for acquisition of an investee	-	(87)	(97)
Repayment of debentures	(2,192)	(1,645)	(1,686)
Net cash from (used in) finance activities	(102)	(1,720)	2,479
Exchange differences on balances of cash –foreign operations	80	(128)	(94)
Increase (decrease) in cash and cash equivalents	250	(2,955)	3,026
Cash and cash equivalents at the beginning of the year (including performance-based balance)	4,957	7,912	4,886
Cash and cash equivalents at the end of the year (including performance-based balance)	5,207	4,957	7,912

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

Consolidated Statements of Cash Flows (Contd.)

	Year ended December 31		
	2014	2013	2012
		NIS million	
(A) Adjustments to reconcile cash flows from operating activities:			
Adjustments to profit or loss			
Depreciation, depletion, amortization and impairment of assets	1,751	1,983	1,406
Deferred taxes, net	314	967	110
Increase (decrease) in employee benefit liabilities, net	4	(4)	5
Decrease (increase) of loans granted, net	(32)	60	(130)
Loss (gain) from the sale of property, plant and equipment, real estate and investments, net	312	(117)	(208)
Group's share of losses (gains) of associates, net (1)	315	(203)	(90)
Gain from the disposal and revaluation of an investment in a deconsolidated subsidiary	(43)	(1,365)	-
Gain from disposal of an available for sale financial asset	(60)	-	-
Change in fair value of financial assets and financial derivatives, net	17	(65)	(6)
Increase in long-term liabilities, net	98	165	273
Increase in deferred acquisition costs	(132)	(98)	(57)
Cost of share-based payment	2	51	69
Change in financial investments of insurance companies, net	(1,898)	(2,343)	1,788
Investments net of proceeds from the sale of available-for-sale assets in investment companies, net	(3,052)	(3,035)	(5,641)
Increase in reserves and other provisions in insurance companies	5,275	13,106	5,899
Acquisition of investment property for performance-based contracts and other investment property in insurance companies	(125)	(866)	(222)
Decrease (increase) in reinsurance assets	(292)	(116)	251
Change in value of investment property, net	(82)	(84)	(60)
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	85	(196)	697
Decrease (increase) in other receivables	498	43	(76)
Decrease (increase) in inventory	98	(391)	105
Increase in other assets, net	(265)	(246)	(118)
Increase (decrease) in trade payables	(157)	299	109
Decrease in other accounts payable	(519)	(6,525)	(1,188)
	2,112	1,020	2,916
(1) Net of dividends and earnings received	276	234	124

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

Consolidated Statements of Cash Flows (Contd.)

		Year ended December 31		
		2014	2013	2012
		NIS million		
(b)	Acquisition of operations			
	Working capital, net (excluding cash and cash equivalents)	-	-	(3)
	Financial investments for holders of ETFs and deposit certificates	-	-	2,801
	Property, plant and equipment, investment property, investments and other property (including goodwill)	-	(24)	(88)
	Non-current liabilities	-	-	2
	Deferred taxes	-	-	2
	Designated deposits	-	-	(2,500)
	Liability for debentures, ETFs, reverse certificates and complex certificates			
	Complexity	-	-	(307)
		-	(24)	(93)
(c)	Cash added (deducted) from disposal of investments in previously consolidated companies			
	Working capital, net	(1,346)	(277)	(6)
	Non-current assets	8,185	4,539	154
	Non-current liabilities	(5,024)	(1,164)	(49)
	Non-controlling interests in a former subsidiary	(15)	(2,915)	(17)
	Loan provided to a buyer less clearing	(633)	-	-
	Option granted to buyers	38	-	-
	Investment in a company accounted for at equity	-	(2,352)	-
	Investment in a financial asset at fair value through profit or loss	(551)	-	-
	Capital reserves for deconsolidated companies	252	-	-
	Receivables for the disposal of an investment in a subsidiary	-	-	(9)
	Gain from revaluation and disposal of an investment in former subsidiaries, net	43	749	34
	Proceeds from the sale of a subsidiary deposited in a limited deposit	-	-	(8)
		949	(1,420)	99

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

Consolidated Statements of Cash Flows (Contd.)

	Year ended December 31		
	2014	2013	2012
	NIS million		
(D) Significant non-cash activities			
Purchase of property, plant and equipment and intangible assets	15	81	129
Dividend payable by associates	74	21	-
Loans provided to buyers of investees	698	-	-
Acquisition of shares in a subsidiary in return for participating units of an associate an associate partnership and consolidated partnership	-	-	86
Investment in oil and gas assets against liability	147	148	541
Put option for buyers of shares in a previously consolidated company	60	-	-
Receivables for disposal of an available-for-sale financial asset	27	-	-
Leasing assets against receivables	-	275	-
Dividend payable to holders of non-controlling interests	-	-	10
Dividend payable to equity holders of the Company	-	70	-
Transfer of loans and shares from holders of non-controlling interests in subsidiaries	-	7	-

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

Consolidated Statements of Cash Flows (Contd.)

		Year ended December 31		
		2014	2013	2012
			NIS million	
(e)	Cash and cash equivalents			
	Balance of cash and cash equivalents at the beginning of the year:			
	Cash and cash equivalents	2,716	6,212	3,610
	Performance-based cash and cash equivalents in insurance companies	2,241	1,700	1,276
		4,957	7,912	4,886
	Cash and cash equivalents at the end of the year:			
	Cash and cash equivalents	2,556	2,716	6,212
	Performance-based cash and cash equivalents in insurance companies	2,651	2,241	1,700
		5,207	4,957	7,912
(F)	Additional information on cash flows			
	Cash paid during the year for:			
	Interest	1,113	1,577	1,219
	Taxes on income	540	793	583
	Cash received during the year for:			
	Interest	751	857	926
	Dividends	320	299	160
	Taxes	36	86	74

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

NOTE 1: GENERAL

A. Delek Group Ltd. ("the Company") is a holding company which holds, directly and indirectly, companies operating primarily in oil and gas exploration and production, the fuel sector and operation of gas stations and convenience stores in Israel, and infrastructure. See also Note 43B for information about the Company's operating segments and Note 14 for information about assets used for significant activities that were discontinued in 2013 and 2014.

B. Definitions

In these financial statements -

The Company	-	Delek Group Ltd.
The Group	-	The Company and its subsidiaries and partnerships which are consolidated in the consolidated financial statements
Subsidiaries	-	Companies and partnerships controlled by the Company (as defined in IFRS 10) and their financial statements are consolidated with the financial statements of the Company
Associates	-	Companies and partnerships over which the Company has significant influence or has a contractual arrangement for joint control and the Group investment in these companies is accounted for using the equity method
Investees	-	Subsidiaries or associates and associate partnerships See also the appendix to the financial statements listing the principle partnerships and investees
Interested parties and controlling shareholder	-	As defined in the Israeli Securities Regulations (Annual Financial Statements), 2010
Related parties	-	As defined in IAS 24 (Revised)
CPI	-	The Consumer Price Index published by the Central Bureau of Statistics in Israel
USD	-	US dollar

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

A. Basis of presentation

The financial statements of the Company have been prepared on a cost basis, except for investment property, financial investments, derivatives (including embedded derivatives) and certain financial instruments, current tax assets, deferred tax assets and liabilities for share-based payments, which are measured at fair value in each reporting period, as well as investments accounted for using the equity method.

The Company has elected to present the statement of income using the function of expense method.

Basis of preparation of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Furthermore, the financial statements have been prepared in accordance with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010, insofar as these regulations are applicable to consolidated insurance companies.

Consistent accounting policy

The accounting policies applied in the consolidated financial statements have been applied consistently to all the periods presented, unless otherwise stated.

B. Estimates, assumptions and judgments

Below is a description of the key estimates and assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Impairment of non-financial assets

  The Group evaluates the need to record an impairment of the carrying amount of non-financial assets, including property, plant and equipment, intangible assets with a defined useful life, and investments accounted for according to the equity method, whenever events or changes in circumstances indicate that the carrying amount is not recoverable. See section U below.

  In addition, the Group reviews goodwill for impairment at least once a year. This requires management to assess the expected future cash flows from continued use of the cash-generating units and also to select a suitable discounted rate for these cash flows. See additional information in section U below.
  As from the acquisition date, goodwill is allocated to a cash-generating unit or a group of cash-generating units which are expected to generate benefits from the synergy of the combination.

  When the Company assesses impairment for an investment in an investee whose shares are listed on the TASE, and it is required to sell these shares in accordance with the Market Concentration Law, to determine the value in use of the investment, the expected consideration from disposal of the investment at the end of its useful life was determined on the basis of the current market price of the investment in the investee.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

B. Estimates, assumptions and judgments (contd.)

- Impairment of available-for-sale financial assets

  At each balance sheet date, the Group reviews whether there is objective evidence that the value of an asset has been impaired. In testing impairment, the Group has made judgments as to indications that support objective evidence of impairment of these assets. See also section L.

- Determining recoverability of deferred acquisition costs

  Acquisition costs of life insurance policies are deferred and amortized over the term of the policy. Recoverability of deferred acquisition costs is assessed once a year using assumptions regarding the cancellation, mortality and morbidity rates and other variables. If these assumptions are not realized, accelerated amortization or even derecognition of the deferred acquisition costs could be required.

- Liabilities for insurance contracts

  Liabilities for insurance contracts are based on actuarial assessment methods and on assessments of demographic and economic variables. The actuarial estimates and assumptions are based on past experience and are based, primarily, on the past behavior and claims which represent what will happen in the future. The changing risk factors, frequency or severity of the events, and the change in the legal situation could have a material effect on the level of liabilities for insurance contracts.

- Estimate of proven gas reserves

  The estimate of the proven and developed gas reserves are used to determine the amortization rate of the assets used in the operations over the reporting period. Depreciation of investments associated with discovery and production of proven and developed gas reserves is based on the depletion method. According to this method, in each accounting period the assets are depreciated at a rate determined by the number of units of gas actually produced, divided by the proven and developed gas reserves remaining according to estimates. The estimated gas volume in producing reservoirs during the reporting period is calculated each year based partially on assessments of oil and gas reserves by external experts. The estimate of the proven and developed gas reserves according to these principles is subjective, based on different assumptions and the estimates of experts and might sometimes differ significantly. Given the significant amounts of the Group's depreciation expenses, these changes can have a material effect on the operating results and the financial position of the Group. See section U below for further details of assessment of impairment.

- Deferred tax assets

  A deferred tax asset is recognized for unused carry-forward tax losses and temporary differences to the extent that it is probable that future taxable profits will be available against which the losses can be utilized. Management judgment is required to calculate the amount of the deferred tax asset that can be recognized based on the timing, future taxable income and tax planning strategy. See additional information in section W below.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

B. Estimates, assumptions and judgments (contd.)

– Legal claims

When assessing the possible outcomes of legal claims that were filed against the Company and its investees, the Group companies relied on the opinions of their legal counsel. These opinions are based on the best of their professional judgment, and take into consideration the current stage of the proceedings and the legal precedents for various matters. Since the outcomes of the claims will ultimately be determined in the courts, these outcomes could differ from the assessments.

In addition to these claims, the Company is exposed to unasserted legal claims, among other things, where there is any doubt as to the interpretation of the agreement and/or the provisions of the law and/or their implementation. This exposure is brought to the attention of the Company and its investees in several ways, including through customer applications to Group entities, in particular to the Group's public complaints officer, through customer complaints to the public inquiries unit in the supervisor's office, and through claims (other than class action suits) filed at the court.

These issues are brought to the attention of the Group's management insofar as the relevant entities identify that the claims could have widespread implications. When assessing the risk arising from these unasserted allegations/claims, the Group companies rely on internal assessments of the relevant parties and the management, which assess the prospects of a claim being filed and the chances for its success, if filed. The assessment is based on experience gained with respect to filing claims and the analysis of each claim. By their nature, in view of the preliminary stage of the clarification of the legal claim, the actual outcome could be different from the assessment made before the claim was filed.

C. Consolidated financial statements

The consolidated financial statements include the statements of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power to affect the investee, is exposed, or has rights, to variable returns from its involvement with the investing entity, and it has the ability to affect those returns arising from the investee. When assessing the existence of control, all potential voting rights are taken into account only if they are exercisable. The financial statements are consolidated from the date that control is obtained and ends when such control ceases.

Significant intragroup balances and transactions and gains or losses arising from transactions between the Group companies have been eliminated in full in the consolidated financial statements.

In the consolidated financial statements, the Group eliminates fair value measurement of securities of Group companies (shares of the Company and its subsidiaries and debentures issued by Group companies), which are held by special purpose companies that issue and manage exchange-traded funds and by profit-sharing policies of insurance companies, and account for these holdings in accordance with IFRS for the acquisition (sale) of treasury shares, acquisition (sale) of shares of subsidiaries and cross-holding of debentures, as the case may be, including the effect of tax, if required.

Non-controlling interests for subsidiaries represent the capital of the subsidiaries that cannot be attributed, directly or indirectly, to the parent company They are presented in equity separately from the equity attributable to the parent. Profit or loss and any part of other comprehensive income are attributed to the Company and the non-controlling interests. Losses are attributed to non-controlling interests even if the result is a negative balance of non-controlling interests in the consolidated statement of financial position.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

C. Consolidated financial statements (contd.)

The acquisition of non-controlling interests by the Group is recognized as an increase or decrease in equity (when non-controlling interests also include a share of other comprehensive income the Company re-attributes the accumulated amounts that were recognized in other comprehensive income to the owners of the Company and the non-controlling interests).
Upon the disposal of an interest in a subsidiary that does not result in a loss of control, an increase or decrease is recognized in equity taking into account also the disposal of a portion of any goodwill in the subsidiary and any capital reserve recognized in other comprehensive income, based on the decrease in the interests in the subsidiary.
Transaction costs for transactions with holders of non-controlling interests are also recognized in equity.

Upon the loss of control on disposal of a subsidiary, the Company derecognizes the assets (including goodwill), liabilities, and noncontrolling interests of the subsidiary, and recognizes the fair value of the consideration received and any remaining investment; and reclassifies the components previously recognized in other comprehensive income (loss).

The financial statements of the Company and its subsidiaries are prepared at the same dates and for the same periods. The accounting policy in the financial statements of the subsidiaries is applied uniformly and consistently with the accounting policy in the Company's financial statements.

Jointly controlled operations

A joint venture is a contractual arrangement where two or more parties undertake oil and gas exploration operations in a jointly-owned asset. Certain joint ventures often involve joint operations by the partners in one or more asset invested in the joint venture.

According to IFRS 11, joint control only exists when there is a formal requirement for unanimous agreement of the joint venture partners. However, a review of these ventures demonstrates that the ventures themselves have no rights in the assets and have no binding commitments on behalf of the participants. The agreements are directly between the participants and the third party. Any participant may pledge its rights in the assets and is entitled to the economic benefits arising from the venture. As a result, the participants have a proportionate share in the assets and liabilities attributable to the joint venture.

For the rights of the partnership in the joint venture operations, the partnership recognized the following in its financial statements:

A) The share of the joint venture assets
B) Any liabilities undertaken by the partnership
C) The share in any liabilities incurred jointly in respect of the joint venture
D) Any revenues arising from its right in the joint venture
E) Any expenses arising from its right in the joint venture

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

D. Functional currency and foreign currency

1. Functional currency and presentation currency

The presentation currency for the Company's financial statements is the Israeli shekel (NIS).

The Group determines the functional currency of each company, including companies accounted for using the equity method.

The assets and liabilities of an investee that is a foreign operation, including surplus, are translated at the exchange rate at each reporting date. Income and expenses are translated at average exchange rates for the presented periods. All exchange differences are recognized as other comprehensive income (loss).

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future, are a part of the investment in the foreign operation, therefore exchange differences arising on these loans (net of the effect of tax) are recognized, net of the tax effect, in other comprehensive income (loss).

When a foreign operation is fully or partially disposed of, such that control is lost, the cumulative gain (loss) related to that operation, recognized in other comprehensive income is transferred to profit or loss. Furthermore, when a foreign operation is partially disposed of, while retaining control in the subsidiary, a proportionate part of the cumulative amount of the translation difference that was recognized in other comprehensive income is reattributed to non-controlling interests.

2. Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each balance sheet date into the functional currency at the exchange rate at that date. Exchange differences, other than those capitalized to qualifying assets or carried to equity in hedging transactions, are recognized in the statement of income. Non-monetary assets and liabilities measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

3. CPI-linked monetary items

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at each balance sheet date according to the terms of the agreement.

E. Operating cycle

The Company's normal operating cycle does not exceed one year.

F. Cash equivalents

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition, which are not pledged.

G. Cash and cash equivalents for performance-based contracts

Cash and cash equivalents for performance-based contracts include cash earmarked to liabilities for performance based life insurance policies. Insurance regulations in Israel restrict the use of these funds.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

H. Short-term deposits

Short-term bank deposits are deposits with an original maturity of more than three months from the date of acquisition that do not meet the definition of cash value. The deposits are presented according to their terms of deposit.

I. Allowance for doubtful accounts

1. The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. The Company also recognizes a provision for groups of customers that are collectively assessed for impairment based on their credit risk characteristics. Impaired debts are derecognized when they are assessed as uncollectible.

2. A) Provisions for doubtful debts for premiums receivable in general insurance business are calculated, among other things, according to the extent of amounts due and in respect of loans that are secured by mortgage over real estate assets and other loans. The provision was based on the extent of the arrears, plus a general provision, which reflect the assessment of the subsidiaries of the risks involved

   B) The subsidiaries set up provisions for doubtful accounts in respect of reinsurers ’debts whose collection is doubtful on the basis of individual risk estimates and on the basis of the scope of the debt.

   In addition, for determining the reinsurers' share in outstanding claims and in insurance reserves, the insurance subsidiaries take into account, among other things, an assessment of the likelihood of collection from the reinsurers, while the reinsurers ’share, as mentioned, is computed on an actuarial basis. The share of those reinsurers who are in financial difficulties is computed in accordance with the actuary’s estimation, which takes all the risk factors into account. When reinsurers are in difficulties, they may raise various arguments that relate to recognition of the debt. In such cases, the insurance subsidiaries take into account, when setting up the provisions, the reinsurers ’willingness to make cut off agreements.

   C) Credit granted for acquisition of securities
   The provision for doubtful accounts in respect of a loan provided for the acquisition of securities is included when there is objective evidence that the Group is unable to collect the amounts owed to it under the original terms of the debt balance. Impairment of the customer’s securities used as collateral for long-term borrowings and without the inflow of cash and/or securities indicates that there is impairment in the debt balance.

J. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes the cost of purchase and cost incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs.

Cost of inventories is assigned as follows:

Fuels and consumer goods	-	The cost of fuel in operating inventory is based on the quarterly weighted average. The cost of consumer goods inventory is based on the retail inventory method.
Other	-	Based mainly on moving average

The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

J. Inventory (contd.)

If in a particular period production is not at normal capacity, the cost of inventories does not include additional fixed overheads in excess of those allocated based on normal capacity. Such unallocated overheads are recognized as an expense in the statement of income in the period in which they are incurred. Similarly, the cost of the inventory does not include exceptional amounts in respect of the materials, labor or other costs resulting from inefficiency.

K. Financial instruments

1. Financial assets

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss.

A) Financial assets at fair value through profit or loss

The Group has financial assets at fair value through profit or loss comprising financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Gains or losses on investments held for trading are recognized in the statement of income when incurred.

Embedded derivatives are separated from the host contract and accounted for separately if: (a) the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the combined instrument is not measured at fair value through profit or loss.

B) Loans and receivables

The Group has loans and receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

C) Available-for-sale financial assets

The Group has available-for-sale financial assets that are non-derivative financial assets designated on initial recognition as available for sale or are not classified into one of the three other categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, other than for exchange differences relating to debt instruments that are carried to the statement of income under finance expenses, are recognized in other comprehensive income. When the investment is disposed of or in case of impairment, the amounts recorded in other comprehensive income (loss) are reclassified to the statement of income. Interest income on investments in debt instruments and dividends are recognized in the statement of income. Dividends received for investments in equity instruments are recognized on the date the entity's right to receive the dividend is established.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

K. Financial instruments (contd.)

2. Financial liabilities

A) Financial liabilities measured at amortized cost

Interest-bearing loans and other borrowings are first recognized at fair value less directly attributable transaction costs. After initial recognition, these liabilities are measured based on their terms at amortized cost using the effective interest method.

B) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss.

Liabilities in respect of short-selling are classified as financial liabilities measured at fair value through profit or loss. Therefore, these liabilities are initially recognized at fair value when the attributable transaction expenses are recognized in profit or loss.

Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments. In the event of a financial instrument that contains one or more embedded derivatives, the entire combined instrument shall be designated upon initial recognition as a financial liability at fair value through profit or loss.

3. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the balance sheet if there is a legally enforceable right to set off the recognized amounts and there is an intent to dispose of the asset and liability on a net basis or realize the asset and dispose of the liability simultaneously.

The right to offset must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of bankruptcy or insolvency of one of the counterparties. Offset must not be contingent on a future event or periods of time in which they will not apply, or may be removed by a future event.

4. Derecognition of financial instruments

Financial assets

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Group has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

K. Financial instruments (contd.)

4. Derecognition of financial instruments (contd.)

A transaction involving factoring of accounts receivable and / or credit card vouchers is derecognized when the abovementioned conditions are met.

Financial liabilities

A financial liability is derecognized when it is extinguished, that is, when the liability is discharged, canceled or expires. A financial liability is extinguished when the debtor (the Group) repays the liability by a cash payment, other financial assets, goods or services, or is legally discharged of the liability.

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amount of the above liabilities is recognized in the statement of income. If the exchange or modification is immaterial, no gain or loss is recognized from the exchange. In the assessment, the Group takes into consideration quantitative and qualitative criteria.

5. Treasury shares

Company shares held by the Company and/or subsidiaries (including through exchange-traded funds) are recognized at cost and deducted from equity. Any profit or loss from purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

6. Put option granted to non-controlling shareholders

When the Group grants non-controlling interests a put option to sell part or all of their interests in a subsidiary during a certain period, on the date of grant, the non-controlling interests are classified as a financial liability. The Group recognizes the liability for the put option at fair value on the grant date and the holdings of the non-controlling interests are accounted for as if they are held by the Group. Changes in the liabilities are recognized in profit or loss.

7. Liability for exchange-traded funds

The liability for exchange-traded funds (ETF) is a compound financial instrument that includes a host contract and an embedded derivative (index to which the ETF is linked). The host contract is recognized initially at fair value less transaction costs. In subsequent periods, the host contract is measured using the effective interest method. Changes in the amortized cost of the host contract are recognized in profit or loss.

In the Group's opinion, presentation of the components of the ETF together is the most appropriate presentation of the economic character of the liability for the ETF, since this reflects (before accounting for the issuance costs) the amount that the Group might be required to pay to index certificate holders, which may be redeemed at any time.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

K. Financial instruments (contd.)

8. The insurance subsidiaries resolved to designate the assets as follows:

A) Financial assets in investment portfolios of policies participating in investment profits

These assets, which include marketable and non-marketable financial instruments are recognized at fair value through profit or loss, for the following reasons: These are portfolios under management, separate and identified, whose statement at fair value significantly reduces an accounting mismatch of reporting financial assets and financial liabilities at different bases of measurement. Furthermore, the management is based on fair value and the portfolio's performance is measured at fair value, in accordance with a documented risk management strategy. The information about the financial instruments is reported to the management (the relevant investments committee) internally at fair value.

B) Non-marketable financial assets that are not included in investment portfolios against profit-participating policies (nostro)

Assets that meet the criteria of the group of loans and receivables, including Hetz debentures, were classified in this group and measured at amortized cost, using the effective interest method.
Non-marketable capital instruments are classified as available-for-sale financial assets.

C) Marketable financial assets which are not included in investment portfolios against profit-participating policies (nostro), which do not include embedded derivatives or do not constitute derivatives (including investment funds)

These assets are classified as financial instruments available for sale.

D) Financial instruments that include embedded derivatives requiring separation

These assets are designated in groups of fair value through profit or loss.

E) Marketable financial assets in an investment management subsidiary

These assets were classified in groups of fair value through profit or loss, and include financial assets held for trading and financial assets designated at fair value through profit or loss.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

L. Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that the following financial asset or group of financial assets is impaired.

1. Financial assets carried at amortized cost

   There is objective evidence of impairment of debt instruments and loans and receivables carried at amortized cost as a result of one or more events that had a negative effect on the estimated future cash flows after initial recognition. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. In subsequent periods, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

2. Available-for-sale financial assets:

   For equity instruments classified as available-for-sale financial assets, the objective evidence includes a significant or prolonged decline in the fair value of the asset below its cost and calculation of changes in the technological, market, economic or legal environment in which the issuer of the instrument operates. Where there is evidence of impairment, the cumulative loss, which is recognized in other comprehensive income, is classified in the statement of income. In subsequent periods, reversal of impairment loss is not recognized in profit or loss but recognized as other comprehensive income.

   For debt instruments classified as available-for-sale financial assets, objective evidence of impairment may arise as a result of one or more events that have a negative impact on the estimated future cash flows of the asset subsequent to the investment date. Where there is evidence of impairment, the cumulative loss, which was recognized in capital, is transfered from capital and reclassified as an impairment loss in the statement of income, In a subsequent period, the amount of the impairment loss is reversed if the increase in fair value can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

M. Derivative financial instruments

The derivatives are measured at fair value. Any gains or losses arising from changes in the fair values of derivatives that do not qualify for hedge accounting are carried directly to the statement of income.

The fair value of forward exchange contracts is based on the exchange rates for contracts with similar maturity dates. The fair value of IRS contracts and of transactions to fix gas and inventory prices are based on the market prices of similar instruments. The fair value of non-traded financial instruments is determined using commonly used valuation techniques for similar financial components.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

M. Derivative financial instruments (contd.)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity as other comprehensive income (loss), while any ineffective portion is recognized immediately in the statement of income.

Amounts recognized as other comprehensive income are transferred to the statement of income and the results of the hedge transaction are recognized in the statement of income. Where the hedged item is the cost of a non-financial asset or non-financial liability, this cost also includes the associated other comprehensive income (loss) reclassified from equity in the same period during which the asset or liability are recognized.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in other comprehensive income (loss) are transferred to the statement of income. If the hedging instrument expires or is sold, terminated or exercised, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

N. Leases

The tests for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the principles below as set out in IAS 17.

1. Finance lease

   Finance leases transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset. At the commencement of the lease term, the leased asset is measured at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.

2. Operating lease

   Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Initial direct costs incurred for the lease are added to the cost of the leased asset and recognized as an expense together with income from the lease. The lease payments are recognized as income in profit or loss, on a straight-line basis over the lease term.

O. Business combinations and goodwill

Business combinations are accounted for by the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred at the acquisition date, including any non-controlling interests in the acquiree. In any business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value at the acquisition date or in accordance with the proportionate share of the fair value of the net identifiable assets of the acquiree. Direct acquisition costs are recognized in the statement of income as incurred.

In a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition date at fair value and recognizes the revalued prior investment in the statement of income at the date control was established.

Contingent consideration is recognized at its fair value at the acquisition date. Contingent consideration is classified as a financing asset or liability according to IAS 39. Subsequent changes in fair value of the contingent consideration are recognized in the statement of income. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent measurement.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

O. Business combinations and goodwill (contd.)

Goodwill is initially measured at cost which represents the difference between the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount of goodwill is negative, the acquirer will recognize the resulting gain on the acquisition date.

Acquisitions of subsidiaries that are not business combinations

Upon the acquisition of subsidiaries and operations that do not constitute a business, the acquisition consideration is only allocated between the acquired business identifiable assets and liabilities based on their relative fair values on the acquisition date without attributing any amount to goodwill or to deferred taxes, whereby the non-controlling interest, if any, participates at its relative share of the fair value of the net identifiable assets on the acquisition date. Direct costs related to the acquisition are discounted as part of the acquisition consideration.

P. Investments accounted for using the equity method

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

The investment in an associate is accounted for using the equity method. According to this method, the investment in the associate is recognized in the balance sheet at cost plus changes in the Group’s share in the net assets, including the other comprehensive income (loss) of the associate. This does not include holdings of special purpose companies that issue and manage exchange-traded funds and by assets for performance based contracts of The Phoenix, which are stated at fair value in the statement of income.

The equity method is implemented up to the earlier of the date the Group loses significant influence or the investment is reclassified as an investment held for sale according to IFRS 5.

Goodwill relating to the acquisition of an associate is initially measured as the difference between the acquisition cost and the Group's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost and is not systematically amortized. Goodwill is examined for impairment as part of the investment in an associate as a whole.

If additional shares are acquired in equity-accounted investments, the Group calculates the purchase price allocation for each tranche separately. Upon a decrease in the equity interests in an associate while retaining significant influence in the associate, the Company realizes a relative portion of its investment in the associate and recognizes a gain or loss from the disposal, including the reclassification of the proportionate share of cumulative amounts previously recognized in other comprehensive income (loss) of the associate.

Losses of associates in amounts which exceed their equity are recognized by the Company to the extent of its investment in the associates with the addition of any losses that the Company may incur as a result of a guarantee or other financial support provided in respect of these associates.

The financial statements of the Company and its associates are prepared as of the same dates and periods. Profit or loss from transactions between the Group and the associate is eliminated according to the rate of holding.

The securities of the Group's associates held by the special purpose companies that issue and manage ETFs and by profit-sharing policies of insurance companies are recognized in the Group's consolidated financial statements at their fair value.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Q. Investment property

An investment property is property (land or a building or both) held by the owner (lessor under an operating lease) or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes, or for sale in the ordinary course of business.

Investment property is measured initially at cost, including costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are included in the statement of income when they arise.

Investment property under development for future use as investment property is also measured at fair value as set out above, when fair value can be reliably measured. When fair value cannot be reliably measured, due to the nature and scope of project risk, then it is measured at cost, less any impairment losses, up to the date when the fair value can be reliably measured or construction is completed, whichever is earlier. The cost basis of property under development includes the cost of land plus the costs of credit used to finance the construction, direct incremental planning and development costs and brokerage fees for rental agreements.

The Group determines the fair value of investment property on the basis of valuations by outside independent appraisers and by internal expert appraisers.

Assisted living units, other than nursing departments and supporting units, are also accounted for as investment property.

R. Property, plant and equipment

Items of property, plant and equipment are measured at cost with the addition of direct acquisition costs, less accumulated depreciation and impairment losses and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that can be used only in connection with the machinery and equipment.

The cost of self-constructed assets includes the cost of materials, direct labor and borrowing costs as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the present value of the expected cost item for decommissioning and restoring the site on which they are located (see below).

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

R. Property, plant and equipment (contd.)

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%	Primarily %
Buildings	2-10	2.5
Machines, facilities and equipment	2.5-25	10
Vehicles	15-33	
Furniture and office equipment	5-33	
Works of art	Without depreciation	
Leasehold improvements	Over the shorter of the lease term ,including the extension option held by the Group and intended to be exercised, and the expected life of the improvement.	

The cost of an item of property, plant and equipment (mainly gas production rigs) includes the initial estimate of the cost of decommissioning and removing the item and restoring the site on which it is located. The liability is first measured at fair value and changes in the liabilities deriving from passage of time are recognized profit or loss. The residual value and the useful life of each asset are reviewed at least at each year-end and changes are accounted for prospectively as a change in an accounting estimate. See section U below for further details of impairment of property, plant and equipment.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

S. Borrowing costs in respect of qualifying assets

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and includes fixed assets and inventories.

The capitalization of borrowing costs commences when the activities to prepare the qualifying asset are in progress and ceases when substantially all the activities to prepare the qualifying asset for its intended use or sale are complete.
The amount of borrowing costs capitalized in the reporting period do not exceed over the borrowing costs that have been incurred in the reported period.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

T. Intangible assets

Separately acquired intangible assets are measured on initial recognition at cost with the addition of costs directly attributable to the acquisition. Intangible assets acquired in a business combination are included at the fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in the statement of income when incurred.

According to management's assessment, intangible assets have a finite useful life. The assets are amortized over their useful life using the straight-line method and reviewed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least once a year.

The length of the useful life of the intangible assets is as follows:

	Years
Marketing rights and customer relations	10-15
Software	3-10
Brands and trademarks	3-8
Patent	15
Value of insurance portfolios	5-14
Non-competition agreements	5-13
Commission portfolios	2-10

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. See also section U. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable.

U. Impairment of non-financial assets

The Group evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. When the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. When measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of the loss is limited to the lower of the amount of previously recognized impairment of the asset (net of depreciation or amortization) or the recoverable amount of the asset.

When assessing the impairment of gas stations operated by a subsidiary in Israel, these stations are considered as a single cash generating unit, among others, due to the common customer base and the business inter-dependency of the various stations. Nevertheless, in cases where the subsidiary's management is of the opinion that certain stations do not contribute to the chain of gas stations, each of these stations is considered as a separate cash generating unit.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

U. Impairment of non-financial assets (contd.)

Other assets are each tested separately for impairment .

When the Company assesses impairment for an investment in an investee whose shares are listed on the TASE, and it is required to sell these shares in accordance with the Market Concentration Law, to determine the value in use of the investment, the expected consideration from disposal of the investment was determined on the basis of the current market price of the investment in the investee.

The following criteria are applied in assessing impairment of these specific assets:

1. Goodwill

   The Group reviews goodwill impairment once a year or more frequently if events or changes in circumstances indicate that there is impairment.

   Impairment is recognized for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill belongs. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

2. Investees accounted for using the equity method

   After implementing the equity accounting method, the Group assesses whether it is necessary to recognize further loss for impairment of the investment in associates. At each balance sheet date, the Group assesses whether there is objective evidence that the investment in an associate has been impaired. Impairment is assessed in respect of the entire investment, including goodwill attributable to the associate. Impairment loss, as above, is not allocated specifically to goodwill that forms part of the investment and, accordingly, any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

3. Intangible assets with indefinite useful life

   The Group assesses goodwill for impairment annually, or more frequently if events or changes in circumstances indicate impairment.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

V. Results of oil and gas exploration and development of proved reserves

Oil and gas investments and exploration are accounted for using the successful effort method, according to which:

1. Expenses for participation in geological and seismic tests and surveys, which are used to form a conclusion regarding the continuation of the exploration plan, are recognized in profit or loss as incurred.

2. Investments in oil and gas drillings that are in the drilling stage for reservoirs that are not yet proven to produce oil or gas or that are yet to be classified as being non-commercial, are recognized as exploration and appraisal assets in the balance sheet at cost under investment in oil and gas assets.

3. Investments in oil and gas drillings, for reservoirs proved to be dry and were abandoned, or that were classified as non-commercial, are written off from exploration and appraisal assets in the statement of income.

4. Investments for reservoirs that have technical feasibility and commercial viability of oil or gas production (which are being appraised in a range of events and circumstances, mainly approval from the Commissioner of Petroleum Affairs that the reservoir is a commercial discovery and/or obtaining a lease from the Commissioner in the license area), are classified as oil and gas assets, reclassified from exploration and appraisal assets to oil and gas assets, and stated in the balance sheet at cost. These oil and gas assets are depreciated in the statement of income on the basis of production quantity compared to total proven reserves in the oil or gas asset, according to an expert appraisal.

5. Expenses for wells that will be determined as having viable gas or oil reserves are included in the balance sheet at cost and amortized to the statement of income, based on the production volume relative to the total proven reserves for the oil asset, as appraised by an expert.

6. Oil exploration and appraisal assets are tested for impairment when the facts and circumstances indicate that the carrying amount of the exploration and appraisal asset is likely to exceed its recoverable amount. When the facts and circumstances indicate that the carrying amount exceeds the recoverable amount, the partners recognize impairment losses in accordance with IAS 36.

7. <u>Farm-out agreements in the exploration and appraisal states</u>

   In farm-out arrangements, the farmee transfers all the risks and rewards to the farmor for the transferred part in exchange for the farmor's undertaking to finance certain costs.

   A) <u>Farm-out agreements</u>

   Farm-out is the transfer of part of the rights in an oil and/or gas field in consideration for an agreement by the transferee (the Farmee") to meet, absolutely, certain expenses that would otherwise have to be undertaken by the owner ("the Farmor").

   The Farmor accounts for the farm-out arrangement as follows:

   1) The Farmor does not record any expense made by the Farmee on its behalf.
   2) The Farmor will derecognize the part of the oil and gas rights sold to the Farmee.
   3) The Farmor recognizes the farm-out arrangement in the statement of income in the amount of the difference between the consideration received or due and the carrying amount of the derecognized rights.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

V. Results of oil and gas exploration and development of proved reserves (contd.)

B) Farm-in agreements

Farm-in is the acquisition of part of the right in an oil and/or gas field in consideration for an agreement with the Farmor to sell part of the rights to the Farmee.
Accordingly, as the costs are incurred, the Farmee recognizes the expense or asset, as the case may be, for its share in the oil and gas assets and for the Farmor's remaining rights, in compliance with the accounting policy for exploration and appraisal assets.

The Farmee accounts for the farm-out arrangement as follows:

1) The Farmee recognizes its share in the expenses in accordance with the farm-out agreement, including expenses arising from the part that the Farmor imposed on the Farmee under the farm-out agreement.
2) The Farmor recognizes expenses in accordance with the farm-out agreement in the same way that it accounts for exploration and appraisal costs that it bears directly.

Expenses entailed in the purchase of rights to licenses, titles and preliminary permits for oil and gas drilling, including increasing the Group's share in joint ventures, are accounted for as aforesaid.

The surplus cost from a business combination or acquisition of companies, partnerships and joint ventures that own such reserves, is allocated to investment in oil and gas reservoirs and amortized as described above. The surplus cost from licenses before start of production is not systematically amortized.

Oil and gas assets

1. The oil and gas assets item in the balance sheet includes costs accumulated for the Limited Partnerships' proven oil and gas assets. These costs, which include costs for acquisition of rights in offshore areas, exploration drillings, engineering planning, development drilling, and acquisition and establishment of production facilities and pipelines for the delivery of the gas onshore and construction of a receiving terminal, are stated in the balance sheet at cost and amortized to the statement of income according to the depletion method based on the actual production volume compared to the total proved reserves, as appraised by an expert. The item also includes costs incurred for exploration and appraisal assets not yet proven.

2. Measuring an asset and liability for decommission of assets

   The Limited Partnerships recognize for the first time a liability together with an asset for its share in the liability to decommission assets, mainly the production platform at the end of its use. The liability was first measured at present value and the expenses arising from the passage of time are recognized in the statement of income. Changes in timing and in the amount of economic resources that are required for decommission of the liability and changes in the discount rate are added or deducted from the asset in the current period together with a change in the liability.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

W. Taxes on income

The tax results in respect of current or deferred taxes are recognized in the statement of income except to the extent that the tax arises from items which are recognized directly in equity or in other comprehensive income

1. Current taxes

   The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes

   Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes, with a limited number of exceptions. Deferred tax balances are calculated according to the tax rate that is expected to apply to equity at the reversal date, based on tax laws that have been enacted or substantively enacted by the balance sheet date.

   The calculation of deferred taxes does not take into account the taxes that would be applicable in the case of disposal of investments in investees, provided that the sale of these investments is not likely in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the subsidiary's policy not to initiate distribution of dividends that triggers an additional tax liability.

   In the event of sale of shares of a subsidiary, the tax effects arising from net gains or losses accrued up to the date of sale for the exercised shares are recognized in the statement of income or other comprehensive income, as relevant, while the effect of tax for the difference between the consideration received and the balance of the investment in the exercised shares immediately before the sale is recognized directly in equity.

   Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

X. Share-based payments

The Company's employees are entitled to remuneration in the form of share-based payment transactions as consideration for equity instruments (“Equity-settled Transactions”) and to cash-settled benefits based on the increase in the Company's share price (“Cash-settled Transactions”).

Equity-settled Transactions

The cost of Equity-settled Transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using a standard pricing model. As for other service providers, transaction costs are measured at the fair value of the goods or services received in return for the equity instruments.

The cost of Equity-settled Transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period which the performance and/or service conditions are to be satisfied, ending on the date on which the relevant employees become fully entitled to the award.

If the Group modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee at the modification date.

Cash-settled transactions

The cost of Cash-settled Transactions is measured at fair value on the grant date using a standard pricing model. The fair value is recognized as an expense over the vesting period and a corresponding liability is recognized. The liability is remeasured at each reporting date until settled at fair value with any changes in fair value recognized in the profit or loss.

Benefits that include the right of the employee or service provider to sell back to the Company or to the Group companies its shares are accounted for as Cash-settled Transactions.

Y. Liabilities for employee benefits

The Group has several employee benefit plans:

1. Short-term employee benefits

   Short-term employee benefits are benefits which are expected to be fully paid up to 12 months after the end of the annual reporting period in which employees provide the services. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Y. Liabilities for employee benefits (contd.)

2. Post-employment benefits

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Group has defined contribution plans pursuant to Section 14 to the Severance Pay Law in Israel, under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan for severance pay or compensation are recognized as an expense when contributed simultaneously with receiving the employee's services.

In addition, the Group has a defined benefit plan for severance pay under the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for severance pay is measured on the basis of the actuarial value of the projected credit unit. The actuarial assumptions include future salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are based on discounted expected future cash flows using the interest rate based on the yield at the reporting date on CPI-linked high quality corporate debentures with maturity dates approximating the period for the Group's obligation for severance compensation. For information about the effect of the change arising from the use of the interest rate on CPI-linked high quality corporate debentures, see section 2HH below.

The Company makes current deposits for its liability to pay compensation to some of its employees in pension funds and insurance companies ("the Plan Assets").

Z. Revenue recognition

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns.

The specific criteria for revenue recognition for the following types of revenues are:

1. Revenues from the sale of goods

Revenues from the sale of goods are recognized when all the significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date is usually the date on which ownership passes.

2. Rental income

Rental income is recognized on a straight-line basis over the lease term. A fixed increase in rent over the term of the contract is recognized as income on a straight-line basis over the lease term.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Z. Recognition of income (contd.)

3. Revenues from production of fuels, storage and charter of tankers are recognized in profit or loss when the service is provided.

4. Revenues from the rendering of services (including management fees)

   Revenues from the rendering of services are recognized by reference to the stage of completion at the end of the reporting period. Under this method, revenues are recognized in the accounting periods in which the services are rendered. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

5. Revenues from royalties

   Revenues from royalties are recognized as they accrue in accordance with the substance and terms of the relevant agreement.

6. Reporting gross or net revenues

   When the Group acts as an agent or intermediary without bearing the risks and rewards associated with the transaction, its revenues are recognized on a net basis. However, in cases where the Group operates as a principal supplier and is exposed to the risks and rewards associated with the transaction, its revenues are presented on a gross basis.

7. Revenues from sale of gas

   Revenue from the sale of oil and gas is recognized when the customer receives the oil or gas.

8. Income from insurance businesses

   A) Premiums

      1. Premiums in life insurance and health insurance, including savings premiums and with the exception of intakes in respect of investment contracts, are recognized as revenues when the Group is entitled to receive such premiums.
         Cancellations are recorded when the notification is received from the policyholder or when initiated by The Phoenix due to arrears in payments, subject to legal provisions. The policyholder's participation in profits is deducted from the premium.

      2. General insurance premiums are accounted for as income based on monthly reports. Insurance premiums usually refer to an insurance period of one year. Gross income from premiums and changes in unearned premium are accounted for under earned premiums, gross.
         In the motor act branch of insurance in Israel, the insurance comes into effect only after payment of the insurance premium, therefore the premium is accounted for on the date of payment.
         Insurance premiums in respect of policies that come into effect after the balance sheet date or premiums in respect of policies for a period exceeding one year are recorded as a prepaid income.

         Some of the premiums in Israel, primarily in the motor casco and comprehensive residential branches, include automatic renewals of policies due for renewal.
         The income included in the financial statements is after cancellations requested by policyholders and net of cancellations and provisions due to non-payment of the premiums, subject to the law, and net of the policyholder's participation in profits, based on valid agreements.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Z. Recognition of income (contd.)

B) Management fees and commissions

1) Management fees for performance based insurance contracts

Management fees include the following components:
For policies sold as of 1 January 2004 –fixed management fees only
For policies sold until December 31, 2003 –fixed and variable management fees

The management fees are computed in accordance with the Commissioner's directives on the basis of the yield and the accumulated saving of the policyholders in the profit-participating portfolio.

The fixed management fees are computed at fixed percentages of the accumulated saving and are recorded on a cumulative basis.

The variable management fees are computed as a percentage of the annual real profit (from January 1 to December 31) attributed to the policy, less the fixed management fees collected from that policy. Only positive variable management fees can be collected, net of negative amounts accumulated in the preceding years.

During each period, the variable management fees are recorded on an accrual basis in accordance with the real monthly yield if it is positive. In months when the real yield is negative, the variable management fees are reduced to the amount of the aggregate variable management fees collected since the beginning of the year. Negative yield for which a reduction of the management fees was not made during a current year, will be deducted for the purpose of computing the management fees from the positive yield in the subsequent year.

2) Management fees of non-insurance subsidiaries

Income from the management of pension funds and provident funds is recognized on the basis of the balances of the managed assets and on the basis of the receipts from the members.

Income from the management of mutual funds and income from the management of customer portfolios are recognized on the basis of the managed asset balance.

Income from general insurance commission in insurance agencies is recognized as incurred.

Income from life insurance commissions are recognized on the basis of the date of entitlement for payment of the commissions according to agreements with the insurance companies, net of provisions for refunds of commissions due to expected cancellations of insurance policies.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Z. Recognition of income (contd.)

3) Net investment income (losses) and other finance income

Interest income is recognized as it accrues using the effective interest method.
Revenues from dividends from investments not accounted for using the equity method are recognized when the right to receive the dividend is established.
Investment income includes the gains or losses realized in respect of available-for-sale financial assets. Gains and losses from the disposal of investments are calculated as the difference between the proceeds from the sale, net, and the initial or amortized cost and are recognized at the time of the sale.

Investment income includes gains or losses from revaluation of financial assets measured at fair value through profit or loss.

C) Recognition of revenues from underwriting and distribution and from brokerage fees

1. Revenues from underwriting and distribution - revenues from commission for underwriting and distribution are recognized when the issuance and distribution is carried out, after fulfillment of the terms in the agreement with the company and/or issuer.

2. Revenues from brokerage fees - revenues from commissions relating to transactions in securities are recognized on completion of the transactions.

9. Customer discounts

Current customer discounts are recognized in the financial statements when granted and are included in sales.

Customer discounts given at the end of the year and in respect of which the customer is not obligated to comply with certain targets, are recognized in the financial statements proportionately as the sales entitling the customer to the discounts are made.

Customer discounts for which the customer is required to meet certain targets are recognized in the financial statements in proportion to the purchases made by the customer during the year that qualify for the target, provided that it is expected that the targets will be achieved and the amount of the discount can be reasonably estimated.

AA. Price reductions from suppliers

Discounts are deducted from cost of purchase when the conditions entitling to those discounts are satisfied. The portion of the discounts relating to that portion of the purchases that are added to closing inventories are attributed to inventories and the balance reduces the cost of sales.

Supplier discounts received at the end of the year and in respect of which the Group is not obligated to comply with certain targets, are recognized in the financial statements proportionately as the purchases entitling the Group to the discounts.

Supplier discounts for which the Group is required to meet certain targets are recognized in the financial statements in proportion to the purchases made by the Group during the year that qualify for the target, provided that it is expected that the targets will be achieved and the amount of the discount can be reasonably estimated.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

BB. Earnings (loss) per share

Earnings (loss) per share are calculated by dividing the net income(loss) attributable to equity holders of the Company by the weighted number of ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential ordinary shares are only included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Further, potential ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is based on the earnings per share of the investees multiplied by the number of shares held by the Group.

CC. Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, the provisions are measured at their present value.

1. Environmental quality

   The Group's financial statements include a provision for expected expenses related to decontamination and remediation of environmental hazards. The provision is recorded when the management believes that it is probable that a liability has been created and the amount of the liability can be reasonably estimated. Environmental liabilities represent an estimate of the costs arising from examination and remediation of the contaminations created.

   The management's assessment is based on internal and external estimates of the contaminations and the existing relevant remediation technology, and a review of applicable environmental regulations. . Environmental liabilities accrue mostly no later than upon completion of the remedial review. The provision in respect of these liabilities is adjusted as additional information is obtained or the circumstances change. The costs of purchasing the equipment required for the current remediation of environmental hazards are recorded as property, plant and equipment.

2. Legal claims

   A provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation and it is more likely than not that the Group will require its economic resources to settle the obligation, and the amount of the obligation can be estimated reliably. When assessing the need for recognition and measurement of the provisions, Group companies are assisted by legal counsels.

3. Onerous contracts

   A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

DD. Advertising expenses

Advertising expenses are recognized in profit or loss as incurred.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

EE Non-current assets or a disposal group held for sale and discontinued operations

Non-currents assets or a disposal group are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are not depreciated and are presented separately in the balance sheet, at the lower of their carrying amount and fair value less costs to sell. If the carrying amount is higher than the fair value less costs to sell, an impairment loss is recognized for the assets (or disposal group) to the extent of the difference. At the same time, liabilities associated with these assets are presented separately in the balance sheet, in a similar manner.

When the parent decides to sell part of its interest in a subsidiary so that after the sale the parent retains a non-controlling interest, all the assets and liabilities attributed to the subsidiary are classified as held for sale and the relevant provisions of IFRS 5 are applicable, including presentation as discontinued operations.

A discontinued operation is an operation that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations.

FF Insurance contracts

IFRS 4 - Insurance Contracts allows the insurer to continue with the same accounting policy that was in effect prior to the transition date to IFRS for insurance contracts that it issues (including related acquisition costs and related intangible assets) and the reinsurance contracts that it acquires

Summary of the accounting policy for insurance contracts:

1. Life insurance and long-term saving

   A) Recognition of income –see section Z above.

   B) Liabilities for life insurance contracts:

      Liabilities for life insurance contracts in Israel are calculated according to the Commissioner's directives (regulations and circulars), generally accepted accounting principles and standard actuarial methods. The liabilities are calculated according to the relevant coverage data, such as the age of the policyholder, number of years of coverage, type of insurance and sum of insurance.

      Liabilities for life insurance contracts are determined on the basis of an actuarial assessment performed by the chief actuary at The Phoenix Insurance Ltd. ("The Phoenix Insurance"), Daniel Sharon. The share of reinsurers in liabilities for life insurance contracts is based on the terms of the relevant contracts.

      Liabilities for CPI-linked life insurance contracts and CPI-linked investments used to cover these liabilities were included in the financial statements according to the most recently published CPI prior to the balance sheet date, including liabilities for life insurance contracts in respect of policies with semi-annual linkage.

   C) Directives of the Commissioner regarding liabilities for annuities

      Circulars issued by the Commissioner, regarding the calculation of the liabilities for annuities in life insurance policies provide directives on how to calculate the provisions as a result of the improvement in life expectancy that requires monitoring the adequacy of the liabilities for life insurance contracts that permit the receipt of an annuity, and their proper supplementation.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Accordingly, The Phoenix Insurance immediately supplemented the liability, to the extent necessary, for policies in which annuities are paid when the policyholder reached retirement age or for a group of unprofitable policies. For other policies, where profits are expected, the liability is supplemented alongside the receipt of the expected income, over the policy period.

D) Deferred acquisition costs:

(1) Deferred acquisition costs ("DAC") for life insurance policies sold as from January 1, 1999 include commission for agent and acquisition supervisors and general and administrative expenses related to the acquisition of new policies. The DAC is amortized at equal annual rates over the policy period but not over more than 15 years. The DAC for cancelled or settled policies are written off at the cancellation or settlement date.

(2) The actuary of The Phoenix assesses the recoverability of the DAC every year. This assessment verifies that the liabilities for insurance policies, net of the DAC, is sufficient, and that the policies are expected to generate future income to cover the DAC deduction and the insurance liabilities, operating expenses and commissions for those policies
The assumptions used in this assessment, including assumptions regarding cancellations, operating expenses, yield on assets, mortality and illness rates, are determined by the Company's actuaries every year on the basis of past experience and relevant current surveys.

(3) Commissions to agents and acquisition supervisors and pension agents) that are paid for acquisition of pension contracts for asset management (pension and provident funds) are recognized as deferred acquisition costs (DAC) if they are separately identifiable and reliably measured and if their refund is expected through expected management fees. The DAC is amortized at equal annual rates over 10 years.

E) Liability adequacy testing for life insurance contracts

The Group tests for reserve adequacy. If the test indicates that the premiums received are insufficient to cover the expected claims, less insurance reserves at the calculation date, a special provision is recorded for the deficiency. Individual policies and collective policies are tested separately. Collective policies are tested on the single collective level.

The assumptions used in these tests include assumptions regarding cancellations, operating expenses, yield from assets, mortality and illness rates, and are determined by the actuary every year on the basis of past experience and other relevant surveys.

F) Outstanding claims

Outstanding claims, net of the reinsurers ’share therein, are computed on an individual case basis, according to the valuation of The Phoenix Insurance experts, based on the notifications regarding the insurance events and the sums insured.
The provisions for pension payments, annuities, long lasting payment claims for disability insurance, the direct and indirect expenses deriving from them, as well as the provisions for incurred but not yet reported claims (IBNR) are included under the liabilities for insurance contracts and investment contracts.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

G) Investment contracts

Intakes in respect of investment contracts are not included in the item of earned premiums but are directly recorded under liabilities in respect of insurance and investment contracts. Surrenders and maturities of these contracts are not included in the statement of income but are deducted directly from liabilities for insurance contracts and investment contracts.
For these contracts, investment revenue, management fees collected from the policyholders, change in liabilities and payments for insurance contracts in respect of the share of the policyholders in investment revenue, commissions to agents, and general and administrative expenses are recognized in the statement of income.

H) Provision for participation in earnings of policyholders in group insurance

The provision is included under other payables. In addition, the change in the provision is offset by the income from the premium.

2. General insurance

A) Recognition of income –see section Z above.

B) Payments and changes in liabilities in respect of insurance contracts, gross and residual, include settlement and direct handling costs of claims paid and indirect expenses to settle outstanding claims that occurred during the reported period, as well as an adjustment of the provision for outstanding claims (including a provision for direct and indirect costs for handling claims) recorded in previous years.

C) Liabilities for insurance contracts and deferred acquisition costs

The insurance reserves and outstanding claims included in liabilities for insurance contracts, and the reinsurers ’share in the reserve and in the outstanding claims under reinsurance assets, are computed in accordance with the Control of Financial Services Regulations (Insurance) (Calculation of General Insurance Reserves), 2013 ("the Calculation of Reserves Regulations), the Commissioner's directives, and standard actuarial methods for computing outstanding claims, which are applied according to the chief actuaries ’discretion.

D) The liabilities section for insurance contracts is composed of insurance reserves and outstanding claims, as follows:

1) The unearned premium reserve reflects the insurance premium for the insurance period subsequent to the balance sheet date and is calculated on a daily basis.

2) Provision for premium deficiency. The provision is recognized if the unearned premium (less deferred acquisition costs) does not cover the expected cost for insurance contracts. In the motor property, comprehensive housing, and business branches, the provision is based on a model in the Calculation of Reserves Regulations.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3) Insurance reserves and outstanding claims are computed according to the methods set out below:

3.1 Outstanding claims and the reinsurers ’share thereof are included on the basis of an actuarial valuation, except for the branches detailed in section 3.2 below. Indirect expenses to settle claims are included on the basis of an actuarial valuation. The actuarial calculation for The Phoenix Insurance, for general insurance, was prepared by the appointed actuary at the Phoenix Insurance, Anna Nahum, who is employed by The Phoenix Insurance.

3.2 Insurance for marine hull, aircraft including third-party liability, incoming business and other risks, for which the actuary determines that an actuarial model cannot be applied, due to the absence of statistical significant, included the outstanding claims based on a separate evaluation for each claim according to an opinion received from attorneys and experts of The Phoenix Insurance that handle claims according to the reports of ceding companies for incoming business, with the addition of IBNR if necessary. The evaluations include a suitable provision for settlement and handling expenses not yet paid at the date of the financial statement

3.3. Excess of income over expenses

For businesses with long tail claims (branches in which it could be several years before the claim is settled), such as the liability and motor act branches, excess of income over expenses is calculated on a tri-annual aggregate basis (“the Excess”).
The excess is calculated in accordance with the Reserve Calculation Regulations and the Commissioner's directives, based on revenue from premiums less claims and acquisition costs (up to a limit determined by the Commissioner as a percentage of the premium), plus revenue from investments calculated at an annual rate of 3% (independent of actual return on the investments), less the share of reinsurers, according to insurance branch and underwriting year. The excess accumulated until its release, from the beginning of the insurance, net of the unearned premium reserve, net of deferred acquisition costs, and net of outstanding claims as described above aforesaid, is included in liabilities for the insurance contracts. If the actuary estimates that any underwriting year will end in a loss, that loss is charged to the statement of insurance business in that same year.

3.4 Claims recoveries and salvage are taken into consideration in the data-base by which the actuarial valuations of the outstanding claims are calculated.

3.5 The Phoenix Insurance believes that the outstanding claims are appropriate, given that the outstanding claims are calculated mainly on an actuarial basis and their balance includes appropriate provisions required for IBNR.

3.6 For information about expected changes in the calculation of insurance reserves in general insurance, including elimination of the excess, see Note 29.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

E) Deferred acquisition costs in general insurance include agents ’commissions and general and administrative expenses related to acquisition of the polices, referring to unearned insurance premiums. The acquisition costs are calculated for each branch separately, on the basis of the actual rates of expenses or according to standard rates, as a percentage of the unearned premium, at the lower of the two.

F) Business that is received from the Israeli pool for motor vehicle property insurance of the Association of Insurance Companies in Israel (the Pool), from other insurance companies (including co-insurance and incoming foreign business) and from underwriting agencies, is reported according to the reports received up to the balance sheet date with the addition of the relevant provisions, based on the rate of participation of The Phoenix Insurance in them.

3. Health insurance

A) Recognition of income –see section Z above.

B) Liabilities for health insurance contracts

Liabilities for health insurance contracts in Israel are computed according to the Commissioner's directives (regulations and circulars), generally accepted accounting principles and standard actuarial methods. The liabilities are calculated according to the relevant coverage data, such as the age of the policyholder, number of years of coverage, type of insurance and sum of insurance.

Healthcare insurance liabilities and the reinsurers' share therein are determined on the basis of an actuarial assessment performed by the chief actuary in The Phoenix Insurance, Dafna Weirauch, who is an employee of The Phoenix Insurance.

C) Liability adequacy testing for health insurance contracts:

The Group tests for reserve adequacy. If the test indicates that the premiums received are insufficient to cover the expected claims, less insurance reserves at the calculation date, a special provision is recorded for the deficiency. Individual policies and collective policies are tested separately. Collective policies are tested on the single collective level.

The parameters and assumptions used in these tests include assumptions regarding cancellations, operating expenses, mortality and illness rates, which are determined by the actuary on the basis of past experience and other relevant surveys. For collective policies, tests are for reserve adequacy in accordance with experience of the collective claims.

D) Outstanding claims

The provisions for long lasting payment claims with respect to long-term care insurance, the direct and indirect expenses deriving from them, as well as the provisions for incurred but not yet reported claims (IBNR) are included under the insurance reserves.

E) Provision for profit sharing of policyholders in collective insurance

The provision for profit sharing of policyholders in collective insurance is included under other payables. In addition, the change in the provision is offset by the income from the premium.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

F) Deferred acquisition costs

1) Deferred acquisition costs ("DAC") include commission for agents and acquisition supervisors and general and administrative expenses related to acquisition of new policies. In health and hospitalization branches, policies are amortized at equal rates over the period of the policy, but no longer than six years, and in long-term health insurance branches (such as nursing and dread diseases) the policies are amortized over no more than 15 years. Deferred acquisition costs relating to canceled policies are written off on the cancellation date.

2) The Company's actuary assesses the recoverability of the DAC every year. The assessment verifies that the liabilities for insurance policies (policies sold in 2005 and for which the DAC is calculated), net of the DAC is adequate and that the policies are expected to generate future income to cover the DAC deduction, insurance liabilities, operating expenses and commissions for those policies.
The assumptions used in this assessment, which include assumptions regarding cancellations, operating expenses, yield on assets, mortality and illness rates, are determined by the actuaries every year on the basis of past experience and relevant current surveys.

FF. Adjustment to fair value

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement assumes a transaction taking place in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market.

The fair value of the asset or liability is based on assumptions that would have been used by market participants to price the asset or liability, assuming that market participants act in their economic interests.

The Group uses valuation techniques that are appropriate to the circumstances and for which sufficient information is available to measure fair value, while maximizing the use of relevant observable data and minimizing the use of unobservable data.

All assets and liabilities measured at fair value, or for which there was fair value disclosure, are categorized within the fair value hierarchy, based on the lowest level of the data, which is significant to fair value measurement of a whole:

HH Change in estimates

In November 2014, the Securities Authority published Accounting Staff Position Paper 21-1, according to which a deep market for high quality corporate debentures exists in Israel ("the Position Paper"), for the purpose of determining the discount rate of a shekel-denominated or shekel-linked defined benefit obligation and other long-term benefits, in accordance with IAS 19, Employee Benefits. According to the position paper, the transition from using the yield rate of government bonds to using the yield rate of high quality CPI-linked corporate debenture should be applied prospectively as a change in the accounting estimate.

Application of the change does not have a material effect on the Group's financial statements.

NOTE 2: Significant Accounting Policies (Contd.)

II Disclosure of new IFRSs in the period prior to their adoption

A. Amendments to IFRS 11, Joint Arrangements, regarding acquisition of an interest in a joint operation which constitutes a business as defined in IFRS 3

On May 6, 2014, the IASB published amendments to IFRS 11, Joint Arrangements ("the Amendments"), which address the accounting treatment for acquisition of interests in a joint operation constituting a business as defined in IFRS 3.
In accordance with the amendments, the interests acquired in a transaction will be accounted for as a business combination in accordance with IFRS 3 and other relevant amendments.

The Amendments will be applied prospectively in financial statements for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

B. IFRS 15, Revenue from Contracts with Customers

In May 2014, IASB published IFRS 15.

IFRS 15 supersedes IAS 18, Revenue; IAS 11, Construction Contracts; IFRIC 13, Customer Loyalty Programs; IFRIC 15, Agreement for the Construction of Real Estate; IFRIC 18, Transfer of Assets from Customers; and SIC 31, Revenue - Barter Transactions Involving Advertising Services.

IFRS 15 provides a five-step model to be applied to all revenue arising from contracts with customers:

The amendment to IFRS 15 is effective retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

The Company is assessing the possible effect of the standard, however at this stage, it is unable to estimate any effect it may have on the financial statements.

C. Amendments to IAS 16 and IAS 38 regarding generally accepted depreciation and amortization methods

In May 2014, the IASB published amendments to IAS 16 and IAS 38 ("the Amendments") regarding the use of revenue-based depreciation and amortization methods.
In accordance with the Amendments, revenue-based amortization arising from the use of an asset is inadequate, since these revenues generally also reflect other factors beyond consumption of the economic benefits from the asset.

For intangible assets, the revenue-based amortization method can only be applied in certain circumstances.

The Amendments will be applied prospectively in financial statements for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

II Disclosure of new IFRSs in the period prior to their adoption (contd.)

D. IFRS 9, Financial Instruments:

In July 2014, the IASB published the full and final version of IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement.

According to IFRS 9, upon initial recognition, all the financial assets will be measured at fair value. In subsequent periods, debt instruments should be measured at amortized cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets should be at fair value. IFRS 9 provides a distinction between debt instruments measured at fair value through profit or loss and debt instruments measured at fair value through other comprehensive income.

Financial assets that are equity instruments will be measured in subsequent periods at fair value and the changes will be recognized in the statement of income or in other comprehensive income (loss), as elected by the Company on an instrument-by-instrument basis. Nevertheless, if equity instruments are held for trading, they should be measured at fair value through profit or loss.

For disposals and financial liabilities, IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected.

IFRS 9 includes new requirements for hedge accounting.

IFRS 9 is applicable for annual periods beginning on or after January 1, 2018 Earlier application is permitted.

The Company is assessing the possible effect of the standard, however at this stage, it is unable to estimate any effect it may have on the financial statements.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

JJ Reclassified

1. Further to Note 14, regarding the Group's disposal of holdings in the following companies: Delek US Holdings, Inc., Delek Europe BV, Roadchef Ltd., Republic Companies Inc., and Barak Capital Ltd. ("Delek US", "DEBV", Roadchef, Republic" and "Barak Capital", respectively), and in view of these investments being a significant and separate line of business of the Group, the operating results of these companies were presented in the statement of income under gain (loss) from discontinued operations, net.

2. Effect reclassification of the results of discontinued operations in the statement of income, as aforesaid:

Year ended 31 December, 2013

	As previously reported	Reclassified	As presented in these financial statements
	NIS million (other than net earnings (loss) per share)		
Revenue	38,455	(17,605)	20,850
Cost of revenues	31,304	(15,077)	16,227
Gross income	7,151	(2,528)	4,623
Selling, marketing and gas station operating expenses	3,653	(1,898)	1,755
General and administrative expenses	1,551	(290)	1,261
Other expenses, net	201	(39)	162
Operating income	1,746	(301)	1,445
Finance expenses, net	1,415	(208)	1,207
Loss from disposal of investments in a partnership and investees, net	(8)	-	(8)
Group's share in earnings of associates, net	437	(7)	430
Income before taxes on income	760	(100)	660
Taxes on income	501	(9)	492
Earnings from discontinued operations	259	(91)	168
Income from discontinued operations, net	1,076	91	1,167
Net income	1,335	-	1,335
Attributable to:			
Equity holders of the Company	740	-	740
Non-controlling interests	595	-	595
	1,335	-	1,335
Net earnings (loss) per share attributable to equity holders of the Company (NIS)			
Basic earnings per share from continuing operations	(6.3)	(8.0)	(14.3)
Basic earnings per share from discontinued operations	71.3	8.0	79.3
Basic earnings	65.0	-	65.0
Diluted loss per share from continuing operations	(6.3)	(8.1)	(14.4)
Diluted loss per share from discontinued operations	70.8	8.1	78.9
Diluted earnings	64.5	-	64.5

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

JJ Reclassification (contd.)

Year ended 31 December, 2012

	As previously reported	Reclassified	As presented in these financial statements
	NIS million (other than net earnings (loss) per share)		
Revenue	37,930	(19,071)	18,859
Cost of revenues	31,594	(16,445)	15,149
Gross income	6,336	(2,626)	3,710
Selling, marketing and gas station operating expenses	3,592	(1,913)	1,679
General and administrative expenses	1,571	(348)	1,223
Other expenses, net	65	(20)	45
Operating income	1,108	(345)	763
Finance expenses, net	1,233	(230)	1,003
Gain from disposal of investments in partnerships and investees, net	60	-	60
Group's share in earnings of associates, net	214	(48)	166
Income (loss) before taxes on income	149	(163)	(14)
Taxes on income	102	(25)	77
Income (loss) from discontinued operations	47	(138)	(91)
Income from discontinued operations, net	955	138	1,093
Net income	1,002	-	1,002
Attributable to:			
Equity holders of the Company	464	-	464
Non-controlling interests	538	-	538
	1,002	-	1,002
Net earnings (loss) per share attributable to equity holders of the Company (NIS):			
Basic earnings per share from continuing operations	(8.4)	(12.3)	(20.7)
Basic earnings per share from discontinued operations	49.7	12.3	62.0
Basic earnings	41.3	-	41.3
Diluted loss per share from continuing operations	(8.6)	(12.3)	(20.9)
Diluted loss per share from discontinued operations	48.8	12.3	61.1
Diluted earnings	40.2	-	40.2

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

JJ Reclassification (contd.)

Consolidated Statements of Comprehensive Income for the Year Ended December 31, 2013

	As previously reported	Reclassified	As presented in these financial statements
		NIS million	
Net income	1,335	-	1,335
Other comprehensive loss (net of tax effect):			
Amounts not reclassified to profit or loss:			
Actuarial gain for defined benefit plans	39	(35)	4
Profit from discontinued operations	-	35	35
	39	-	39
Amounts classified or reclassified to profit or loss under specific conditions:			
Gain from available-for-sale financial assets	163	46	209
Transfer to statement of income for disposal available-for-sale financial assets	(216)	12	(204)
Transfer to the statement of income for impairment of assets available-for-sale financial assets	9	-	9
Gain (loss) for cash flow hedges Cash flows	18	(21)	(3)
Exchange differences on translation of foreign operations of foreign operations	(847)	198	(649)
Other comprehensive loss attributable to associates, net	(24)	-	(24)
Loss from discontinued operations	-	(235)	(235)
Total	(897)	-	(897)
Total other comprehensive loss	(858)	-	(858)
Total comprehensive income	477	-	477

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

JJ Reclassification (contd.)

In the consolidated statements of comprehensive income as of December 31, 2012

	As previously reported	Reclassified	As presented in these financial statements
		NIS million	
Net income	1,002	-	1,002
Other comprehensive loss (net of tax effect):			
Amounts classified or reclassified to profit or loss under certain conditions:			
Gain (loss) for available for-sale financial assets	291	(53)	238
Transfer to statement of income for disposal available-for-sale financial assets	(264)	67	(197)
Transfer to the statement of income for impairment of assets available-for-sale financial assets	69		69
Gain (loss) for cash flow hedges	9	1	10
Adjustments for translation of financial statements of foreign operations	(356)	111	(245)
Transfer to statement of income for adjustments arising from translation of financial statements of foreign operations	5	(5)	-
Other comprehensive income attributable to associates, net	5	-	5
Loss from discontinued operations	-	(121)	(121)
Total	(241)	-	(241)
Total other comprehensive loss	(241)	-	(241)
Total comprehensive income	761	-	761

NOTE 3: CASH AND CASH EQUIVALENTS

		December 31	
		2014	2013
		NIS million	
A.	Cash balances and deposits available for immediate withdrawal *)		
	NIS	380	335
	Foreign currency	132	919
		512	1,254
B.	Short-term deposits *)		
	NIS	1,266	860
	Foreign currency	778	602
		2,044	1,462
		2,556	2,716

*) As of December 31, 2014, the deposits bear annual interest at a rate of 0.19 % (in 2013, 1%)

NOTE 4: PERFORMANCE-BASED CASH AND CASH EQUIVALENTS IN INSURANCE COMPANIES

	December 31	
	2014	2013
	NIS million	
Cash balances and deposits available for immediate withdrawal (1)	355	292
Short-term deposits 2)	2,296	1949
	2,651	2,241

(1) As of December 31, 2014, cash in banks bears current interest at a weighted annual rate of 0.11% based on nominal interest rates for daily deposits (2013, 0.93%).

(2) Short-term bank deposits in banks are for periods of between one week and three months. As of December 31, 2014, deposits bear weighted annual interest at a rate of 0.22% (2013, 0.95%).

NOTE 5: SHORT-TERM INVESTMENTS OF THE FINANCE SECTOR (MAINLY EXCHANGE-TRADED FUNDS AND DEPOSITS)

		December 31	
		2014	2013
		NIS million	
A.	Financial assets measured at fair value through profit or loss (1)		
	Marketable securities	41	12
	Non-marketable debentures	-	18
	Assets held by special purpose entities that issue exchange-traded funds and deposits	15,346	13,148
		15,387	13,178
B.	Credit for acquisition of securities		
	Open accounts	168	172
	Less provision for doubtful accounts	(8)	(7)
		160	165
C.	Designated deposits (2):		
	NIS	19,481	14,664
	In USD	839	3,748
	CPI-linked	2,345	27
	Other currencies	472	438
		23,137	18,877
D.	Current maturity of structured debentures	-	274
		38,684	32,494

(1) Financial assets, other than assets used as back-up assets held by special purpose entities that issue exchange-traded funds and deposit, are classified as held for trading and, therefore, are recognized at fair value through profit or loss.
Assets held by special purpose entities that issue exchange-traded funds and deposit are designated by the Group at initial recognition at fair value through profit or loss.

(2) Designated deposits are used as part of back-up assets in special purpose companies that issue exchange-traded funds and deposits.

NOTE 6: OTHER SHORT-TERM INVESTMENTS

	December 31	
	2014	2013
	NIS million	
Financial assets held for trading and measured at fair value through profit or loss		
Government debentures	858	224
Shares	-	5
	858	229
Available-for-sale financial assets		
Shares	988	18
Government debentures	132	173
	1,120	191
Bank deposits	397	-
Restricted bank deposits	257	291
	2,632	711

NOTE 7: TRADE RECEIVABLES

	December 31	
	2014	2013
	NIS million	
Open accounts	1,345	2,294
Checks receivable	206	246
	1,551	2,540
Less provision for doubtful accounts	59	108
Trade receivables, net	1,492	2,432

Trade receivables do not bear interest. The average credit for customers in Israel is 37 days.

The change in the provision for doubtful debts in 2014 is mainly due to the deconsolidation of DEBV and Roadchef. For further information see Note 14 to the financial statements.

NOTE 7: TRADE RECEIVABLES (CONTD.)

Aging analysis of gross trade receivables balance as of the balance sheet date:

	Trade receivables not yet past due (without collection in arrears)	Trade receivables past due with collection in arrears of					
		Up to 90 days	91-180 days	181-270 days	271-365 days	Over 1 year	Total
	NIS million						
December 31, 2014	1,415	46	11	4	5	70	1,551
Less –provision for doubtful debts							59
December 31, 2014							1,492
December 31, 2013	2,315	107	20	6	5	87	2,540
Less –provision for doubtful debts							108
December 31, 2013							2,432

NOTE 8: INSURANCE PREMIUM RECEIVABLE

	December 31	
	2014	2013
	NIS million	
Premiums receivable	601	927
Less provision for doubtful accounts	3	7
Total premium receivable	598	920

As of December 31, 2014, premiums receivable but not past due amount to NIS 457 million, past due for less than 90 days amount to NIS 91 million and past due for more than 90 days amount to NIS 42 million (as of December 31, 2013, premiums receivable past due for less than 90 days amount to NIS 85 million, and past due for more than 90 days amount to NIS 44 million).

NOTE 9: OTHER RECEIVABLES

	December 31	
	2014	2013
	NIS million	
Prepaid expenses, advances to suppliers and revenues receivable	328	387
Related parties, interested parties and associates	25	32
Current maturities of long-term debts and loans	31	16
Institutions	58	29
Financial derivatives	-	7
Insurance companies and insurance agents	45	54
Insurance fees receivable	35	42
Customer deposits held in trust	-	49
Receivables for joint ventures (1)	182	32
Other receivables	120	286
	824	934

(1) As of December 31. 2014, the balance is mainly in respect of transfer of advance payments by Avner Oil Exploration –Limited Partnership and Delek Drilling –Limited Partnership (jointly: "the Limited Partnerships") to Noble Energy Mediterranean ("Noble" or "the Operator"), from joint venture activities in gas or oil, mainly to finance the Limited Partnerships' share in the various ventures.

NOTE 10: INVENTORIES

	December 31	
	2014	2013
	NIS million	
Fuel products in gas stations and facilities	163	703
Inventory of consumables in gas stations	38	108
Others	67	78
	268	889

(1) As of December 31, 2014, the inventory balance is after amortization for impairment of NIS 20 million, to adjust the inventory value to the disposal value, net.

NOTE 11: FINANCIAL INVESTMENTS OF INSURANCE COMPANIES

A. Composition:

	December 31	
	2014	2013
	NIS million	
Financial investments for performance based contracts (1)	31,364	27,533
Other financial investments (2)	16,722	18,550
	48,086	46,083

Presented in the balance sheet:

	December 31	
	2014	2013
	NIS million	
Current assets	1,513	1,989
Non-current assets	46,573	44,094
	48,086	46,083

(1) Financial investments for performance based contracts

	December 31	
	2014	2013
	NIS million	
Marketable debt assets	15,210	12,282
Non-marketable debt assets	4,387	4,161
Shares (mainly marketable)	6,589	5,799
Other financial investments	5,178	5,291
	31,364	27,533

Fair value hierarchy of financial assets

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	NIS million			
Marketable debt assets	15,210	-	-	15,210
Non-marketable debt assets	-	4,299	88	4,387
Shares	6,526	-	63	6,589
Other financial investments	2,398	770	2,010	5,178
Total	24,134	5,069	2,161	31,364

NOTE 11: FINANCIAL INVESTMENTS OF INSURANCE COMPANIES (CONTD.)

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	NIS million			
Marketable debt assets	12,282	-	-	12,282
Non-marketable debt assets	-	4,072	89	4,161
Shares	5,715	-	84	5,799
Other financial investments	3,134	573	1,584	5,291
Total	21,131	4,645	1,757	27,533

Changes in Level 3 financial assets measured at fair value

In 2014, changes in financial assets at fair value and classified as Level 3 are profits amounting to NIS 426 million recognized in the statement of income, acquisitions of NIS 401 million, and against interest and dividend proceeds of NIS 161 million and sales/redemptions of NIS 261 million.

In 2013, changes in financial assets at fair value and classified as Level 3 are profits amounting to NIS 129 million recognized in the statement of income, acquisitions of NIS 235 million, and against interest and dividend proceeds of NIS 214 million and sales/redemptions of NIS 320 million.

(2) Other financial investments

	December 31, 2014			
	Presented at fair value through profit or loss (*)	Available for-sale financial assets (*)	Loans and receivables	Total (**)
	NIS million			
Marketable debt assets	18	5,302	-	5,320
Non-marketable debt assets (mainly government bonds)	-	-	10,571	10,571
Shares (mainly marketable)	2	702	-	704
Others	100	27	-	127
Total	120	6,031	10,571	16,722

NOTE 11: FINANCIAL INVESTMENTS OF INSURANCE COMPANIES (CONTD.)

	December 31, 2013			
	Presented at fair value through profit or loss (*)	Available for-sale financial assets (*)	Loans and receivables	Total (**)
	NIS million			
Marketable debt assets	-	5,032	-	5,032
Non-marketable debt assets (mainly government bonds)	-	1,700	10,089	11,789
Shares (mainly marketable)	15	631	-	646
Others	209	874	-	1,083
Total	224	8,237	10,089	18,550

(*) As of December 21, 2014, the fair value hierarchy of these investments is as follows: 95% is classified as tier 1, 0.3% is classified as tier 2, and the balance is classified as tier 3 (2013, 96% and 0.4%, respectively)

(**) Impairment recognized in the statement of income (cumulative) as of December 31, 2014 and 2013, for other finance investments:

	December 31	
	2014	2013
	NIS million	
Marketable debt assets	98	64
Non-marketable debt assets	88	136
Shares	69	45
Others	54	67
	309	312

B. Interest rates used for determining fair value in Israel

The fair value of non-marketable financial assets measured at fair value through profit or loss, and the fair value of non-marketable financial assets for which information is provided for disclosure purposes only, are determined by discounting estimated future cash flows. The discount rates are based on the yields of government bonds and margins of corporate debentures as reported on the TASE plus a premium for non-marketability. The interest rates used for discounting are determined by a company that provides interest rate quotations in relation to different risk ratings.

NOTE 12: LONG-TERM LOANS, DEPOSITS AND RECEIVABLES

Composition:

	December 31	
	2014	2013
	NIS million	
Loan to Delek Real Estate (1)	83	74
Seller's loans for the sale of Barak Capital (2)	137	-
Seller's loans for the sale of Delek Europe (2)	659	-
Loans to others (4)	78	107
	957	181
Less - current maturities	31	16
	926	165
Fuel Administration, long term (3)	-	16
Trade receivables and long-term receivables (4)	17	70
Deposits and limited securities (*)	576	261
Others	34	188
	1,553	700

(*) Deposits as of December 31, 2014 include mainly a safety cushion for the issue of debentures in the Limited Partnerships (see Note 16) amounting to USD 100 million (the rate of interest is 0.55%).

(1) Loans to Delek Real Estate

A) As of December 31, 2014, the loans provided by the Company to Delek Real Estate Ltd. (a former investee, held by the Company's controlling shareholder) amount to NIS 147 million (including accrued interest), subsequent to approval of the agreement described below. The discounted carrying amount of these loans as of December 31, 2014 amounts to NIS 83 million.

In November 2012, the Company's audit committee, board of directors and general meeting approved a settlement with Delek Real Estate. According to the settlement, once the creditors agreement comes into effect at Delek Real Estate (which came into effect in December 2012), Delek Real Estate's debt to the Company will be set at 50% of the original debt balance (amounting to NIS 250 million at the settlement date). The new debt bears annual interest at a rate of 2%. The interest for the first year will be paid at the end of the fifth year, the interest for the second year will be paid at the end of the sixth year, and from the third year the interest will be paid annually. The debt will be repaid in full on June 30, 2022.

To secure repayment of the outstanding debt, the controlling shareholder of the Company, Yitzhak Sharon (Tshuva), provided a personal guarantee, unlimited in time, in favor of the Company. Three years after the approval date of the settlement, the controlling shareholder will take steps to replace the personal guarantee with other collateral, subject to the approval of the Company's general meeting ("Replacement of the Collateral"), provided the replacement is completed within six months after the three years. After Replacement of the Collateral, the outstanding debt will be reduced to 45% of the original debt. If the Company's general meeting does not approve Replacement of the Collateral, the repayment date will be brought forward to December 31, 2017 or to the date of change of control in the Company.

NOTE 12: LONG-TERM LOANS, DEPOSITS AND RECEIVABLES (CONTD.)

It is noted that the Company also provided a subsidiary of Delek Real Estate a bank guarantee of NIS 29 million in favor of Bank Hapoalim, which if exercised, in whole or in part, the Company will be entitled to repayment of the debt that will be exercised in full from Delek Real Estate, and the debt will not be included in the settlement for restructuring the debt as described in this report. It is noted that the bank was provided with additional collateral beyond this guarantee, which, to the best of Delek Real Estate's knowledge and estimate at the date of the proposed debt restructuring as described above, fully backs the debt. However, it is noted that it is uncertain whether the bank will be repaid using this collateral.

B. On January 25, 2012, Delek Real Estate received notice from the District Attorney in Tel Aviv (Taxation and Economy) that Delek Real Estate and its officers will be indicted, subject to a hearing, for two offenses under section 415 of the Penal Law, 1977 ("the Penal Law") and three offenses under section 53A(4) of the Securities Law, 1968 ("the Securities Law"), including the claim that two officers allegedly acted in contravention of the law and through misrepresentations to change the accounting classification of the assets in Roadchef from property, plant and equipment to investment property, in the first three quarterly statements of Delek Real Estate in 2008, and through misrepresentations of the value of investment property (parking lots) in the UK.
Delek Real Estate stated its claims at a hearing held with the District Attorney. It is noted that as of the publication date of the financial statements, no claims were filed.
The Company's management believes that this will not affect the Company's financial statements. It is noted that the Company distributed Delek Real Estate's shares to its shareholders as a dividend in kind in March 2009.

(2) For information about the loans provided by the Group to buyers of the shares of Barak Capital and Delek Europe, see Note 14F and 14H below, respectively.

(3) The balance of the amount is for crude inventory revalued at the cost of financing emergency inventory that the Company held for the Fuel Administration. This balance was repaid in the last quarter of 2014 following a ruling of the Supreme Court.

(4) The loans were provided to owners of gas stations and other customers of Delek Israel, The loans are stated net of provision for impairment.

(5) See Note 32 for liens.

(6) Collection dates of the loans:

	December 31
	2014
	NIS million
First year - current maturities	31
Second year	28
Third year	35
Fourth year	44
Fifth year	45
Sixth year and onwards	774
	957

NOTE 13: FINANCIAL ASSETS

	December 31	
	2014	2013
	NIS million	
Financial assets at fair value through profit or loss		
Non-marketable shares *)	565	-
Marketable shares **)	473	-
	1,038	-
Available-for-sale financial assets:		
Marketable shares	-	19
Non-marketable shares	41	37
Marketable debentures	16	9
	57	65

*) Reflects the balance of the Group's investment in Republic. For further information, see Note 14G below.

**) Reflects the balance of the Group's investment in Delek US. For further information, see Note 14G below.

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS

A. Composition:

	Associates	
	December 31	
	2014	2013
	NIS million	
Shares	2,002	4,168
Loans and capital notes	174	213
	2,176	4,381

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

B. Condensed information from the financial statements of associates

1. Aggregate information for all associates

	December 31	
	2014	2013
	NIS million	
Group share of net assets of associates, based on percentage of interest held as of the balance sheet date (including surplus cost)		
Current assets	951	6,280
Non-current assets *)	2,381	5,038
Assets of associates held by insurance and finance companies	3,099	3,009
Current liabilities	(785)	(5,770)
Long-term liabilities	(1,018)	(1,794)
Liabilities of associates held by insurance and finance companies	(2,585)	(2,574)
Holders of non-controlling interests	(41)	(21)
Net assets	2,002	4,168

	Year ended December 31		
	2014	2013	2012
	NIS million		
Group share of results of associates based on percentage of interest held during the period (including discontinued operations)			
Revenue	2,335	2,393	3,197
Net income *)	195	437	214

*) After adjustments for fair value differences

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

C. Condensed information for companies accounted for at equity

1. The Group owns 50% of the shares of IDE Technologies Ltd. (“IDE”). The Group’s investment in IDE is accounted for using the equity method. Following is condensed information about IDE for each reporting period (in USD millions):

	December 31	
	2014	2013
	USD millions	
Current assets	254	283
Non-current assets	553	608
Current liabilities	146	257
Non-current liabilities	386	385
Holders of non-controlling interests	21	12
Equity attributable to equity holders of the investee	254	237

	Year ended December 31		
	2014	2013	2012
	USD millions		
Revenue	259	263	266
Gross income	79	60	35
Operating income	33	21	6
Finance income, net	11	12	4
Net earnings attributable to equity holders of the investee *)	31	30	18

As of December 31, 2014, the balance of goodwill attributable to the investment in IDE is NIS 47 million. The exchange rate as of December 31, 2014 and 2013 is NIS 3.889 and NIS 3.471 respectively. The average rate for each of the years 2014, 2013, and 2012 is NIS 3.576, NIS 3.611, and NIS 3.856, respectively.

2. For separate condensed information about Delek Automotive Systems Ltd. ("Delek Automotive"), see section K below.

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

D. Investments in shares of investees listed on the TASE

	December 31, 2014		December 31, 2013	
	Carrying amount	Market value	Carrying amount	Market value
	NIS million			
Subsidiaries (1)	6,926	11,546	6,673	14,922
Associates (2)	1,114	966	3,132	3,181

(1) Composition of the investment in shares of companies and joint partnerships listed for trading on the TASE

	December 31, 2014			December 31, 2013	
	Carrying amount	Market value	Market value shortly before publication date	Carrying amount	Market value
	NIS million				
The Phoenix Holdings Ltd.	1,732	1,351	1,543	2,123	1,683
Delek Drilling –Limited Partnership (1)	88	480	490	87	612
Delek Energy Systems Ltd. (2)	3,056	7,935	7,791	2,574	10,681
Avner Oil Exploration - Limited Partnership (1)	673	767	768	621	896
Cohen Development and Industrial Buildings Ltd. (3)	310	285	296	274	320
Excellence Investments Ltd. (4)	1,067	728	780	994	730
	6,926	11,546	11,668	6,673	14,922

(1) Direct investment of the Company

(2) Including indirect investment in Avner and Delek Drilling partnerships

(3) Including indirect investment in Avner Partnership

(4) Held at a rate of 89.81% by The Phoenix Holdings Ltd.

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

D. Investments in shares of investees listed on the TASE (contd.)

(2) Composition of the investment in shares of associates listed for trading on the TASE

	December 31, 2014			December 31, 2013	
	Carrying amount	Market value	Market value shortly before publication date	Carrying amount	Market value
	NIS million				
Delek Automotive Systems Ltd.	928	785	1,069	900	847
Mehadrin Ltd.	186	181	185	188	180
Delek US Holdings Inc. *)	-	-	-	2,044	2,154
	1,114	966	1,254	3,132	3,181

*) As of December 31, 2013, the investment in Delek US was included on the basis of the equity method. As of December 31, 2014, the investment in Delek US was included as a financial asset at fair value through profit or loss. For further information, see section G below.

E. Additional information about companies held directly by the Company

1. Additional information about associates held directly by the Company

	Country of incorporation	Company's interests in capital and voting rights	Amounts provided by the Company to an associate		Scope of investment in an associate
			Loans	Guarantees	
		%	NIS million		
December 31, 2014					
Delek Automotive Systems Ltd.	Israel	24.19	-	-	928
Navitas Petroleum Ltd.	UK	*)	37	-	(9)

*) The Company holds 60% of the capital and 50% of the voting rights.

	Country of incorporation	Company's interests in capital and voting rights	Amounts provided by the Company to an associate		Scope of investment in an associate
			Loans	Guarantees	
		%	NIS million		
December 31, 2013					
Delek Automotive Systems Ltd.	Israel	24.19	-	-	900
Delek Capital Ltd.	Israel	46.58	72	40	193
Navitas Petroleum Ltd.	UK	*)	7	-	(4)

*) The Company holds 60% of the capital and 50% of the voting rights.

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

E. Additional information about companies held directly by the Company (contd.)

2. Additional information about subsidiaries held directly by the Company

	Country of incorporation	Company rights in capital and voting rights	Amounts provided by the Company to a subsidiary		Retained investment in a subsidiary (according to equity value)
			Loans and capital notes	Guarantees	
		%	NIS million		
December 31, 2014					
Delek Finance	USA	100	-	-	507
Delek Energy Systems Ltd.	Israel	87.05	-	-	3,056
Delek Drilling –Limited Partnership	Israel	6.14	-	-	88
Avner Oil Exploration - Limited Partnership	Israel	8.45	-	-	674
Gadot Biochemical Industries Ltd.	Israel	100	-	114	78
The Phoenix Holdings Ltd.	Israel	*)	-	-	1,732
Delek Sea Maagan 2011 Ltd.	Israel	100	77	14	(1)
Delek Petroleum Ltd.	Israel	100	458	-	1,477
Delek Financial Investments (2012) Limited Partnership	Israel	99.9	-	-	(10)
DKL Investments Limited	Jersey	100	49	-	4
Delek Power Stations - Limited Partnership	Israel	100	257	120	(80)
Delek Infrastructure Ltd.	Israel	100	54	2	476
Cohen Development and Industrial Buildings Ltd.	Israel	51.76	-	-	310
			895	250	8,311

*) Capital rights, 52.3%; voting rights, 53.29%

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

E. Additional information about companies held directly by the Company (contd.)

2. Additional information about subsidiaries held directly by the Company (contd.)

	Country of incorporation	Company rights in capital and voting rights	Amounts provided by the Company to a subsidiary		Retained investment in a subsidiary (according to equity value)
			Loans and capital notes	Guarantees	
		%	NIS million		
December 31, 2013					
Delek Finance	USA	100	-	-	740
Delek Energy Systems Ltd.	Israel	86.67	-	-	2,574
Delek Drilling –Limited Partnership	Israel	6.14	-	27	87
Avner Oil Exploration - Limited Partnership	Israel	8.45	-	24	621
Gadot Biochemical Industries Ltd.	Israel	100	356	8	(319)
The Phoenix Holdings Ltd.	Israel	*)	-	-	2,123
Delek Sea Maagan 2011 Ltd.	Israel	100	75	14	-
Delek Petroleum Ltd.	Israel	100	424	-	3,738
Delek Financial Investments (2012) Limited Partnership	Israel	99.9	53	-	(59)
Delek Ecology - Limited Partnership **)	Israel	75 **)	80	-	(75)
Delek Infrastructure Ltd.	Israel	100	124	2	357
Cohen Development and Industrial Buildings Ltd.	Israel	51.76	-	-	274
			1,112	75	10,061

*) Capital rights, 52.3%; voting rights, 51.24%

**) As of December 31, 2013, 25% held by Delek Infrastructures Ltd., wholly-owned' by the Company

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

E. Additional information about companies held directly by the Company (contd.)

3. Dividends from investees

Dividends and distributions received by the Company, headquarter companies, and Delek Energy Companies from their investees:

	Year ended December 31		
	2014	2013	2012
Company	NIS million		
Delek Automotive Systems Ltd.	131	133	60
Delek Capital Ltd.	169	-	-
Delek US Holdings Inc.	20	75	82
Avner Oil Exploration - Limited Partnership	189	-	-
Delek Drilling –Limited Partnership	226	-	-
Delek The Israel Fuel Corporation Ltd.	100	-	-
The Phoenix Holdings Ltd.	105	180	-
IDE Technologies Ltd.	21	16	30
	961	404	172

F. Insurance and finance operations

A. The Phoenix Holdings Ltd. ("The Phoenix")

1. In 2014, the Company included provisions for impairment of its investment in The Phoenix (impairment of goodwill and other intangible assets, net of tax, attributable to the Company's share in The Phoenix), amounting to NIS 508 million (in 2013, NIS 165 million), partially in view of the publication of the Market Concentration Law, which requires the Company to sell its shares in The Phoenix within six years after the publication date of the Market Concentration (up to December 2019). For further information, see section O below. and in view of the procedures for the sale of the Company's holdings in The Phoenix as described below.

   For further information about the provision of impairment, see Note 20 below.

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

2. In July 2014, the Company signed a non-binding memorandum of understanding with Kushner Funding LLC ("Kushner"), which set out principles for a binding agreement to sell control in The Phoenix (47% of the share capital).
The memorandum of understanding included a number of fundamental conditions for the transaction in the binding agreement. The consideration that was set is an amount equal to the equity of the Phoenix as of December 31, 2013, in addition to the interest rate that was set until completion of the transaction. The parties to the memorandum of understanding failed to reach an agreement to sign a binding contract.

   Subsequent to the balance sheet, in January 2015, the Company and Fosun International Limited ("Fosun") signed a non-binding memorandum of understanding to sell control in The Phoenix to Fosum or any of its subsidiaries ("the Buyer") Fosun is a foreign traded company which also has activities in the insurance sector abroad. The memorandum of understanding set out principles for formulating a binding agreement for the sale of control in The Phoenix (42%-52.3% of the share capital of The Phoenix).
In accordance with the MOU, the full consideration for the sold shares will be an amount equal to the multiplication of the equity of the Phoenix as of September 30, 2014 (subject to defined adjustments), at the rate of the sold shares of the Phoenix's issued share capital in addition to interest at a rate of 4.75%, which will be added to the consideration as from September 30, 2014, until the completion date of the transaction (the equity of The Phoenix will be calculated less treasury shares and/or distribution of a dividend, if any, up to the actual closing date). As of December 31, 2014, the consideration for the Company's holdings in The Phoenix, in accordance with the information above, amounted to NIS 1,960 million.

   In addition, the MOU stipulates that the total consideration may be adjusted, if the due diligence discovers material information that was not included in the financial statements of The Phoenix, which might have resulted in a reduction of the equity as at September 30, 2014. The consideration will be paid in cash upon closing the transaction.

   The MOU stipulates that the Buyer will complete the due diligence within 75 days from the date of the MOU ("the Exclusivity Period"). In the Exclusivity Period, the parties will take steps to sign a binding agreement based on the provisions and terms set out in the MOU. In accordance with the MOU, if the transaction is not closed within 210 days after the MOU is signed, the MOU will be cancelled.

B. Barak Capital

In June 2014, the Company signed an agreement to sell all its holdings in Barak Capital. The total consideration amounts to NIS 237 million and includes payment for the sale of shares, repayment of shareholder loans and dividends. Payment of the consideration for the transaction was set as follows:

The transaction was completed in July 2014 when an amount of NIS 100 million out of the consideration was paid in two installments: NIS 40 million on completion of the transaction and NIS 60 million at the beginning of August 2014.
The remaining consideration of NIS 137 million was provided as a loan to Barak Capital for three years. The loan will bear interest at a rate of 7% and will be repaid in accordance with a repayment schedule set by the parties. To secure the loan, all the shares that were sold were pledged in favor of the Company and financial covenants were set.
Following the transaction, the Company recognized a loss of NIS 34 million for impairment of the investment less the Group's share in the gain of Barak Capital for the period.
Following completion of the transaction, as described above, the Company's share in the results of Barak Capital, including impairment of the investment, was presented in the statement of income under income (loss) from discontinued operations, net, with reclassification of comparative figures.

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

The table below presents information about the results of operations attributable to the discontinued operations of Barak Capital:

	Year ended December 31		
	2014	2013	2012
	NIS million		
Group share in earnings (losses) of associates	(22)	43	37
Income (loss) from discontinued operations of Barak Capital, net	(22)	43	37

C. Republic

In April 2014, Delek Finance US Inc. ("Delek Finance"), a wholly owned foreign subsidiary of the Company, signed an agreement (which was amended in July 2014) for the sale of 34% of the share capital of Republic for USD 75 million (approximately NIS 263 million) in cash. The transaction was completed in October 2014.

The buyers were granted rights of control in Republic as from the completion date of the transaction, which will be returned to the Company after three years if the buyers do not exercise any of the options granted to them for acquisition of Republic shares, as described below, and which will bring their holding to more than 50% of the share capital of Republic.
In addition to the above consideration, which was received in cash, the buyers were granted options to acquire the remaining Republic shares (66%) for an exercise addition, which will result in the buyers' holding reaching 100% of Republic, as described below:

- An option to acquire an additional 45% of the share capital of Republic for two years from completion of the transaction, in accordance with the mechanism set out in the agreement.
- An option to acquire 21% of the share capital of Republic, for up to three years from the closing date of the transaction, in accordance with the mechanism set out in the agreement.

If the options are exercised, the consideration for the exercise will be based on a value of USD 220 million for Republic, in addition to annual interest set for each period at an average annual rate of 5.5%, according to periods for exercising the different options.

Following the sale of part of the Group's investment in Republic shares, as described above, the Group holds 66% of Republic shares as of December 31, 2014. Following the controlling interests in Republic that were granted to the buyers as from the date of the transaction, and the options that were granted to the buyers to purchase the balance of Republic shares as described above, which are exercisable immediately, the Group concluded that it no longer controls Republic nor does it have material control. Accordingly, the Group recognizes the balance of its investment in Republic as a financial asset measured at fair value through profit or loss.

As of December 31, 2014, in accordance with an agreement for the sale of Republic shares, the fair value of the Group's investment in Republic shares amounted to USD 145 million (approximately NIS 565 million). On the other hand, the Group recognized a liability of USD 16 million (approximately NIS 66 million) for the fair value of the options granted to the buyers.

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

1. Carrying amount of the assets and liabilities of Republic at the deconsolidation date:

	NIS million
Current assets	
Cash and cash equivalents	135
Insurance premium receivable	327
Reinsurance assets	1,471
Other current assets	652
	2,585
Non-current assets	
Financial investments of insurance companies	729
Reinsurance assets	1,543
Goodwill	49
Other non-current assets	163
	2,484
Total assets	5,069
Current liabilities	
Other payables	347
Liabilities for insurance contracts	2,297
Other current liabilities	47
	2,691
Non-current liabilities	
Debentures	337
Liabilities for insurance contracts	1,098
Other non-current liabilities	145
	1,580
Total liabilities	4,271

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

2. Results of operations attributable to the discontinued operations of Republic:

	Year ended December 31		
	2014	2013	2012
	NIS million		
Revenue	720	1,158	1,392
Cost of revenues	440	662	852
	280	496	540
Sales expenses	142	252	296
General and administrative expenses	94	145	184
Other expenses, net	66	30	-
Operating profit (loss)	(22)	69	60
Finance expenses, net	12	17	24
	(34)	52	36
Gain from disposal of investments in investees, net	2	-	-
Income (loss) before taxes on income	(32)	52	36
Taxes on income	10	17	16
Income (loss) from discontinued operations of Republic, net	(42)	35	20
Loss from the disposal of capital reserves for translation differences *)	(61)	-	-
Total income (loss) from discontinued operations of Republic	(103)	35	20

**) For recognition of the full balance of the reserve for translation differences for the Group's investment in Republic in the statement of income .

3. Composition of net cash flows attributable to the discontinued operations of Republic:

	Year ended December 31		
	2014	2013	2012
	NIS million		
Net cash flows from (used in) operating activities	(16)	46	(96)
Net cash flows from (used in) investment activities	(23)	(217)	325
Net cash stemming from financing activities	(2)	(17)	(34)
	(41)	(188)	195

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

G. Delek Europe

1. In the first quarter of 2013, a wholly-owned foreign subsidiary, linked (Delek Hungary") disposed of 16% of its share capital of Delek US Holdings Inc. ("Delek US"), so that as of March 31, 2013, Delek Hungary holds 36.7% of Delek US. In view of the decrease in the rate of the holding, as described above, the Company is assessing the existence of the effective control of Delek Hungary in Delek US in accordance with the requirements of IFRS 10. The assessment established that as of March 31, 2013, Delek Hungary has effective control in Delek US.

2. In June, 2013, Delek Hungary disposed of an additional 3.6% of its holdings in Delek US, so that following this disposal, Delek Hungary holds 33.1% of the shares of Delek US. In view of the patterns of public participation in the general meeting of Delek US, which was held in May 2013, and following the further decrease in the rate of holding, and further to discussions between the Company and the Israel Securities Authority, the Company concluded that Delek Hungary no longer has effective control in Delek US, in accordance with the requirements of IFRS 10, therefore, in the second quarter of 2013, the Company recognized its share in the gain from the sale of Delek US shares and revalued the balance of the investment of Delek Hungary in Delek US at fair value. In August, 2013, Delek Hungary disposed of additional shares of Delek US, so that the rate of its holding in Delek US fell to 30.5%.

3. In March 2014, Delek Hungary sold 3,000,000 shares of Delek US for NIS 315 million. Subsequent to the sale, Delek Hungary held 25.4% of the share capital of Delek US. Following the sale, the Group included a loss of NIS 16 million in the first quarter of 2014.

4. As of March 31, 2014, the Group assessed the recoverable amount of the balance of its investment in Delek US, partially due to the decrease in the market value of Delek US. Due to the difference between the carrying amount of the investment in Delek US in the financial statements of Delek Hungary and its recoverable amount (fair value less selling costs), in the first quarter of 2014, the Group included a provision of NIS 240 million for impairment of the investment in Delek US, which was included under the item gain (loss) from discontinued operations (net).

5. In May 2014, Delek Hungary issued, through Delek US, an offering for Delek US shares owned by Delek Hungary ("the Seller"). The price was set at USD 30 per share. 10,580,000 shares of Delek US were sold in the offering (including underwriting options that were exercised) for a total consideration of NIS 1,097 million (before fees). Subsequent to the exercise, Delek Hungary held 7.5% of the shares of Delek US. Following the sale, in the second quarter of 2014, the Group recognized a gain of NIS 59 million (after tax, and including a gain of NIS 13 million following disposal of the credit balance of the cash flow hedge fund). In addition, following the low rate of Delek US shares held by Delek Hungary, and since the equity method is no longer applied for this investment as set out below, the Group concluded that the decrease in the rate of the holding is equal to fundamental dissolution of Delek Hungary, therefore it should dispose of the reserves arising from translation of the financial statements of Delek Hungary amounting to NIS 263 million and recognize the loss for their recognition in the statement of income. The total loss from disposal of Delek US shares and the capital reserve in the second quarter of 2014, as set out above, amounted to USD 204 million.

   In view of the decrease in the holding as set out above, Delek Hungary no longer applies the equity method for its investment in Delek US as from the second quarter of 2014, and recognizes its investment in Delek US at its market value, with market value changes recognized in the statement of income. In the second half of 2014, the Group recognized finance income of USD 7.5 million (after-tax) in the statement of income, for changes in the market value of Delek US from this date and up to December 31, 2014. As of December 31, 2014, the investment in Delek US amounted to NIS 473 million.

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

G. Delek US (contd.)

6. Following the sale of Delek US shares, as described above, and discontinuation of the equity method, the Company's share in the results of Delek US up to May 2014, including the results for the sale of the shares in May 2014, were presented in the statement of income under net profit (loss) from discontinued operations, until the date of loss of control, with reclassification of comparative figures.

A) The table below presents information on the results of operations attributable to the discontinued operations of Delek US:

	Year ended December 31	
	2013 *)	2012
	NIS million	
Revenues from sales	16,768	33,678
Cost of sales	15,476	30,828
Gross income	1,292	2,850
Selling and gas station expenses	298	590
General and administrative expenses	251	437
Other revenue, net	(30)	-
Operating income	773	1,823
Finance expenses, net	71	180
Income before taxes on income	702	1,643
Taxes on income	376	688
Profit from discontinued operations before revaluation	326	955
Profit from the sale of shares and revaluation of the balance of the investment in Delek US, net of tax	750	-
Income from discontinued operations, net	1,076	955
Attributable to:		
Equity holders of the Company	812	558
Non-controlling interests	264	397
	1,076	955

*) Operating results as included shortly before deconsolidation in June 2013.

	Year ended December 31	
	2014 **)	2013
	NIS million	
Loss from disposal of investments in partnerships and investees, net	(230)	-
Group's share in losses of associates, net	(229)	(47)
Loss before taxes on income	(459)	(47)
Tax benefit	(82)	-
Loss from discontinued operations of Delek US, net	(377)	(47)

**) Operating results as included shortly before the termination date of accounting using the equity method in May 2014.

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

G. Delek US (contd.)

6. (contd.)

B) Composition of net cash flows attributable to the discontinued operations of Delek US:

	Year ended December 31		
	2014	2013 *)	2012
	NIS million		
Net cash from operating activities	20	500	1,786
Net cash flows from (used in) investment activities	1,392	(798)	(614)
Net cash from finance activities	-	867	1,093
	1,412	569	2,265

*) As included up to the date of loss of control in June 2013 plus cash flows up to the end of 2013

7. Subsequent to the balance sheet date, in the first quarter of 2015, Delek Hungary disposed of 3.3 million shares of Delek US for USD 110 million, so that following the sale, Delek Hungary holds 2.1% of Delek US shares. Following these disposals and based on the market value of the shares of Delek US shortly before the approval date of the financial statements, the Group is expected to recognize a gain of NIS 100 million (after the effect of tax) in the first quarter of 2015.

H. Delek Europe

In June 2014, Delek Europe Holdings Ltd. ("Delek Europe") signed an agreement for the sale of its entire holdings in Delek Europe BV ("DEBV") and the loans provided by Delek Europe to DEBV, for EUR 355 million (approximately NIS 1.7 billion). All the preconditions were fulfilled in August 2014 and the transaction was completed. On the completion date of the transaction, the first installment of EUR 90 million was paid, and in September 2014, the buyer paid the second installment of EUR 90 million ahead of its due date (12 months after completion of the transaction), so that in the third quarter of 2014, a total consideration of EUR 180 million was received for this sale. Delek Europe provided the remaining consideration of EUR 175 million to the buyer as a loan for five years and six months. The loan bears annual interest at a rate of 5%. All parent company shares held by the acquiring company were provided as collateral for the loan to Delek Europe. In addition, so long as the loan is not fully repaid, the loan agreement sets out terms for appointing an observer to the board of directors of DEBV on behalf of Delek Europe and information that the buyer is required to disclose to Delek Europe. The agreement includes a mechanism for additional compensation, limited to a maximum of an additional EUR 40 million, if the buyer sells the shares while achieving the yield defined in the agreement, and a mechanism for reduction of up to EUR 11.5 million, depending on DEBV's results in 2014.

The Group estimated the fair value of the transaction consideration (including contingent consideration) amounting to EUR 315 million (approximately NIS 1,478 million) and accordingly, in the third quarter of 2014, the Company recognized a loss of NIS 210 million (less selling costs and recognition of negative capital reserves in profit or loss). In this context, it is noted that the Group, through an independent external assessor, estimated that the fair value of the loan provided to the buyer as described above (EUR 175 million) amounts to EUR 135 million, based on an annual discount rate of 10.1%.

In view of completion of the transaction, as described above, the operating results of DEBV, including the loss from disposal, were presented in the statement of income under profit (loss) from discontinued operations, net, with reclassification of comparative figures.

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

H. Delek US (contd.)

1. Carrying amount of the identifiable assets and liabilities of DEBV at the deconsolidation date:

	NIS million
Current assets	
Cash and cash equivalents	858
Trade receivables	831
Inventories	498
Other current assets	98
	2,285
Non-current assets	
Property, plant and equipment, net	2,176
Goodwill	694
Other intangible assets, net	552
Other non-current assets	282
	3,704
Total assets	5,989
Current liabilities	
Liabilities to suppliers and service providers	(761)
Other payables	(1,306)
Other current liabilities	(177)
	(2,244)
Non-current liabilities	
Loans from banks and others	(1,870)
Provisions and other liabilities	(232)
Other non-current liabilities	(246)
	(2,348)
Total liabilities	(4,592)

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

2. The table below presents information on the results of operations attributable to the discontinued operations of DEBV:

	Year ended December 31		
	2014	2013	2012
	NIS million		
Revenue	7,146	15,401	16,321
Cost of revenues	6,209	13,446	14,316
Gross income	937	1,955	2,005
Selling and gas station expenses	789	1,646	1,617
General and administrative expenses	69	138	156
Other expenses (income), net	5	(3)	11
Operating income	74	174	221
Finance expenses, net	68	110	114
Income before taxes on income	6	64	107
Company's share in earnings of associates, net	7	11	11
	13	75	118
Taxes on income (tax benefit)	(1)	13	18
Profit from discontinued DEBV transactions prior to sale of the shares	14	62	100
Loss from disposal of shares	(210)	-	-
Income (loss) from discontinued operations of DEBV, net	(196)	62	100

3. Composition of net cash flows attributable to the discontinued operations of DEBV:

	Year ended December 31		
	2014	2013	2012
	NIS million		
Net cash from operating activities	336	424	622
Net cash flows from (used in) investment activities	696	(443)	(334)
Net cash from (used in) finance activities	81	(38)	(23)
	1,113	(57)	265

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

I. Roadchef -motorway services in the UK

In September 2014, MSA Acquisitions Co. Ltd., (a wholly-owned subsidiary, linked) signed an agreement for the sale of its entire holdings in Roadchef for GBP 153 million (approximately NIS 910 million). At the end of September 2014, the transaction was completed and the consideration was paid in full.

Following completion of the transaction, in the third quarter of 2014, the Group recognized a gain of NIS 253 million (less selling costs and recognition of negative capital reserves in profit or loss).

In view of completion of the agreement for the sale, as described above, the operating results of Roadchef, including the gain from disposal of the shares, were presented in the statement of income under profit (loss) from discontinued operations, net, with restatement of comparative figures.

1. Carrying amount of the assets and liabilities of Roadchef at the deconsolidation date:

	NIS million
Current assets	
Cash and cash equivalents	86
Trade receivables	35
Inventories	23
Other current assets	15
	159
Non-current assets	
Property, plant and equipment, net	428
Goodwill	877
Other intangible assets, net	693
	1,998
Total assets	2,157
Current liabilities	
Credit from banks and others	236
Liabilities to suppliers and service providers	41
Other payables	149
	426
Non-current liabilities	
Loans from banks and others	207
Debentures	744
Provisions and other liabilities	31
Other non-current liabilities	119
	1,101
Total liabilities	1,527

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

2. The table below presents information on the results of operations attributable to the discontinued operations of Roadchef:

	Year ended December 31		
	2014	2013	2012
	NIS million		
Revenue	815	1,046	1,358
Cost of revenues	747	969	1,277
Gross income	68	77	81
General and administrative expenses	3	7	8
Other expenses, net	-	12	9
Operating income	65	58	64
Finance expenses, net	64	81	92
Income (loss) before taxes on income	1	(23)	(28)
Taxes on income (tax benefit)	3	(21)	(9)
Loss from Roadchef operations prior to gain from disposal of shares	(2)	(2)	(19)
Gain from disposal of shares	253	-	-
Income (loss) from discontinued operations of Roadchef, net	251	(2)	(19)

3. Composition of net cash flows attributable to the discontinued operations of Roadchef:

	Year ended December 31		
	2014	2013	2012
	NIS million		
Net cash from operating activities	127	129	131
Net cash flows from (used in) investment activities	816	(58)	(43)
Net cash from (used in) finance activities	2	(58)	(79)
	945	13	9

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

J. Summary of information for discontinued operations as described in sections F-I above:

	Year ended December 31		
	2014	2013	2012
	NIS million		
Delek US in view of loss of control *)	-	1,076	955
Delek US	(377)	(47)	-
Delek Europe	(196)	62	100
Roadchef	251	(2)	(19)
Republic	(103)	35	20
Barak Capital	(22)	43	37
	(447)	1,167	1,093

*) Up to the date of loss of control in June 2013

K. Delek Automotive Systems Ltd. (“Delek Automotive”)

1. As of June 30, 2014, and in view of the difference between the value of the Group's investment in shares of Delek Automotive Systems Ltd. ("Delek Automotive") and its market value, the Group estimated the recoverable amount (value in use) of its investment in Delek Automotive. The value in use was estimated by an independent external appraiser, estimating the net value in use of the Company's investment in Delek Automotive at between NIS 863 million and NIS 954 million (based on discounting the cash flow, at a discount rate after tax of 10.5%, assuming the representative cash flow as from the sixth year will increase by 2.5% annually). In view of the aforesaid, the Group concluded that the investment in Delek Automotive shares, amounting to NIS 940 million as of June 30, 2014, is not lower than its value in use, therefore no provision is required for impairment of the investment.

   As of December 31, 2014, the investment in Delek Automotive amounted to NIS 928 million and the market value of the investment in Delek Automotive amounted to NIS 785 million. The Company assessed parameters used in the valuation of the investment of June 2014, and concluded that the value of the investment in Delek Automotive shares is not lower than its value in use, therefore no provision for impairment of the investment is required. It is further noted that in the first quarter of 2015, there was a sharp increase in the price of Delek Automotive shares and shortly before the approval date of the financial statements, the market value of the Company's holdings in Delek Automotive amounted to NIS 1,082 million.

2. Subsequent to the balance sheet date, in February 2015, the Company sold 1,045,000 shares of NIS 1 par value each of Delek Automotive for NIS 40 million. The result of the sales is expected to amount to insignificant amounts. Subsequent to these sales, the percentage of the Group’s holding in Delek Automotive is 23.07%.

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

3. Condensed information from the financial statements of Delek Automotive (as included in the financial statements of the Group):

	December 31	
	2014	2013
	NIS million	
Current assets	1,789	1,629
Non-current assets	1,365	1,085
Current liabilities	1,893	1,711
Non-current liabilities	371	296
Equity attributable to equity holders of the investee	890	707

	Year ended December 31		
	2014	2013	2012
	NIS million		
Revenue	3,678	3,467	4,105
Gross income	671	570	424
Operating income	532	460	304
Finance income, net	160	208	99
Net earnings attributable to equity holders of the investee *)	509	502	303

In accordance with the accounting policy applied by Delek Automotive (which adopted IFRS 9 in advance of the effective date) changes in the fair value of the investment in a financial asset (Mobileye NV shares) are recognized in the statement of income and the Group regards this investment as accounted for as an available for sale asset with fair value changes in this investment recognized in other comprehensive income.

L. Fuel operations in Israel

In March 2014, all the permits required for the sale of the holdings in Delek The Israel Fuel Corporation Ltd. ("Delek Israel") in the shares of Pi-Gliloth Petroleum Terminals and Pipelines Ltd. ("Pi Gliloth") for NIS 69 million. Following the transaction, Delek Israel recognized a gain of NIS 44 million after tax and sales expenses (mostly transfer of capital reserve for available for sale financial assets to the statement of income).

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

M. Share-based payment in investees

Expense recognized in the financial statements

The expense recognized in the financial statements for services received from employees of investees is presented in the following table:

	Year ended December 31		
	2014	2013	2012
	NIS million		
Equity-settled share-based payment plans	8	5	4
Cash-settled share-based payment plans	(5)	9	1
Total recognized expense from share-based payments	3	14	5

Details of the valid options plans were not provided due to their insignificance.

For information about the phantom options plan for managers and officers in the Company, see Note 44G(4).

NOTE 14: BUSINESS COMBINATIONS AND INVESTMENTS IN INVESTEES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

N. Information about non-controlling interests

December 31, 2014

Company	Rate of holding in share capital and voting rights of holders of non-controlling interests	Current assets	Non-current assets	Insurance and finance assets	Current liabilities	Non-current liabilities	Insurance and finance liabilities	Total assets, net	Carrying amount of holders of non-controlling interests
	%	NIS million							
Energy (*)	(*)	2,570	17,605	-	745	11,128	-	8,302	4,155
The Phoenix (**)	47.7%	-	-	101,337	-	-	97,407	3,930	1,850
Others									19
Total									6,024

2014

Company	Revenue	Net income	Other comprehensive income (loss)	Total comprehensive income	Gain attributable to holders of non-controlling interests	Total comprehensive income (loss) attributable to holders of non-controlling interests	Cash flows from operating activities	Cash flows from investing activities	Cash flows from finance activities	Translation differences	Increase in cash and cash equivalents	Dividends paid to holders of non-controlling interests
	NIS million											
Energy (*)	1,408	252	507	151	151	470	702	(1,566)	1,338	74	548	262
The Phoenix (**)	11,190	531	(60)	471	265	(29)	693	(281)	90	-	502	95
Others												-
Total					416	441						357

(*) Refers to non-controlling interests for Delek Energy, Cohen and Development, Delek Drilling and Avner (for information about the rates of holding, see the appendix to the financial statements)

**) Including non-controlling interests in the financial statements of The Phoenix (mainly for Excellence) The rate of holding of non-controlling interests in voting rights in The Phoenix is 46.71%.

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

N. Information about non-controlling interests

December 31, 2013

Company	Rate of holding in share capital and voting rights of holders of non-controlling interests	Current assets	Non-current assets	Insurance and finance assets	Current liabilities	Non-current liabilities	Insurance and finance liabilities	Total assets, net	Carrying amount of holders of non-controlling interests
	%	NIS million							
Energy (*)	(*)	964	15,199	-	3,318	5,532	-	7,313	3,810
The Phoenix (**)	47.7	-	-	91,324	-	-	87,670	3,654	1,803
Others	-	-	-	-	-	-	-	-	(65)
Total									5,548

2013

Company	Revenue	Net income	Other comprehensive income (loss)	Total comprehensive income (loss)	Gain attributable to holders of non-controlling interests	Total comprehensive income (loss) attributable to holders of non-controlling interests	Cash flows from operating activities	Cash flows from investing activities	Cash flows from finance activities	Translation differences	Increase in cash and cash equivalents	Dividends paid to holders of non-controlling interests
	NIS million											
Energy (*)	1,264	88	(245)	(157)	48	(150)	796	(1,525)	802	(10)	63	-
The Phoenix (**)	12,726	760	5	765	343	3	997	(191)	(646)	-	160	156
Others	-	-	-	-	204	(177)	-	-	-	-	-	81
Total					595	(324)						237

(*) Refers to non-controlling interests for Delek Energy, Cohen and Development, Delek Drilling and Avner (for information about the rates of holding, see the appendix to the financial statements)

**) Including non-controlling interests in the financial statements of The Phoenix (mainly for Excellence) The rate of holding of non-controlling interests in voting rights in The Phoenix is 47.75%.

NOTE 14: INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

O. The Market Concentration Law

In December 2013 the Law to Promote Competition and Reduce Market Concentration, 2013 was published ("the Market Concentration Law").
The Market Concentration Law consists of three main chapters: (1) Multiple-sector concentration consideration when granting rights for the use of national resources (essential infrastructures and privatized assets) to concentration groups (based on a list of concentration groups published by the market concentration committee and the criteria set in the Law), and competition considerations when allocating rights to essential infrastructure and in sectors where there is a limited number of players in the sector; (2) restrictions on the control of companies in a pyramid structure: limiting control pyramids to two tiers only and applying increased corporate governance regulations on pyramid companies ("Limiting Control of Pyramid Companies"); (3) separation of significant financial corporations and significant non-financial corporations as defined in the Market Concentration Law and under which, among other things, a significant non-financial corporation is prohibited from controlling and holding the means of control in an insurer, which is a significant financial corporation.
The Market Concentration Law affects the Groups directly and/or indirectly, mainly in respect of the following:

(1) In accordance with the list of concentration groups in Israel, the list of significant non-financial corporations and the list of significant financial institutions, published by the market concentration committee, Delek Group and all the corporations under its control are included in the list of concentration groups (and all, except for The Phoenix and its investees, are also included in the list of significant non-financial corporations). Moreover, The Phoenix and its investees are included in the list of significant financial entities.
Regarding the chapter in the Market Concentration Law that addresses multiple-sector concentration and competition considerations when allocating rights, according to the list of essential infrastructures published by the Antitrust Commissioner, the natural gas, oil, fuel, desalination, and electricity sector, and the marketing sector for the Group's LPG, are essential infrastructure activities, and at this stage, the Company is unable to estimate the effect of this chapter on the Group's activities.

(2) The Market Concentration Law has direct effect on restrictions on the control of pyramid companies, since under the Market Concentration Law, the Company is considered to be a first tier company and the Company's subsidiary that has further layer companies below it is The Phoenix, which is considered as a second tier company ("the Second Tier Company"). The subsidiaries of the Second Tier Company, which are considered under the Market Concentration Law, to be "other tier" companies are The Phoenix Capital Raising, Excellence and Mehadrin ("the Other Tier Companies"). It is noted that in accordance with the provisions of the Law, a reporting corporation that is a "second tier" company, and which, on the publication date controls other reporting corporations, is required to cease control in these companies no later than December 2019.

(3) The provisions of the Law also impose restrictions and conditions for separating significant financial corporations from significant non-financial corporations.
The Phoenix is "a significant financial corporation", and the Group companies that are not financial entities are considered as "significant non-financial entity". Therefore, in accordance with this section of the Market Concentration Law, the Group is required to sell the means of control in the financial entities that it holds in Israel (The Phoenix and its investees), within a period of six years from the effective date of the Concentration Law.

See also Note 20B(1) below for information about the accounting treatment of the Company's investment in The Phoenix shares.

NOTE 15: INVESTMENT PROPERTY

A. Movement

	2014	2013
	NIS million	
Balance as of January 1	2,782	1,821
Acquisitions and additions	128	862
Transfer to property, plant and equipment	-	7
Adjustment to fair value	95	92
Balance as at December 31	3,005	2,782

B. In calculating the fair value, assessors have used discount rates between 6.75% and 10%. In calculating the fair value of investment property, the assessors also take into account similar transactions. In addition, as of December 31, 2014, NIS 1,745 million is for capitalized lease assets (94% of this amount is for periods of 28 to 42 years). As of December 31, 2013, NIS 1,645 million is leased (94% of this amount is for periods of 29 to 43 years).

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION

A. Composition

	Exploration and appraisal assets	Oil and gas production assets	Total
		NIS million	
Cost			
Balance as of January 1, 2013	5,548	10,843	16,391
Additions during the year:			
Investments	808	484	1,292
Carry forwards	(105)	105	-
Disposals (2)	-	(689)	(689)
Adjustments for translation of financial statements of foreign operations	(419)	(718)	(1,137)
Balance as of January 1, 2014	5,832	10,025	15,857
Additions during the year:			
Investments	71	706	777
Carry forwards	(4,635)	4,635	-
Exchange differences on translation of foreign operations	159	1,770	1,929
Balance as of December 31, 2014	1,427	17,136	18,563
Accumulated depreciation, depletion and amortization			
Balance as of January 1, 2013	-	1,414	1,414
Additions (1)	-	766	766
Disposals (2)	-	(540)	(540)
Adjustments for translation of financial statements of foreign operations	-	(90)	(90)
Balance as of January 1, 2014	-	1,550	1,550
Additions (1)	-	354	354
Adjustments for translation of financial statements of foreign operations	-	176	176
Balance as of December 31, 2014	-	2,080	2,080
Depreciated cost as of December 31, 2014	1,427	15,056	16,483
Depreciated cost as of December 31, 2013	5,832	8,475	14,307

(1) Amortization rates of the producing assets (the Tamar, Ashkelon and Noa leases) are based on production amounts compared to total proved reserves, as follows: 2014: 3.83%-66.1%; 2013: 2.5%-63.36%. In addition, amortization of some investments in the Noa and Pinnacles reservoirs was recorded. The amortization is mainly due to the decline in production capacity and the decrease in volume of reserves that can be produced.

(2) See section D below.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

A. Composition (contd.)

Composition according to joint ventures (1):

	December 31	
	2014	2013
	NIS million	
Oil and gas assets		
Yam Tethys joint venture (Mari B and Noa)	156	129
Michal Matan joint venture (Tamar and Dalit)	9,360	8,346
Ratio Yam joint venture (Leviathan)	5,540	-
	15,056	8,475
Exploration and appraisal assets		
Ratio Yam joint venture (2)	99	4,718
Alon joint venture (Tanin and Karish)	295	261
Block 12, Cyprus	993	853
Ruth joint venture	40	-
	1,427	5,832
Total	16,483	14,307

(1) Including surplus cost

(2) The balance as of December 31, 2014 reflects the investment in the Dolphin reservoir.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

B. The rights of the Company and the Limited Partnership in oil and gas exploration licenses

Project	Name of lease/license	License/lease	Rights valid until	Partnership % of the Company	Partnership % of the Limited Partnerships	Noble Energy Mediterranean Limited (the Operator)	Others
Israel							
Yam Tethys project	Ashkelon	Lease	June 10, 2032	4.441%	48.50%	47.06%	-
Yam Tethys project	Noa	Lease	January 1, 2030	4.441%	48.50%	47.06%	-
Tamar	I/12 Tamar	Lease	December 1, 2038	-	31.25%	36.00%	32.75%
Dalit	I/13 Dalit	Lease	December 1, 2038	-	31.25%	36.00%	32.75%
Leviathan	I/14 Leviathan South and I/15 Leviathan North	Lease	February 13, 2044	-	45.34%	39.66%	15.00%
Dolphin	351/Hannah	License	June 14, 2015	-	45.34%	39.66%	15.00%
Ruth license	360/Ruth C	License	February 28, 2016	-	52.94%	47.06%	-
Karish and Tanin	364/Alon A	License	September 1, 2015	-	52.94%	47.06%	-
	366/Alon C	License	September 1, 2015	-	52.94%	47.06%	-
	367/Alon D	License	March 31, 2015	-	52.94%	47.06%	-
Cyprus							
Aphrodite	Block 12	Concession	May 23, 2016	-	30.00%	70.00%	-

The validity of the oil rights are extended from time to time and is contingent on fulfilling the commitments on dates set out in terms of the oil assets Non-compliance with the commitments could lead to cancellation of the oil rights.
The leases were issued under the Petroleum Law, and they confer on the partners a unique right to produce oil and natural gas in the lease areas for 30 years, with an option for another 20 years, in accordance with and subject to the provisions of the Petroleum Law.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

B. The rights of the Company and the Limited Partnership in oil and gas exploration licenses (contd.)

Additional information:

1) As of the publication date of the report, the following licenses expired: 353/Eran, 358/Ruth A, 359/Ruth B, 365/Alon B, 369/Alon F, 337/Avia, and 338/Keren. The Limited Partnerships and their partners in each of these licenses filed an appeal with the Minister of Energy on Commissioner's decision not to extend the validity of the licenses.

2) In March 2012, the Limited Partnerships and its partners in the 361/Ruth D and 368/Alon E licenses filed an appeal with the Minister of Energy against the decision of the Commissioner of Petroleum Affairs not to extend the licenses. In September 2014, the Minister of Energy informed the partners in the Ruth D and Alon E licenses of his decision to dismiss the appeal. In view of the decision of the Minister of Energy, the Limited Partnerships are considering their steps in respect of the decision, including litigation.

3) The concession agreement between the Limited Partnerships and the Republic of Cyprus defines, among other things, the right of the Republic of Cyprus to a share of any oil and/or gas that may be produced, in accordance with the arrangements set out in the concession agreement.

4) On March 12, 2015, the Limited Partnerships ("the Petitioners") filed a petition with the High Court of Justice, which mainly includes a motion for an order nisi against the Minister of Energy and the Commissioner, ordering them to explain why the decision of the Minister of Energy dismissing the appeal will not be reversed and why the Avia and Keren licenses will not be extended. Underlying the petition is an agreement reached by the Petitioners with the Commissioner, whereby they will be permitted to continue to hold the Avia and Keren licenses if they waive other licenses granted to them, and transfer 75% of the Avia and Keren licenses, such that their holdings in these licenses will not exceed 25%. The Petitioners claim that the Commissioner prevented the transfer of the rights in the Avia and Keren licenses and fulfillment of the agreement, and also refused to extend the licenses that had expired.

   The petition is directed at the Minister's decision to dismiss the Petitioners ’appeal and the conduct of the Commissioner on the issue, and in which the Petitioners asserted, among other things, that the Commissioner’s conduct amounts to a breach of an administrative agreement and that they were not afforded due process, in being denied the right of argumentation before the Minister before he gave his decision on the appeal.

5) On March 26, 2015, the Limited Partnerships announced that on March 25, 2015, the operator Noble informed the Limited Partnerships that it was withdrawing from the 360/Ruth C license and the joint operating agreement ("the JOA"), which is applicable to them, claiming that this is due in part to the current regulatory uncertainty in Israel and taking into account the risks involved in exploration license.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

C. Yam Tethys joint venture

The Yam Tethys project is an oil and gas exploration, development and production project on the continental shelf of the State of Israel. Production from the Yam Tethys reservoir began in 2004. As from 2013, production capacity from the reservoir is declining. See section I below for information about the appraisal of the gas reserves in the Yam Tethys reservoir, prepared by Netherland, Sewell and Associates, Inc. ("NSAI").

In 2013, the Yam Tethys project partners and Tamar project partners acted according to a binding and fixed memorandum of understanding for a commercial arrangement of parallel operations and production from the Yam Tethys and Tamar project, partly due to the continuing decline in supply capacity of the Mari B reservoir.
On June 30, 2014, the Tamar Project partners and the Yam Tethys Project partners agreed to extend the date set out in the memorandum of understanding for storage in the Mari B reservoir (which was set for June 30, 2014), to July 15, 2014.
Up to July 15, 2014, the Mari B reservoir had not been used for storage, and accordingly, the parties made a cash settlement for revenue from the sale of natural gas from the Tamar reservoir to Yam Tethys project customers between May 1, 2013 and June 30, 2014, in accordance with the principles set out in the memorandum, whereby the Tamar partners were paid USD 77 million (100%). The net effect of this accounting for the reporting period on the operating results attributable to equity holders of the Company is an expense of NIS 27 million.

D. Agreement for the right of use of the Yam Tethys project facilities

In July 2012, the Yam Tethys joint venture partners ("the Yam Tethys Group") and the partners in the I/12 Tamar lease and I/13 Dalit lease ("the Tamar Project" and "the Tamar Group", respectively) signed an agreement. According to the agreement, the Yam Tethys Group will grant the Tamar Group right of use of the Yam Tethys project facilities, including the wells, Mari-B platform, compression system, pipeline and receiving terminal at Ashdod and also granted the Tamar Group the right to upgrade and/or construct facilities to transport and store natural gas from the Tamar project ("the Yam Tethys facilities", "the Rights to Use the Facilities" and "the Usage Agreement", respectively). The Right to Use the Facilities will be granted subject to maintaining capacity for the gas produced from the Yam Tethys project in the pipeline and receiving facility as set out in the detailed agreement.
The Usage Agreement will be valid upon signing the agreement and will expire at the earlier of: (1) expiry or termination of the Tamar lease and if the Dalit field is developed to use the Yam Tethys facilities, then expiry or termination of the Dalit lease; (2) notification by the Tamar Group of permanent suspension of commercial production of gas from the Tamar project; (3) abandonment of the Tamar project. In consideration for use of the facilities, the Tamar Group will pay the Yam Tethys Group a total amount of USD 380 million in installments as set out in the usage agreement, commencing from the start of flow from the Tamar project and ending on December 31, 2015.

The agreement includes provisions regulating the relationship between the Tamar Group and the Yam Tethys Group during the entire term of the usage agreement, including management of the Yam Tethys facilities, a mechanism for distributing operating expenses of the Yam Tethys facilities and distribution of the equity expenses of the Yam Tethys facilities to prepare and upgrade the Yam Tethys facilities to receive natural gas from the Tamar project, based on the ratio of gas production between the Yam Tethys project and the Tamar project, restrictions on transfer and/or pledging the rights of the parties to the agreement, and an arbitration mechanism to settle disputes between the parties.
It is noted that the Yam Tethys Group will continue to own the upgraded Yam Tethys facilities and the Usage Agreement will define an accounting mechanism for the value of these facilities at the end of production from the Tamar project.
The agreement for granting right of use was accounted for by the Company and the Limited Partnerships as a finance lease (for the effective part leased to the other partners in the Tamar project), and accordingly, an asset at its present value of USD 36 million was included in the financial statements at the balance sheet date (the discount rate used to record the asset is 4.5%).
The profit generated in 2013 for the equity holders of the Company (before the effect of tax) amounted to USD 17 million (approximately NIS 62 million).

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

E. Michal Matan Joint Venture

In 2009, two offshore drillings were completed, at the Tamar 1 well and the Tamar 2 appraisal well, with a significant gas finding. On March 30, 2013 the Limited Partnerships announced that natural gas has started to flow from the Tamar reservoir and as from April 2013, the Limited Partnerships recognize income and expenses from the Tamar project. See section I below for information about the assessment of the gas and condensate reserves prepared by NSAI.

1. Expansion Project

The flow capacity to the shore of the Tamar reservoir production system (which includes the Tamar project facilities and use of the Yam Tethys handling and transmission systems, which was upgraded and adapted for use by the Tamar project) to the INGL pipeline, is 10 BCM per year. Accordingly, the expansion project ("the Expansion Project"), which is planned mainly at the Ashdod receiving terminal ("the Receiving Terminal"), was planned to increase flow capacity.

In the first stage, the Expansion Project will include the addition of compressors and auxiliary systems at the Receiving Terminal at a total estimated cost of USD 262 million (100%) ("the Compressor Project"). As at December 31, 2014, the investment in the Compressor Project amounted to USD 207.9 million (100%) and it is expected to be completed by June 2015. In addition, the option of temporary use of the 10" pipeline, which was originally planned for condensate, is being assessed, to deliver natural gas in a way that will increase the rate of gas supply from the production platform to the Receiving Terminal.

In the second stage, the Expansion Project will include changes required at the Mari B reservoir production facilities to adapt the reservoir to operational and strategic storage of natural gas from the Tamar project ("the Storage Project"). As at the approval date of the financial statements, the Petroleum Commissioner has not yet granted the project partners a license to store gas and the Storage Project has not yet been approved.

The partners estimate that the Compressor Project will increase maximum production capacity from the Tamar reservoir to 1.2 BCF, without the Storage Project, and to 1.5-1.6 BCF including the Storage Project and use of the 10" pipeline as described above.

It is emphasized that in view of the limited capacity of the natural gas pipeline from the Tamar reservoir to the Tamar Platform, average annual sales from the Tamar Project to the local market is expected to be limited to 12 BCM.

In addition, as described in section K2(e) below, if and to the extent that gas will be supplied to Union Fenosa Gas SA ("UFG"), the Tamar partners will be required to significantly expand supply capacity from the Tamar project. In view of the aforesaid, the Tamar project partners are also examining the option of expanding the Tamar project to increase the maximum annual quantity for supply of natural gas from the project to 20.4 BCM, with a maximum production capacity to the local market of 16 BCM per year.

Expansion of supply capacity is planned to include up to three additional production wells that will be connected to the production system, and another supply pipeline from the Tamar field to the Tamar platform. In addition, the necessity and method of the required upgrade of the Tamar and Mari B platforms are being assessed. In addition, a pipeline will be installed from the Tamar platform to the UFG facilities in Egypt. The Tamar partners and UFG will share the installation and operation costs, such that the Tamar project partners will cover installations costs up to a point to be determined at the maritime border between Israel and Egypt, and UFG will cover installation and operation costs for the pipeline from this point up to UFG's facilities. Based on the initial estimate, and assuming the Binding Agreement will be signed, and in accordance with the planned timetable, gas supply is planned for 2017.

The Tamar partners estimate that the share of the Tamar partners in the cost of expanding supply capacity as described above, and for installing and operating the pipeline, is between USD 1.5 billion and USD 2 billion (100%).

For information about the announcement of the Antitrust Commissioner and its implications on the Tamar Expansion Project, if and when a binding agreement with UFG is signed, see section M below.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

E. Michal Matan Joint Venture (contd.)

2. Tamar South West reservoir and its development

Drilling started in October 2013, and on December 4, 2013, the participants announced that the well is a natural gas finding.
In accordance with the development plan of Tamar South West ("Tamar SW"), which was submitted to the Commissioner of Petroleum Affairs in April 2014, the Tamar SW reservoir will be developed by connecting it to the subsea facilities of the Tamar Project. It is noted that from the date of its connection to the Tamar Project, the Tamar SW Well will be referred to operationally as one of the wells in the Tamar Project. The development cost of the Tamar SW reservoir in this format was partially approved by the Tamar partners in January 2014 Development of the Tamar SW reservoir is expected to continue for 18 months after obtaining the approval of the Petroleum Commissioner (if obtained).

For information about the announcement of the Antitrust Commissioner and its implications on the development of the Tamar SW reservoir, see section M below.
Connecting the Tamar SW reservoir through the Tamar SW well provides further significant advantages for the Tamar Project, reflected mainly in increased system survivability, system redundancy, and deferment of investments (such as drilling and fluid treatment facilities) to later years.
On June 4, 2014, the Commissioner of Petroleum Affairs rejected the plan for development of the Tamar SW reservoir in this format. The Commissioner's refusal to approve the Tamar SW development plan is probably because the Tamar SW reservoir covers a small part of the 353/Eran license, in which some of the partners in the Tamar project held rights, which expired despite the application by the rights holders for an extension. Subsequently, the Tamar partners filed a petition at the High Court of Justice against the Petroleum Commissioner's refusal to approve the development of the SW reservoir (in this section below: "the Petition"). During the hearing of the Petition, an agreement was reached between the parties to continue the negotiations on issues related to the rights of the State versus the rights of the Tamar partners in the Tamar SW reservoir, and it was agreed that the Tamar partners will submit an appeal to the Minister of Energy on the Commissioner's refusal to approve the development. In view of the agreements, the Petition was dismissed, while reserving the rights of the parties, as required, and on December 9, 2014, the Tamar partners submitted an appeal to the Minister of Energy on the decision of the Commissioner of Petroleum Affairs. As at the approval date of the financial statements, a ruling of the appeal has not yet been handed down.

F. Ratio Yam joint venture

In October 2010, drilling started at the Leviathan 1 well in the area covered by the Rachel license. In December 2010, the partners announced a significant gas finding at the Well. On January 26, 2014, the Commissioner of Petroleum Affairs informed the partners that the Leviathan field is a discovery as defined in the Petroleum Law, 1952.
See section I below for information about the assessment of the gas and condensate reserves prepared by NSAI.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

F. Ratio Yam joint venture (contd.)

1) Leases

On March 27, 2014, the Commissioner of Petroleum Affairs at the Ministry of National Infrastructures, Energy and Water ("the Commissioner") granted the partners in the license two leases instead of the Rachel and Amit licenses: the I/14 Leviathan South and lease and the I/15 Leviathan North lease. The leases include provisions for schedules for developing the lease, planning and construction, sales to the Israeli market and for export, guarantees, warranties, indemnification, and insurance. The leases were granted for 30 years and may be extended by another 20 years in accordance with and subject to the provisions of the Petroleum Law, 1952 ("the Petroleum Law").

In order to secure compliance with the lease and the approvals, to secure payments which the leaseholder is required to make by law to the State and as a precondition to granting the lease, the lease-holder is required to provide an unconditional and irrevocable autonomous bank guarantee made out to the State of Israel ("the Guarantee"). The Guarantee provided on April 10, 2014 (total, for both leases together) is USD 50 million (100%) and when approval is granted for operating the production system, the Guarantee will be increased to a total amount of USD 75 million (100%) and will be further increased to a total amount of USD 100 million (100%) when production for export starts, under an extension of the development plan, or on December 31, 2020 (the earlier of the two). The Guarantee will remain in effect throughout the lease term and will remain in effect after the lease expires, provided the Commissioner of Petroleum Affairs does not announce that it is no longer required and subject to section 57C of the Petroleum Law.

It is noted that when the guarantees for the leases were deposited in April 2014, the existing guarantees for the Leviathan 2 drilling and the extension of the Rachel and Amit licenses were returned.

2. Proposed outline for development of the Leviathan reservoir

The outline for development of the Leviathan reservoir includes two main stages: The first stage of the plan will include supply of natural gas to the local and regional market through construction of a floating production storage and offloading ("FPSO") facility for production and handling of natural gas, in a maximum daily quantity of 1.6 BCF (16 BCM annually) and the second stage will include mainly export of natural gas. In accordance with the terms of the lease deeds, the operator submitted a draft of the development plan for the first stage to the Commissioner of Petroleum Affairs ("the Draft Development Plan"). At the publication date of the report, the Commissioner has not yet approved the development plan.

The Leviathan project partners and the Commissioner of Petroleum Affairs are discussing the comments for the development plan. In accordance with the operator's preliminary assessment, the estimated cost of developing the first stage of the Leviathan reservoir is between USD 6 billion and USD 7 billion (100%)

The estimated development of the first stage of the Leviathan reservoir is 3.5 years after the final investment decision for development of the first stage. However, as at the publication date of the report, an estimated timetable for the first stage of development of the Leviathan reservoir cannot be established. In addition, in October 2014, the State of Israel approved the terms of the national outline plan, TAMA 37(H) (Receiving and Treating Natural Gas - From Offshore Discoveries to the National Pipeline).

In addition, the Leviathan project partners are continuing to review the option of implementing the second stage of the development plan for the Leviathan reservoir, and in this context, the construction of a floating liquid natural gas (FLNG) facility is being assessed.

3. For information about the announcement of the Antitrust Commissioner and its implications on development of the Leviathan reservoir, as described above, and on drilling to the deep targets, see section M below.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

G. Alon joint venture

On August 12, 2014, the Commissioner informed the partners that the Karish and Tanin natural gas reservoirs in the 366/Alon C and 364/Alon A licenses, respectively, are a discovery as defined in the Oil Law, 1952. See section I below for information about the assessment of the gas and condensate reserves prepared by NSAI.

H. Block 12, Cyprus

1. In February 2013, subsequent to the approval of the Cyprus government, Delek Drilling and Avner signed a production sharing contract for Block 12 in the exclusive economic zone of Cyprus. See section I below for information about the assessment of the gas and condensate reserves prepared by NSAI.

2. In October 2013, drilling of the Aphrodite A-2 appraisal well was completed (including production tests) in Block 12 in Cyprus ("the Well"). The Well is part of the work plan that is subject to the approval of the Cyprus government by virtue of the production sharing contract, which aims to confirm the estimates of the operator and the Limited Partnerships of the extent and nature of the reservoir, which will serve as a basis for decisions regarding its development. It is noted that the Well may be developed as a production well, according to the development plan of the Aphrodite reservoir.

3. In April, 2013, the Company signed two unlimited performance guarantees in favor of the Republic of Cyprus to secure full implementation of all undertakings of each limited partnership. The guarantees were required under the production sharing contract with the government of Cyprus, which grants the Limited Partnerships rights for exploration, appraisal, development and production of oil and/or gas in the exclusive economic zone of the Republic of Cyprus, known as Block 12. Following the approval of the general meetings of the holders of participating units in the rights of the limited partners in the Limited Partnerships, in consideration for the guarantee, the Limited Partnerships will pay together an annual guarantee fee of USD 490 thousand to the Company for the first five years of the guarantee, and from the sixth year until the 25th year of the guarantee, the guarantee fee will be USD 368 thousand per year. If the Company is absolutely released from the guarantee, whether because an alternative guarantor is found or because the Limited Partnerships sell the project rights, the Limited Partnerships and the Company agree that payment of the guarantee fee will stop immediately .

4. In May 2014, Noble Energy International Ltd. ("Noble Cyprus") ("the Operator") informed the Limited Partnerships that it had received notice from the Cypriot Minister of Energy regarding the decision of the Council of Ministers of Cyprus to approve the second extension of the Block 12 license, by virtue of the production sharing contract ("the Production Sharing Contract"), for two years, until May 23, 2016 ("the Second Extension Period").
   In the Second Extension Period, the partners in the Block 12 License are obligated to drill another exploration well (beyond the borders of the Aphrodite discovery) by October 23, 2015. If another exploration well is not drilled in the Second Extension Period, the Republic of Cyprus will be entitled to forfeit the guarantee of USD 6 million (100%), which Noble Cyprus provided in favor of the Republic of Cyprus for all of the partners in Block 12, subject to the Production Sharing Contract.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

H. Block 12, Cyprus (contd.)

5. It is noted that the Limited Partnerships and their partners ("the Partners") in Block 12, together with the Government of Cyprus, are reviewing the options for revising the binding work plan for the exploration drilling. Noble Cyprus intends to ask the government of Cyprus to amend the binding work plan by virtue of the Production Sharing Contract before the date for performing the exploration drilling.
In accordance with the terms of the Production Sharing Contract, in view of the above extension, the area of the Block 12 License was reduced by 25% from its original area, to 2,684 square kilometers.

Proposed outline for development of the Aphrodite reservoir
As of the reporting date, the partners in Block 12, together with the Cyprus government, are reviewing options for the supply of natural gas to the local market in Cyprus and for the export natural gas through a pipeline to other markets, including the Egyptian market ("the Target Markets").

In the second half of 2015, the Block 12 partners plan to submit a declaration of commerciality for the Aphrodite reservoir to the government of Cyprus, by virtue of the Product Sharing Contract, and a draft development plan for the Aphrodite reservoir, which will include an initial plan for construction of an independent floating production facility in the reservoir area and the sale of natural gas at the exit point of the floating facility with delivery to the target markets through an offshore pipeline ("the Development Plan Outline").

According to the preliminary assessment of Noble Cyprus, which was submitted to the government of Cyprus, and prior to completion of the techno-economic feasibility plan, which includes a full engineering design, the estimated cost of the Development Plan Outline, without the construction cost of the pipeline to the Target Markets, is between USD 3.5 billion and NIS 4.5 billion (100%) ("the Estimated Project Cost"). It is noted that this cost includes the purchase cost of the floating facility, however, the partners intend to examine the possibility of leasing the floating facility for the production period from the reservoir or to divide it to significantly reduce the initial development costs.

It is clarified that the Development Plan Outline has not yet been approved by the government of Cyprus and is subject, among other things, to the signing of agreements for the supply of natural gas to the Target Markets, financing arrangements, regulatory approvals, and agreements between governments. It is planned that supply of natural gas from the Aphrodite reservoir will start in the first half of 2020.

It is noted that the Development Plan Outline, including the estimated project cost, interim budget, and timetables, are in preliminary stages and before the techno-economic assessment, engineering plan, and assessment of the Target Markets. In addition, the Block 12 partners are assessing further options for development of the reservoir, such as combining its development with the development plans of adjacent reservoirs in the exclusive economic zone of Israel, including the Leviathan and Tamar reservoirs ("the Development Options").
It is emphasized that each development option that was examined has a different timetable and different construction and operating costs, and until the preferred development option is selected, the timetable and budget for development of the reservoir cannot be accurately estimated. It is also emphasized that each development plan will naturally require extensive regulatory, commercial and financial arrangements, since a substantial portion of the natural gas resources in the Aphrodite reservoir is designated for export.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

I. Appraisal of natural gas reserves, condensate and contingent resources (100%.)

Project (100%)	Oil and gas assets	Reserves report as of	Gas and condensate reserves				Contingent resources			
			Proved + probable reserves		Proved reserves		High estimate		Low estimate	
			Natural gas (BCM)	Condensate (millions of barrels)	Natural gas (BCM)	Condensate (millions of barrels)	Natural gas (BCM)	Condensate (millions of barrels)	Natural gas (BCM)	Condensate (millions of barrels)
Israel										
Yam Tethys project	Noa, Mari B, and Pinnacles	December 31, 2014	2.52	-	1.67	-	-	-	-	-
Tamar*	Tamar and Tamar SW	December 31, 2014	299.3	13.7	215.25	9.9	-	-	-	-
Dalit	Dalit	December 31, 2012	-		-		9.5		6.1	
Leviathan	Leviathan	June 30, 2014	-				751.2	47.7	469.6	29.8
Dolphin	Dolphin	December 31, 2012	-		-		5.03	-	1.05	-
Karish and Tanin	Tanin	December 31, 2014	-		-		32.9	2.3	13	0.9
	Karish	June 30, 2013	-		-		43.5	14.7	29.9	10.8
Cyprus			-		-					
Aphrodite	Aphrodite	September 30, 2014	-		-		132.5	10.3	53.4	3.1

*) The above reserves do not include the reserves migrating to the Eran license.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

I. Appraisal of natural gas reserves, condensate and contingent resources (contd.)

These estimates of the natural gas reserves, condensates and contingent resources in the leases of the Limited Partnerships and the Company in the leases and licenses for oil and gas exploration are partially based on geological, geophysical and other information received from the drillings and from operations in these leases. These estimates are the professional estimates and assumptions only of NSAI and there can be no certainty in respect of them. The estimates for actual quantities of natural gas consumed may be different from these estimates and assumptions, partly due to technical and operational conditions and/or regulatory changes and/or the supply and demand conditions in the natural gas market and/or actual performance of the reservoir. The estimates and assumptions may be revised if additional information becomes available and/or as the result of a range of factors related to oil and natural gas exploration and production projects.

J. Issue of debentures

On May 19, 2014, the issue of debentures by Delek and Avner (Tamar Bond) Ltd. ("the Issuer") was completed. The Issuer is a special purpose company (SPC) held equally by the Limited Partnerships, according to which debentures amounting to USD 2 billion were issued. The Issuer provided the issue proceeds as loans to the Limited Partnerships, in equal shares between them, back to back with the terms of the debenture ("the Loan"). It is emphasized that the Limited Partnerships are not guarantors for each other and each is liable for repayment of its Loan.

The debentures were issued in five different series, as follows:

	Amount USD million	Fixed interest	Repayment date
Series 1	400	2.803%	December 2016
Series 2	400	3.839%	December 2018
Series 3	400	4.435%	December 2020
Series 4	400	5.082%	December 2023
Series 5	400	5.412%	December 2025

On May 15, 2014, the Issuer received approval from the Tel Aviv Stock Exchange Ltd. ("the TASE") to list the debentures on the TACT-Institutional.
In the transaction, the Issuer and the Limited Partnerships undertook, among other things, that if withholding tax is applicable for the amounts payable to a foreign resident, in accordance with the debenture terms, then subject to certain exceptions that were defined, the Issuer and/or the Limited Partnerships, as the case may be, will pay additional amounts as required so that the foreign resident will receive the same net amount as the amounts that the foreign resident would have received, had no tax withholding been required. In this context, it is noted that on March 27, 2014, the Limited Partnerships received approval from the Tax Authority that the debentures that will be traded on the TACT-Institutional system of the TASE are debentures that are traded on the stock exchange in Israel in respect of section 9(15D) of the Income Tax Ordinance (for an exemption from tax on interest paid to a foreign resident on debentures traded on the TASE) and section 97(B2) of the Ordinance (for an exemption from tax for a foreign resident on capital gains in the sale of debentures traded on the TASE), subject to the terms set out in the Tax Authority's approval and the provisions of the Income Tax Ordinance and the relating regulations.

As collateral for payment of the debentures, the Limited Partnerships pledged their rights in the Tamar project, and mainly the rights of each one of the Limited Partnerships in the Tamar I/12 lease (the “Tamar Lease”), agreements for the sale of gas and condensate, the joint operating agreement between all Tamar project partners and the parties ’rights in the joint equipment (including the platform, wells, facilities, production system and additional equipment), the agreement for right of use of the Yam Tethys facilities, bank accounts (which include the accounts used for the Limited Partnerships ’revenues from the sale of gas and condensate from the Tamar project), insurance policies (with the exception of liability insurance) for the Tamar project assets, and the Issuer’s shares (jointly below: ("the Collateral ”or "the Pledged Assets”).

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

The Collateral for repayment of the debentures is from the Tamar project, without any guarantees or collateral unrelated to the Tamar project. However, until certain conditions are fulfilled, or four years from the issue date of the debentures, whichever is later, the debenture holders will have a right of recourse to other assets of the Limited Partnerships for one half of the amount that the Limited Partnerships will withdraw from the pledged accounts. The debenture holders ’right of recourse is limited both in amount and to assets that have not been pledged by the Limited Partnerships (limited recourse). It is noted that the pledges are subject to the state’s royalty rights and to the rights of other royalty holders who are entitled to receive royalties from the Limited Partnerships (including interested parties), and that pledges are registered in favor of the royalty holders on the Limited Partnerships' rights in the Tamar Lease to secure the undertaking to pay the royalties, which will be valid until repayment of the debentures.

As part of the transaction, the Issuer and the Limited Partnerships assumed several covenants towards the debenture holders, including the following covenants: restrictions on additional pledges on the pledged assets and their sale; restrictions on a merger or restructuring as set out in the issue documents; restrictions on amending or revising the joint operating agreement, the agreement for use of the facilities or agreements for the sale of gas, as set out in the issue documents; expansion of the debenture series or taking additional debt secured by the pledged assets, subject to compliance with several conditions; an undertaking to track the rating of the debentures by the international rating agencies that rated the debt. In addition, restrictions and conditions for withdrawal of the surplus cash flow from the Tamar project were defined.

The Issuer and the Limited Partnerships undertook, in certain cases, to indemnify the representatives that undertook to buy the debentures following the pricing process, in the event of a breach of representations provided by the Issuer and/or the Partnerships. In addition, events of default were defined, which if they occur, the trustee for the debentures will be entitled (and in the case of a demand of one quarter of the debenture holders will be obligated) to call for immediate repayment of the unpaid balance of the debentures. The main events are as follows: (1) non-payment of principal or interest; (2) breach of representations; (3) breach of covenants; (4) events of insolvency of Israel Electric Corporation Ltd. (“IEC”) or of the operator of the Tamar project or of one of the Limited Partnerships, if the same constitute a significant deterioration (as defined) and subject to certain conditions and qualifications; (5) early termination of the gas supply agreement with IEC, the joint operating agreement or the agreement for right of use for the Yam Tethys project facilities with the Limited Partnerships, if the same constitutes a significant deterioration, and subject to certain conditions and qualifications; (6) an event of default by IEC under the gas supply agreement with IEC, which constitutes a significant deterioration, and subject to certain conditions and qualifications; (7) abandonment or suspension of operation of the Tamar project for 15 days consecutive days, which is expected to constitute a significant deterioration; (8) damage to the Tamar project (including physical damage, revocation of a license or transfer of the Limited Partnerships' rights by the State of Israel) which constitutes significant deterioration and which is not remedied, in certain cases; (9) revocation of approval relating to the Tamar project by the State of Israel, which is expected to constitute a significant deterioration and subject to a remedy period of 30 days; (10) withdrawal of the debenture rating for a certain period; (11) cross default of another financial liability in an amount exceeding USD 50 million; (12) any of the issue documents expire, or the validity of collateral with an aggregate value exceeding
USD 50 million expire; (13) an unappealable judgment to pay an amount exceeding USD 50 million, which was not settled after 90 days. In the event of insolvency (as defined in the deed of trust), the debentures will automatically be called for immediate repayment (in certain cases, only if not paid within 90 days).

It is clarified that the Limited Partnerships may sell up to 9.6% (together) of their rights in the Tamar lease (meaning, up to 3% of the total rights in the Tamar lease), without the duty of partial early repayment of the debentures and without receiving any approval from the trustee or debenture holders.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

Each one of the Limited Partnerships has the right to prepay all or part of the loan, at any time, subject to a prepayment fee. Early repayment following events set out in the debenture will not be subject to a prepayment fee.

The Limited Partnerships used the issue proceeds (less raising expenses) mainly for repayment of the project financing and the bridge loan of USD 1 billion, for the deposit of safety cushions (of USD 50 million for each one of the Limited Partnerships), and the balance mainly to finance the operating activities of the Limited Partnerships, including the expected investments in the Limited Partnerships' oil assets in Israel. It is further stated in this regard that as part of the Petroleum Commissioner's approval for the Limited Partnerships to pledge their rights in the Tamar lease , it was determined, among other things, that the debenture proceeds will be earmarked for credit to the Limited Partnerships to repay the balance of their previous loans in respect of the Tamar lease, a safety cushion for the debenture issue,

activities in the areas in which they were granted oil rights under the Petroleum Law, and distribution of an amount that will not exceed USD 100 million for each partnership. It is further noted that a certain period before any repayment date of the principal of a debenture series, the Issuer is required to accrue moneys in the pledged account in preparation for the upcoming principal payment date.
In preparation for raising the above and to hedge the changes in the interest rates expected to apply to the debentures, the Limited Partnerships entered into interest rate swap hedge transactions ("the Hedge Transactions"). The Hedge Transactions, amounting to USD 500 million for each Limited Partnership, were carried out in accordance with the projected repayments that correspond to the debenture repayments, which were finalized at the raising date. The Limited Partnerships completed the Hedge Transactions at the pricing date of the debentures, which preceded completion of the raising, for an additional payment of NIS 45 million for each partner. The share of the Company's shareholders in the expense attributable to the Hedge Transactions entered into by the Limited Partnerships, as set out above, amounted to NIS 50 million.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

K. Principal natural gas supply agreements

2. Tamar project

A. Agreements for the sale of natural gas and condensate by the Tamar partners (for100% of the rights in the oil asset): [1]

	Is the agreement valid at the publication date of the report	Estimated supply date	Basic gas supply period[2]	Is there an option for extension by the customers according to the supply agreement	Total maximum supply quantity (100%) (BCM)	Price linkage
IEC[3]	Yes	Supply began in the first quarter of 2013	15 years[4]	Option for extension of up to two years	82.5 or 99, assuming exercise of the option to increase the gas quantity consumed by IEC, as set out in the supply agreement	US CPI (US CPI) [5]
Bazan[6]	Yes Subject to approval of the Antitrust Authority7	Second quarter of 2013	7 years8	Option for extension of up to two years	5.8	The price is mainly linked to the Brent price and the license is linked to the PUA price.
Private electricity producers[9]	Yes Subject to approval of the Antitrust Authority[10]	2013-2017	15-17 years, other than one agreement for a period of two years	Some of the agreements can be extended for up to one or two more years for consumption of the total maximum quantity.	72.5	In most of the agreements, linkage is to the electricity generation tariff and in others, linkage is to the US CPI. In all agreements, the gas price is based on a formula that includes a base price and linkage, with a minimum price.
Industrial customers[11]	Yes Subject to approval of the Antitrust Authority[12]	April-October 2013	7 years	The agreements may not be extended.	1	In most agreements, linkage is to Brent prices, and in others, to liquid fuels. In all agreements, the gas price is based on a formula that includes linkage and a minimum price.
Natural gas marketing companies[13]	Yes Subject to approval of the Antitrust Authority[14]	2013-2015	5-7 years	Some of the agreements can be extended for another year and some cannot be extended.	1.5	In all agreements, linkage is to Brent prices. In all agreements, the gas price is based on a formula that includes linkage and a minimum price.

1 It is noted that the customers with gas supply agreements with the Tamar partners, with revenues from each customer in 2013 representing less than 10% of the Partnership's revenue in that year, and revenues from each of them in 2015 are expected to represent less than 10% of the Partnership's revenues in that year, were distributed into groups based on the price linkage established in the gas supply agreements.

2 In most of the agreements (other than the Dead Sea Works agreement), the gas supply period will be as set out in the table or until the buyer consumes the maximum quantity set out in the agreement, whichever is earlier.

3 For information about the agreement with IEC, section C2(b) below.

4 As from the end of the running in period of the Tamar project

5 For further information, see section C2(b)(4) below.

6 Supply of the volume of gas in the agreement is subject to an increase in supply capacity of the Tamar project.

7 As of the publication date of the report, the Antitrust Commissioner has not yet reached a decision regarding the exemption from approval of a restrictive arrangement filed by the Tamar partnership. In addition, the Tamar partners received a letter for prevention of enforcement from the Commissioner, until March 31, 2015

8 As from completion of the running in period of the Tamar project

9 Including a number of private electricity producers that have gas supply agreements with the Tamar partners, with revenues from each of them in 2013-2014 representing less than 10% of the Partnership's revenues in each year, and revenues from each of them in 2015 are expected to represent less than 10% of the Partnership's revenues in that year.

10 As of the publication date of the report, the Antitrust Commissioner has not yet reached a decision regarding the exemption from approval of a restrictive arrangement filed by the Tamar partnership. In addition, the Tamar partners received a letter for prevention of enforcement from the Commissioner, until March 31, 2015

11 Including a number of industrial customers that have gas supply agreements with the Tamar partners, with revenues from each of them in 2013-2014 representing less than 10% of the Partnership's revenues in each year, and revenues from each of them in 2015 are expected to represent less than 10% of the Partnership's revenues in that year.

12 As of the publication date of the report, the Antitrust Commissioner has not yet reached a decision regarding the exemption from approval of a restrictive arrangement filed by the Tamar partnership. In addition, the Tamar partners received a letter for prevention of enforcement from the Commissioner, until March 31, 2015

13 Including a number of customers that market natural gas, which have gas supply agreements with the Tamar partners, with revenues from each of them in 2013-2014 representing less than 10% of the Partnership's revenues in each year, and revenues from each of them in 2015 are expected to represent less than 10% of the Partnership's revenues in that year.

14 As of the publication date of the report, the Antitrust Commissioner has not yet reached a decision regarding the exemption from approval of a restrictive arrangement filed by the Tamar partnership. In addition, the Tamar partners received a letter for prevention of enforcement from the Commissioner, until March 31, 2015

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

K. Principal natural gas supply agreements (contd.)

2. Tamar project (contd.)

B) Additional information about the agreements for sale of natural gas by the Tamar partners:

1) In each of the agreements for the sale of natural gas, the buyers have a take or pay agreement for a minimum annual volume of natural gas according to a mechanism set out in the supply agreement ("the Minimum Quantity"). The supply agreements also specify a mechanism for the accumulation of excess volume consumed by the buyer in the course of any year, and its use to reduce the buyer's undertaking to purchase the Minimum Quantity, as set out above, in several subsequent years. Furthermore, the agreement specifies provisions and mechanisms allowing each of the buyers to receive gas at no additional charge up to the volume paid for, on account of gas not consumed.

2) In agreements where the basic supply period is more than seven years, other than the agreement with IEC, each of the buyers has an option to reduce the Minimum Quantity, so that it will amount to 50% of the average annual quantity consumed in the three years prior to the notice of exercising the option, subject to adjustments as set out in the supply agreement (in this section: "the Option"). Upon reduction of the Minimum Quantity, the other quantities in the supply agreement will be reduced accordingly. Each of the buyers may exercise the Option by notice to the Sellers during a period commencing at the beginning of the fifth year after the date of commercial operation or on January 1, 2018 (whichever is later) and ending seven years after commercial operation or on December 31, 2020 (whichever is later). If the Buyer gives notice of exercise of the Option, the quantity will be reduced one year after delivery of the notice.

3) In all the agreements for sale of natural gas signed as from the beginning of October 2012, the Tamar partners undertook to act to increase the supply capacity of the Tamar Project handling and delivery system, by constructing additional facilities, including using the Yam Tethys Project and Mari B reservoir facilities to store natural gas from the Tamar Project, and all in the scope and under the terms set out in the supply agreements (in this section: ("the Expansion Project"). Performance of the Expansion Project is subject, among other things, to obtaining the approvals required in accordance with the law. It was also determined that gas supply in an interim period, which will commence at a time defined in the supply agreement until completion of the Expansion Project ("the Interim Period"), will be subject, among other things, to the gas quantities available to the Sellers at that time, after supplying gas to customers of the Yam Tethys Project and other customers of the Tamar Project, in accordance with the supply agreements. In all the agreements in the Interim Period, the undertaking to purchase the Minimum Quantity described above will not apply. The Tamar Project partners believe that the interim period will begin in 2015 and will end by the end of 2017, if the Expansion Project is executed in the Receiving Terminal in Ashdod in its full format, and subject to obtaining all the necessary permits. For information about the announcement of the Antitrust Commissioner and its implications on the expansion of the Tamar project, see section M below.

4) The supply agreements include further provisions, including the following: The right to end the agreement in the event of material breach of liability, the right of the Tamar partners to supply gas to the buyers from other natural gas sources, compensation mechanisms in the event of delay in gas supply from the Tamar project or failure to supply the quantities set out in the agreement, limitations for the parties' liabilities in the agreement, and regarding the relations between the Sellers and themselves in everything connected to gas supply for the buyers.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

K. Principal natural gas supply agreements (contd.)

2. Tamar project (contd.)

B. Additional information about the agreements for sale of natural gas by the Tamar partners: (contd.)

5) Agreements for supply of natural gas and condensate with related parties

In December, 2013 and in March 2014, the Tamar partners signed agreements with subsidiaries for the sale of a total quantity of 3.8 BCM of natural gas for 7-15 years, for USD 850 million (100%). The agreements are at market conditions, include standard obligations and liabilities for this type of transaction, and are subject to the relevant approvals.
In addition, in January 2014, the Tamar partners signed an agreement with an associate for condensate supply. The estimated revenues are expected to amount to USD 6.5 million (100%).

6) As at the approval date of the report, there is a dispute between the Limited Partnerships together with the Tamar partners and the customers with agreements for the sale of gas that include linkage to the electricity generation tariff, regarding linkage of the gas price for quantities supplied as from May 2013 until February 2015. This dispute arises from the decision of the IEC on July 22, 2013 to adjust the price of the production component, which divided the standard production price that existed until that time into a number of different prices. As of December 31, 2014, the total disputed amount is USD 20.6 million (the share of the Limited Partnerships), of which the Limited Partnerships did not recognize USD 7.8 million. Income was recognized in the financial statements on the basis of the most recent agreed price prior to the division. It is noted that on January 21, 2015, the IEC published its decision regarding the revised production price (which came into effect on February 1, 2015), which substantially reduced the differences between the different production rates. The Limited Partnership believe, based on the assessment of their legal counsel, that there is a good chance (over 50%) that the position of the Limited Partnerships regarding the linkage method to the electricity production rate will be accepted.

C) Additional information about the gas supply agreement between the Tamar partners and IEC:

According to the agreement, IEC has an option to increase the Total Contract Quantity to 99 BCM (in this section: "the Option"). The Option refers to two periods as set out below: Up to April 15, 2013, IEC may exercise the Option to increase the gas quantities to be consumed up to the end of 2019. On April 11, 2013, IEC informed the Tamar partners ("the Sellers") that it had decided to exercise the Option by the end of 2019. (B) Up to April 15, 2015, IEC may exercise the Option to increase the gas quantities to be consumed from the beginning of 2020 until the end of the agreement period, under the terms set out in the agreement. If the Option is exercised, the Sellers will be required to take steps to install additional facilities to allow increasing the supply capacity of the Tamar project gas handling and transport system, subject, among other things, to receiving the authorizations required by law. The Sellers undertake to set up these additional facilities within a period of four years from receiving the foregoing authorizations required.

1) The Minimum Quantity for billing is the annual quantity calculated as follows: 3.5 BCM per year for the first five years from the commencement of commercial delivery and 2.5 BCM per year for the remaining contract period, or 5 BCM per year in the period in which the quantity is increased due to exercise of the Option (subject to adjustments based on the quantity of gas sales of the Tamar partners and the volume of electricity production by IEC).
The agreement includes instructions for the calculation and adjustments of the minimum quantity for billing, including due to force majeure or failure to supply by the Sellers.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

K. Principal natural gas supply agreements (contd.)

2. Tamar project (contd.)

C. Additional information about the gas supply agreement between the Tamar partners and IEC: (contd.)

2. The agreement stipulates two dates when each party may request adjusting the price (based on the mechanism set out in the agreement) if that party believes that the contract price is no longer appropriate for a long-term contract with a significant buyer for consumption of natural gas in the Israeli market: After 8 years and 11 years from the date of commercial operation (as defined in the agreement) from the Tamar project or within three months after the start of gas supply from the Tamar project (meaning June 30, 2013), whichever is earlier. At the first adjustment date (after 8 years) the adjustment to the price will be up to 25% (increase or reduction), and at the second adjustment date the adjustment will be up to 10% (increase or reduction).

3. IEC or any of the Sellers may terminate the agreement should the other party take any bankruptcy action (as defined in the agreement) which is likely to have a material adverse effect on the discharge of their obligations pursuant to the agreement, by giving at last 120 days' written notice. IEC and the Sellers agreed not to exercise any right they may have to lawfully terminate the agreement other than in connection with significant or continued breach of material provisions of the agreement, and only after granting a 120-day period to the party in breach to remedy such breach (unless a shorter period is stipulated in the agreement).

4. The gas price is set according to a formula that includes a base price and linkage, based on the US CPI plus 1% per year until 2019 and less 1% per year from 2020 onwards. For the quantity of natural gas that will be consumed by IEC within the option set out in the agreement for increasing the maximum hourly quantity, the price will be based on linkage of 30% to the US CPI-U, without adding or subtracting 1% per year as aforesaid.

5. Under the agreement, it was established that should the Sellers fail to supply the gas volume ordered by IEC pursuant to the agreement, and should the non-supply exceed the deviation allowed by the agreement, the Sellers shall compensate IEC in the subsequent month by selling gas at a discounted price up to the volume of gas not supplied. Furthermore, the agreement lists specific breaches for which damages are payable at higher rates. The agreement also sets limits for the liability of each party for breach of some of the agreement provisions at amounts specified in the agreement.

6. The Sellers acted and are acting jointly on issues such as development of the reservoir, the Sellers 'facilities and gas production, delivery and supply according to the agreement. Concurrently, it was stipulated that none of the provisions in the agreement will be considered as creating mutual liability among the Sellers, and each seller is individually liable to IEC for its share in the oil rights and in connection with any liability arising from the agreement. Although IEC may order gas volumes by a single notice to the Sellers 'coordinator, the volume considered ordered from each of the sellers will be the portion of each of the Sellers out of the total volume ordered.

7. According to the agreement, gas is supplied on an hourly basis with a maximum volume per hour, according to procedures and mechanisms set forth in the agreement.

8. Gas is delivered to the connection point at the INGL pipeline near the permanent receiving terminal on Ashdod shore or any other connection point agreed between the parties. The natural gas supplied at the delivery point in accordance with the agreement is required to comply with specifications set out in the agreement. IEC has the right to refuse to receive non-compliant gas until such non-compliance is remedied. All disputes between the parties with regard to gas quality may be submitted to an expert for resolution at the request of any of the parties.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

K. Principal natural gas supply agreements (contd.)

2. Tamar project (contd.)

D) Estimate regarding gas quantities and supply dates

The estimates of the quantity of natural gas purchased and commencement of supply under the supply agreement is forward-looking information, and there can be no certainty that it will materialize, in whole or in part, and it might materialize in a substantially different manner, due to various factors, including non-fulfillment of the preconditions in each of the supply agreements (to the extent they have not yet been fulfilled), changes in the volume, rate and timing of natural gas consumption by each of the buyers, the gas price based on the formulas in the supply agreements, the USD-NIS exchange rate (if relevant to the supply agreement), Brent prices (if relevant to the supply agreement), the US-CPI (if relevant to the supply agreement), implementation and completion of the Expansion Project (if relevant to the supply agreement), construction and operation of the power station and/or other facilities of the buyers (if relevant to the supply agreement), exercise of the options granted to each party in the supply agreements, and their exercise date.

E) Letter of Intent to export natural gas

1) On February 19, 2014, the Tamar partners signed an agreement for supply of natural gas with a subsidiary of the controlling shareholder in Noble ("NBL"), the Tamar project operator, to export natural gas to consumers in Jordan "the NBL-Tamar Agreement").
At the same time, NBL signed an agreement with two companies from Jordan (in this section: "the Buyers"), whereby the Buyers will purchase natural gas from NBL for use in their plants on the eastern bank of the Dead Sea in Jordan ("the Supply Agreement").
In accordance with the NBL-Tamar Agreement, the Tamar Partners undertook to supply NBL with natural gas, for NBL to sell to the Buyers, under the Supply Agreement, in back-to-back conditions
In accordance with the Supply Agreement (in which Partners in Tamar are not a direct party) NBL undertook to supply the Buyers with a total quantity of 1.8 BCM natural gas. Under the Supply Agreement, the supply is expected to begin in 2016, and continue for 15 years.
The gas price set in the Supply Agreement is linked mostly to the prices of a barrel of Brent oil and includes a minimum price.
The Tamar-NBL Agreement and the Supply Agreement include a number of preconditions, primarily obtaining regulatory approvals by the relevant entities in Israel and Jordan, and signing a transmission agreement between NBL and the Israel Natural Gas Lines Company Ltd. with acceptable wording to NBL and the Buyers.
These estimates, including the total financial value in the Tamar-NBL Agreement and in the Supply Agreement , the quantity of natural gas to be purchased by NBL and sold to the Buyers, and the date supply begins, is forward-looking information, and there can be no certainty that it will materialize, in whole or in part, as set out above or otherwise, and it might materialize in a substantially different manner, due to various factors.

2) On May 5, 2014, the Tamar partners and UFG signed a non-binding letter of intent ("the Letter of Intent"), according to which the parties are negotiating a binding agreement for the supply of natural gas from the Tamar project to UFG (in this section: ("the Binding Agreement") in an estimated volume of 4.5 BCM per year for 15 years, for use in UFG's liquefaction facilities in Egypt. Since the annual capacity of the liquefaction facilities is 7 BCM, the Tamar partners and UFG are exploring the option of significantly increasing the annual supply capacity, without increasing the total maximum quantity in the Letter of Intent. The gas will be supplied at the point to be determined on the Israel-Egypt border.
As of the publication date of the report, the parties are in the advanced stages towards completion and signing of the agreement.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

K. Principal natural gas supply agreements (contd.)

2. Tamar project (contd.)

E. Letter of Intent to export natural gas (contd.)

The Letter of Intent includes several commercial terms for the proposed transaction, which will be used as the basis for negotiating the Binding Agreement. The price of gas in the Letter of Intent is similar to the prices in other agreements for export of gas from Israel and is mainly based on linkage to Brent oil prices and includes a minimum price.
It is noted that the Letter of Intent is not binding and the above transaction is subject to the completion of negotiations between the parties and the signing of the Binding Agreement. As at the approval date of the report, the parties estimate that the Binding Agreement will be subject to certain preconditions, including completion of the Expansion Project (see section E above), which is subject, among other things, to investment decisions that are binding for all the Tamar partners and receipt of all required approvals from the authorities in Israel and Egypt.
It is noted that if this agreement is signed, the Tamar partners will require, among other things, a permit to export natural gas from the Tamar reservoir. For information about the government's decision regarding restrictions on natural gas exports from Israel in general, and in from the Tamar reservoir in particular, see section N below.

3. Subsequent to the balance sheet date, on March 17, 2015, the Limited Partnerships and their partners in the Tamar project ("the Tamar Partners") signed an agreement for the supply of natural gas ("the Agreement") to Dolphinus Holdings Ltd. (“the Buyer”).
Under the Agreement, the supply of natural gas to the Buyer is expected to be based on the volume of surplus gas available to the Tamar Partners from the Tamar Project, on an interruptible basis, over a period of 7 years. The Agreement stipulates that the Tamar Partners will offer to supply the Buyer a minimum cumulative volume of 5 BCM ("the Minimum Cumulative Volume") for the first three years of the Agreement, subject to the daily limit of up to 250,000 MMBtu and to supply limitations of Israel Gas Lines Ltd.
The Buyer will be responsible for delivering the natural gas from Ashkelon to Egypt through the existing gas pipeline operated by East Mediterranean Gas Ltd. ("the EMG Pipeline").
So long as supply will be on an interruptible basis, the Buyer will not be obliged to purchase a minimum volume, however the Tamar Partners estimate that the Buyer will consume a substantial part of the Minimum Cumulative Volume set out above. It was further stipulated that should the parties agree in the future that the gas supply will be on a binding basis, then the Buyer will be obliged to purchase minimum volumes, based on a mechanism set out in the contract.
The price of gas in the Agreement is similar to the prices in other agreements for export of gas from Israel and is mainly based on linkage to Brent oil prices and includes a minimum price.
The Agreement also provides that the Tamar Partners will have first refusal rights over any volume of natural gas that the Buyer will request to import from Israel to Egypt through the EMG Pipeline, and the Tamar Partners will not sell and deliver additional volumes of natural gas from the Tamar Project to Egypt through the EMG Pipeline without the Buyer's consent, all in accordance with the terms set out in the Agreement.
The Agreement includes several preconditions, mainly obtaining the required regulatory authorizations from the authorities in Israel (including an export permit), signing of a transporting agreement between the Tamar Partners and IGL, obtaining the required regulatory approvals from the authorities in Egypt and signing of a transporting agreement between the Buyer and EMG, enabling the gas to be delivered to Egypt through the EMG pipeline.
The Tamar Partners intend to take steps to obtain an export permit for the volumes that will be sold to the Buyer, under the quota of natural gas permitted for export to neighboring countries as prescribed in Government Resolution No. 442 of June 23, 2013.
To the best of the Partnerships' knowledge, the Buyer represents a consortium of major Egyptian non-government industrial and commercial gas consumers, gas distributors and entrepreneurs, headed by Dr. Alla Arfe.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

K. Principal natural gas supply agreements (contd.)

3. Leviathan project

A. Letter of intent (non-binding) between the Leviathan Partners and BG International Limited for the export of natural gas

On June 27, 2014, the Limited Partnerships and the other Leviathan Partners signed a non-binding letter of intent with BG International Limited ("BG") in which the parties confirmed their intent to negotiate an agreement ("the Binding Agreement") for the supply of natural gas from the Leviathan Project to BG's LNG plant in Idku, Egypt ("the Letter of Intent").
The Letter of Intent includes a number of fundamental conditions for the transaction in the Binding Agreement. The estimated scope of the Binding Agreement is for annual supply of 7 BCM, for a period of 15 years. Natural gas will be supplied to BG from the floating production, storage and offloading ("FPSO") platform at the Leviathan Project, which is planned to be connected directly to the LNG facility through a subsea pipeline.
In accordance the Letter of Intent, the price of the gas sold under the Binding Agreement will be determined in a formula to be agreed upon between the Parties.
It is clarified that the Letter of Intent is not binding (except for exclusivity for a certain period as agreed in the Letter of Intent) and the above transaction will be subject to successful completion of the negotiations between the parties and signing of the Binding Agreement. As of the date of this report, the parties estimate that the Binding Agreement will be subject to a number of preconditions, including development of the Leviathan Project, which is subject, among other things, to a final investment decision by each of the Leviathan Partners, and to receipt of all required approvals from the authorities in Israel and Egypt.

B. Letter of intent for the export of natural gas from the Leviathan project to the National Electric Power Company of Jordan

In September 2014, Nobel signed, on behalf of a marketing company that will be established ("the Marketing Company"), a non-binding letter of intent with National Electric Power Company Ltd. ("NEPCO" and "the Letter of Intent", respectively). In the Letter of Intent the parties confirmed their intention to negotiate an agreement for the supply of natural gas from the Leviathan Project to NEPCO in Jordan ("the Binding Agreement").
The Letter of Intent includes a number of commercial terms under which the parties believe the proposed transaction will be carried out. The Marketing Company, which, under the Binding Agreement, will be the seller, will be responsible for purchasing the gas from the Leviathan project partners, including the Limited Partnerships, and selling it to NEPCO. The estimate scope of the Binding Agreement is for the supply of an overall amount of 45 BCM over 15 years. The gas will be supplied at the point to be determined on the Israel-Jordan border. The price of gas in the Letter of Intent is similar to the prices in other agreements for export of gas from Israel and is based on linkage to Brent oil prices and includes a minimum price.
It is noted that the Letter of Intent is not binding and the proposed transaction described above is subject to completion of negotiations between the parties and signing of the Binding Agreement. (if signed), which will be subject to several preconditions, including receipt of all the regulatory approvals required by the competent entities in Israel and Jordan, and approval of the development plan for the Leviathan reservoir by the Leviathan Partners. The parties intend to take steps to extend the validity of the Letter of Intent as required, to allow completion of the negotiations and formulation of the Binding Agreement. Signing of the Binding Agreement and/or its materialization are subject to a solution for the regulatory issues facing the Limited Partnerships, primarily antitrust issues, as described in section M.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

L. Royalties to the State and others

1. As at the publication date of the report, the Tamar project partners are holding discussions with the Commissioner of Petroleum Affairs regarding calculation of the market value of the royalty at the wellhead in the Tamar project due to the state . It was agreed that until completion of discussions, the Tamar Partners will pay the state advances on royalties at a rate of 12% for revenues from the Tamar project. The project partners believe, based on a calculation using the English formula, which is the estimate that is closest to the agreement signed with the state in the Yam Tethys project, that the actual royalty to the state from the Tamar project in 2013 and 2014 is 11.17% and 11.23 %, respectively, as recorded in the financial statements of the Limited Partnerships. It is noted that the position of the Tamar project partners is that the calculation of the rate of royalties to the state for revenue from the Tamar project, should reflect the complexity and risks involved in the project, and the scope of investments in the project, compared to the Yam Tethys project.

2. In October 2013, the Yam Tethys partners received from the Ministry of National Infrastructures, Energy and Water Resources ("the Ministry of Infrastructures") a draft audit report for royalties for 2012-2011 for the Yam Tethys joint venture (“the Draft Report”). In the Draft Report, the Ministry of Infrastructures stipulates its claims regarding implementation of the principles of the English formula, including the elements that should be included in the calculation of the rate of royalties to the state, including for adding and/or for removing elements required for these periods and/or their adjustment. As of the publication date of the financial statements, the Yam Tethys project partners ("the Partners") are holding discussions with the Ministry of Infrastructure regarding calculation of the market value of royalties to the state at the wellhead in the Yam Tethys project. In view of the claims of the Ministry of Infrastructure, it was agreed that until completion of discussions, as described above, the Yam Tethys partners will pay advances on royalties at a rate of 11.96% for revenue from the Yam Tethys project. In addition, the Yam Tethys partners are assessing the implications of the draft report and the legal options available to them.
   In accordance with the calculation based on the principles of the English formula, and based on the assumptions used by the Limited Partnerships, and taking into account the sales outline (section C above) the effective rate of royalties to the state in the Yam Tethys project in the reporting period is 8.3% (2013: 10.72%; 2012: 8.4%) of gross sales. The rate of royalties is subject to the assessment of the Ministry of Energy and Water.

3. In September 2014, the Company received a demand from the Commissioner for payment of royalties for price differences arising from the calculation method of the market value of the gas at the wellhead, in respect of the Letter of Intent between the Yam Tethys partners and the Tamar partners (see section C above). For this demand, the Limited Partnerships paid the Ministry of Energy royalties amounting to USD 6 million in the accounting year.
   (On March 12, 2015, the Limited Partnerships and Noble (jointly below: "the Plaintiffs") filed a claim in the Jerusalem District Court against the State of Israel, as represented by the Ministry of Energy ("the Defendant"), which includes mainly the return of royalties in the amount of USD 15 million (of which the share of the Limited Partnerships is USD 7 million), which the Plaintiffs overpaid, under protest, to the Defendant, for revenues from the supply of natural gas from their part of the Tamar project to the Plaintiff's customers under the Yam Tethys agreements, and for declarative relief for the percentage of royalties that the Plaintiffs will pay in the future for these revenues.
   The basis of the claim is the Plaintiff's argument that the Defendant is collecting royalties from the Plaintiffs in excess of the amounts that the Plaintiffs receive from their customers for the sale of natural gas, which the Defendant claims represent the market price for the gas.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

M. Israel Antitrust Authority

1. On March 27, 2014, the Limited Partnerships and Nobel signed a consent decree in accordance with section 50B of the Antitrust Law, instead of the determination of a restrictive arrangement in the Leviathan reservoir ("the Consent Decree"). In accordance with the Consent Decree, the Limited Partnerships and Noble will sell all of their holdings in the Alon C license within the Karish reservoir and all of its holdings in the Alon A license within the Tanin reservoir.
   On December 23, 2014, the Antitrust Commissioner announced that the Antitrust Authority had decided not to file the Consent Decree for approval of the court, and that he is reconsidering issuing a ruling where the Leviathan reservoir partners, including the Limited Partnerships, are a party to a restrictive arrangement that was not approved by the Antitrust Tribunal.
   In January 2015, subsequent to the balance sheet date, the Antitrust Authority held an oral hearing for the Leviathan project partners, and as of the publication date of the report, a decision has not yet been made on the subject.
   Concurrently, the Limited Partnerships and Noble are holding discussions with the different regulators, including the Antitrust Commissioner, with the aim of reaching an agreed outline, under which structural changes will be made that will satisfy the Antitrust Authority of the promotion of competition in the natural gas sector and will settle other regulatory issues under the responsibilities of the Ministry of Energy and the Ministry of Finance (including regulation of control on the price of gas). All this is with the aim of generating the certainty that is required for the Limited Partnerships to make final investment decisions for development of the Leviathan project and expansion of the Tamar project. The structural changes may include changes in the leases of the Limited Partnerships and Noble in the reservoirs, as well as arrangements for the marketing and sale of natural gas to the local market. In discussions for the changes in the Limited Partnership's holdings of the oil assets in Israel, and subject to a full regulatory arrangement as described above, the Limited Partnerships are assessing an option to sell all or part of their leases, including in the Karish and Tanin gas reservoirs and/or the Tamar project, within a reasonable time and under the terms agreed on by the parties. In February 2015, the Antitrust Authority announced that the Antitrust Commissioner has postponed the publication of a decision about the restrictive practice for two months, in view of the willingness of government ministries and the parties to seek a solution to the competition problem, based on the government outline, and that the joint work teams will continue to work on an agreed outline to resolve the crisis. It is noted that there is no certainty that these discussions will lead to an agreement.
   The Limited Partnerships believe that continuation of the procedures with the Antitrust Commissioner and the other regulators and/or the decision of the Authority, if made, may lead to lengthy litigation in Israel and abroad and/or to a significant delay in the timetables for development of the Leviathan project reservoir and have a negative effect on the development plan and/or on the marketing and development plan of the Leviathan project as well as result in a significant delay in the timetables and have a negative effect on the expansion plan for supply capacity from the project.

2. In 2013, the Antitrust Commissioner made a number of decisions about exemptions from restrictive practice regarding agreements for the supply of natural gas between the Tamar partners and private gas consumers and IEC, including an outline with similar principles and principles set out in the decision of the Public Utility Authority-Electricity, as described in the section above. In respect of the other agreements for supply of natural gas, as of the approval date of the report, the Antitrust Commissioner has not yet reached a decision regarding the exemption from approval of a restrictive arrangement filed by the Tamar partnership. However, the Limited Partnerships together with the other Tamar partners, received letters of abstention from enforcement up to March 31, 2015 from the Antitrust Commissioner for these agreements.

3. On November 13, 2012, the Limited Partnerships and the Tamar partners received notice from the Antitrust Commissioner of their declaration as a monopoly, jointly and severally, for the supply of natural gas in Israel from the date of commencement of commercial supply from the Tamar project.

NOTE 16: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

N. Committee to review government policy for the natural gas industry in Israel

In October 2011, a committee was established to examine government policy regarding Israel's natural gas sector and its future development, headed by Shaul Zemach, Director General of the Ministry of Energy and Water Resources ("the Zemach Committee"). On September 12, 2012, the Zemach Committee submitted its final recommendations to the Prime Minister and the Minister of Energy and Water Resources. On June 23, 2013, the government adopted the main recommendations of the Zemach Committee.

In June, 2013, the Limited Partnerships received a copy of a petition to the High Court of Justice, which was filed by the Academic Center of Law and Business and other petitioners, regarding the government's decision, which included a petition to reverse the government's decision and to issue a decree absolute, ordering the regulation and establishment of the natural gas sector policy in Israel in primary legislation of the Knesset.
The Government will examine the Government Decision within five years from its approval date, in order to implement any revisions that may be required in the policy in respect of the findings recognized by the Petroleum Commissioner after five years from the Government Decision, in accordance with the needs of the local market and considering the supply of natural gas.
It is noted that the Limited Partnership, together with the Tamar partners, do not intend to advance the FLNG project at the Tamar reservoir, mainly due to export restrictions that were established and the alternatives for regional export from the Tamar project.

O. Guidelines for providing collateral for oil rights

On September 17, 2014, the Commissioner issued revised guidelines, in accordance with section 57 of the Petroleum Law. In the event of non-compliance with the guideline, the Commissioner may forfeit the guarantee and may regard this as non-compliance with the work plan. In this publication, the Commissioner included a requirement for insurances for all the onshore and offshore licenses and for the leases. The Commissioner requires the license or lease holder to submit an annual summary of the insurance policy, however the Commissioner determined that the contents of the summary and its submission method will be set out in future guidelines to be issued on this subject, and these have yet to be issued. In October 2014, the Limited Partnerships, through the Operator, requested a meeting with the Commissioner to clarify the insurance requirement. Accordingly, the Limited Partnerships, together with its partners in the different projects under these guidelines, and to receive the Leviathan leases to deposit in 2014 autonomous bank guarantees in an aggregate amount of USD 112.5 million (100%, the share of the Limited Partnerships is USD 47 million) for the Leviathan, Tamar, Dalit, Ashkelon, and Noa leases, and the Hannah, Ruth C, Alon A and Alon C licenses.
In January 2015, the Limited Partnerships, together with its partners in the Alon D project, provided a guarantee in a cumulative amount of USD 1.25 million (the share of the Limited Partnerships is USD 0.6 million).
It is noted that the guarantee for the Tamar lease includes the guarantee that was provided for the approval received by the Tamar partners for operation of the natural gas and condensate system from the Tamar project.

NOTE 17: PROPERTY, PLANT AND EQUIPMENT

A. Composition and changes:

2014

	Land, buildings and leasehold improvements	Machines, facilities, vehicles and office equipment	Pumps, tanks and station equipment	Total
	NIS million			
Cost				
Balance as of January 1, 2014	4,068	1,534	2,660	8,262
Additions during the year	145	387	41	573
Exchange differences on translation of foreign operations	(12)	56	(23)	21
Deconsolidation	(1,909)	(294)	(1,570)	(3,773)
Disposals during the year	(13)	(31)	(28)	(72)
Balance as of December 31, 2014	2,279	1,652	1,080	5,011
Accumulated depreciation				
Balance as of January 1, 2014	965	834	1,319	3,118
Additions during the year	119	103	126	348
Exchange differences on translation of foreign operations	(2)	28	(11)	15
Deconsolidation	(347)	(94)	(723)	(1,164)
Disposals during the year	(1)	(30)	(23)	(54)
Balance as of December 31, 2014	734	841	688	2,263
Depreciated cost as of December 31, 2014	1,545	811	392	2,748
Less - provision for impairment (1)	40	111	5	156
Amortized cost December 31, 2014	1,505	700	387	2,592

(1) Gadot Biochemical Industries Ltd. ("Gadot"), a wholly owned subsidiary of the Company, estimated the recoverable amount of its property, plant and equipment as of December 31, 2014. The recoverable amount was based on the value in use. The value in use was calculated according to the present value of expected cash flows. The value in use is based on the following main parameters:

A pre-tax discount rate of 12.6%, cash flow projections for five years. The forecast includes negative growth of 18% in 2015, positive growth of 11% in 2016, positive growth of 8% in 2017-2018, and 1% from the 2019 onwards, and a reduction in sugar prices of 10% and 21% in 2015 and 2016, respectively, for the Company's agreements for 2014, and an increase of 4% and 3% for 2017 and 2018, respectively, and 1% as from 2018 onwards.

Based on these assumptions, the value in use of property, plant and equipment is estimated at USD 41.8 million compared to the carrying amount of USD 49.2 million (including working capital) . Accordingly, Gadot recorded a provision of USD 7.4 million (NIS 29 million) for impairment of property, plant, and equipment. It is noted that a change of 0.5% in the discount rate will result in a change of USD 2.1 million in the calculated value in use.

This impairment is added to the provisions for impairment recognized by Gadot in prior years amounting to NIS 80 million.

NOTE 17: PROPERTY, PLANT AND EQUIPMENT (CONTD.)

2013

	Land, buildings and leasehold improvements	Machines, facilities, vehicles and office equipment	Pumps, tanks and station equipment	Refineries	Total
	NIS million				
Cost					
Balance as of January 1, 2013	5,052	1,630	3,187	3,497	13,366
Additions during the year	203	178	275	230	886
Exchange differences on translation of foreign operations	(60)	(46)	(44)	(107)	(257)
Deconsolidation	(1,072)	(150)	(731)	(3,620)	(5,573)
Transfer to investment property	(7)	-	-	-	(7)
Disposals during the year	(48)	(78)	(27)	-	(153)
Balance as of December 31, 2013	4,068	1,534	2,660	-	8,262
Accumulated depreciation					
Balance as of January 1, 2013	1,073	898	1,455	633	4,059
Additions during the year	174	131	201	97	603
Exchange differences on translation of foreign operations	(7)	(19)	(17)	-	(43)
Deconsolidation	(258)	(102)	(301)	(730)	(1,391)
Transfer to investment property	(1)	-	-	-	(1)
Disposals during the year	(16)	(74)	(19)	-	(109)
Balance as of December 31, 2013	965	834	1,319	-	3,118
Depreciated cost as of December 31, 2013	3,103	700	1,341	-	5,144
Less - provision for impairment	39	80	4	-	123
Amortized cost December 31, 2013	3,064	620	1,337	-	5,021

B. See Note 32 for liens.

NOTE 18: DEFERRED ACQUISITION COSTS IN INSURANCE COMPANIES

A. Composition:

	December 31	
	2014	2013
	NIS million	
Life insurance and long-term savings	887	798
Health insurance	274	233
General insurance	197	279
	1,358	1,310

Stated in the balance sheet as follows:

	December 31	
	2014	2013
	NIS million	
Current assets	426	470
Non-current assets	932	840
	1,358	1,310

B. Change in deferred acquisition costs in life insurance and long-term savings and health insurance.

	Life insurance and long-term saving	health insurance
	NIS million	
Balance as of January 1, 2013	755	174
Additions		
Acquisition commissions	132	90
Other acquisition costs	93	41
Total additions	225	131
Current write off	(100)	(55)
Write-off for cancellations	(82)	(17)
Balance as of December 31, 2013	798	233
Additions		
Acquisition commissions	180	96
Other acquisition costs	105	40
Total additions	285	136
Current write off	(108)	(70)
Write-off for cancellations	(88)	(25)
Balance as of December 31, 2014	887	274

NOTE 19: STRUCTURED DEBENTURES

The structured debentures were issued through special purpose companies that engage exclusively in issuing debentures and handling assets mortgaged in favor of the debenture holders (the“Heharim Companies”). The issuing companies are special purpose companies (“SPC”), which were set up for the sole purpose of issuing debentures and these companies may not engage in any other commercial activity. The SPC acquires non-marketable structured debentures (“Notes”) from the proceeds of the issuance, which constitute the sole source of repayment of the liabilities of the Heharim Companies (non-recourse liabilities).

As of December 31, 2014, there are 5 series of structured debentures: of which, one is listed on the TASE and four were issued in private offerings. As of the reporting date, the debentures traded on the TASE have been rated by Maalot - the Israel Securities Rating Company Ltd. (“Maalot”) at ilAA+. Subsequent to the reporting date, the rating was upgraded to ilAAA.

Subsequent to the reporting date, final repayment was made for the listed debentures under the terms of the prospectus.

NOTE 20: GOODWILL AND OTHER INTANGIBLE ASSETS

A. Composition:

	Goodwill	Marketing rights, brands, concessions, and customer portfolios	Software	Value of insurance portfolios	Licenses and user rights	Other	Total
	NIS million						
Balance as of January 1, 2013	4,114	1,004	677	268	436	122	6,621
Additions	5	36	214	-	-	-	255
Amortization recognized during the year	-	(126)	(146)	(28)	(11)	(5)	(316)
Impairment	(227)	-	-	-	-	-	(227)
Deconsolidated companies	(221)	(19)	-	-	-	(45)	(285)
Adjustment for contingent consideration	(15)	-	-	-	-	-	(15)
Adjustments due to translation of financial statements of foreign operations	(101)	(29)	(1)	(4)	(21)	(4)	(160)
Balance as of December 31 2013	3,555	866	744	236	404	68	5,873
Additions	-	6	223	-	-	14	243
Amortization recognized during the year	-	(69)	(160)	(14)	(8)	-	(251)
Impairment	(223)	-	-	(185)	-	-	(408)
Deconsolidated companies	(1,659)	(704)	(54)	(40)	(413)	(80)	(2,950)
Adjustment for contingent consideration	25	-	-		-	-	25
Adjustments due to translation of financial statements of foreign operations	91	1	1	3	17	-	113
Balance as of December 31, 2014	1,789	100	754	-	-	2	2,645
Less impairment of the investment in The Phoenix beyond the amortization of surplus cost							(280)
Balance as of December 31 2014							2,365

NOTE 20: GOODWILL AND OTHER INTANGIBLE ASSETS (CONTD.)

B. Impairment of goodwill and intangible assets with a defined useful life

To assess impairment of goodwill and intangible assets with a defined useful life, goodwill and the value of insurance portfolios were attributed to business sectors, as follows:

	Goodwill	
	December 31	
	2014	2013
	NIS million	
Insurance and finance in Israel (1)	914	1,026
Fuel in Israel (2)	328	327
Gas stations and convenience stores in Europe *)	-	706
Delek Motorways Services UK *)	-	843
Oil and gas exploration and production (3)	516	460
Insurance operations abroad *)	-	140
Other segments	31	53
Total	1,789	3,555

*) For the disposal of these activities, see Note 14 above.

1. A) As of December 31, 2013, the goodwill arising on acquisition of control of The Phoenix by the Group amounted to NIS 310 million (before impairment). Following the impairment test of the investment as of December 31, 2013, the Group included a provision for impairment of goodwill amounting to NIS 165 million. In 2014, the Group included an additional provision for impairment of the full balance of goodwill amounting to NIS 145 million, and included a provision for impairment of the full balance of the excess cost attributable to insurance portfolios amounting to NIS 180 million and an additional provision of NIS 280 million in view of the following.

As of December 31, 2014, the carrying amount of the assets, net, attributable to operations of The Phoenix, is higher than the value of the operations of The Phoenix arising from its market value at that date. In addition, in view of the publication of the Market Concentration Law, as described in Note 14(N) above, the Group is required to separate significant non-financial operations and significant financial operations, as defined in the Law, within six years from the publication date (until December 2019). In view of the above and the procedures in the Group for the sale of its holdings in The Phoenix, as of December 31, 2014, the Group assessed the value in use of its investment in The Phoenix in general, assuming that in view of the Market Concentration Law, the Group will sell its holdings in The Phoenix and not its real holdings. The value in use was determined by an independent external assessor, who estimated the present value of projected cash flows for the Phoenix up to the projected disposal date by the Company (at this stage, the Group estimated the projected disposal date as an average of three years in view of the period set out in the Market Concentration Law and in view of the sales procedures and uncertainty of their completion) and the estimated amount that will arise for the Company from disposal of The Phoenix shares at the end of the period, as follows:

1) The Company and the assessor estimated the projected cash flows for three years for cash flows arising for The Phoenix from each sub-operation of The Phoenix: life insurance and long-term savings; health and general insurance; insurance agencies; Excellence and other investees; investments; and operations of investees. When determining projected cash flows from all operations, key assumptions were taken into account, such as growth rates, projected inflation rates, return on assets and investments, and cancellation rates of policies.

NOTE 20: GOODWILL AND OTHER INTANGIBLE ASSETS (CONTD.)

B. Impairment of goodwill and intangible assets with a defined useful life (contd.)

2. In view of the position of the Securities Authority published in March 2014, regarding the expected consideration for disposal of the assets listed for trading, it was taken into account that the consideration from disposal of The Phoenix shares at the end of the third year is the market price of The Phoenix shares as of December 31, 2014, plus adjustments for the estimated operational value of The Phoenix for the difference between the fair value of the Phoenix's financial liabilities and their carrying amount.

3. The discount rate after tax amounted to 9%.

In view of the Group's assessments in 2014, similar to the principles described above, including the assessment as of December 31, 2014, as described above, in the reporting period, the Group recognized impairment loss of NIS 508 million (net of tax and after some of the non-controlling interests).for goodwill and intangible assets. It is noted that as of December 31, 2014, the external assessor estimated the recoverable amount at NIS 1,732 million, while the price in the non-binding memorandum of understanding for the sale of the investment in The Phoenix is NIS 1,960 million (see Note 14F above). For further information, see the valuation attached to the Group's Periodic Report.

It is further noted that, since the recoverable amount that was set for the entire investment is lower than the Company's share in the capital attributable to the shareholders of The Phoenix, as reflected in the financial statements of The Phoenix, some of the impairment (beyond the amortization of the surplus cost) amounting to NIS 280 million was offset from the entire balance of the intangible assets of The Phoenix.

B) As of December 31, 2014, the balance includes goodwill amounting to NIS 494 million which was attributed to acquisition of Excellence in the financial statements of The Phoenix, The recoverable amount of the provident fund and financial services unit in Excellence is calculated on the basis of a valuation and on the projected representative operating cash flow multiplier method, which is a technique similar to the discounted cash flow method. The value of each of the units is assessed separately. According to the valuation, the recoverable amount of the financial services unit in Excellence exceeds its carrying amount, In 2014, the provident unit was amortized by NIS 7 million, mainly due to erosion of management fees.

C) Goodwill amounting to NIS 175 million was attributed to operations of insurance agencies and financial consultation with a recoverable amount based on individual valuations for the various agencies, calculated according to the projected cash-flow method, which is the basis for determining that the recoverable amount of the goodwill of each of the agencies exceeds its carrying amount, therefore, impairment of the agencies is not required.

D) A total of NIS 183 million is attributed to goodwill for acquisition of Prisma Investment House Ltd. in 2009.

NOTE 20: GOODWILL AND OTHER INTANGIBLE ASSETS (CONTD.)

2. As of December 31, 2014, the balance of goodwill in this activity is attributable mainly to fuel storage and distribution operations in Israel amounting to NIS 308 million. As of December 31, 2014, Delek Israel assessed the recoverable amount of the cash generating unit attributable to storage and distribution operations including goodwill, with a total carrying amount of NIS 643 million (including property, plant and equipment). The recoverable amount is determined by an independent assessor according to value in use. Since the recoverable amount of storage and distribution operations exceeds the carrying amount of the unit that includes the goodwill, impairment of goodwill is not required for this operation. When determining the recoverable amount, Delek Israel used the following key assumptions:
   - The pre-tax discount rate was 9.4% (after tax, 7.5%).
   - The projected cash flows take into account annual growth of 1.5%.

3. As of December 31, 2014, goodwill attributable to oil and gas exploration and production amounted to NIS 516 million (as of December 31, 2013, NIS 460 million). The goodwill arose on acquisition of the shares of Cohen Development in December 2011. The exercise value of the operations (derived from the market value of the companies in this segment) exceeds the carrying amount, therefore no provision is required for goodwill impairment.

NOTE 21: SHORT-TERM CREDIT FROM BANKS AND OTHERS

A. Composition:

	Annual interest rate (1)	December 31	
		2014	2013
	%	NIS million	
Foreign currency			
USD or USD-linked	3.9	68	136
AUD	2.7	39	-
EUR		-	191
GBP		-	160
		107	487
NIS			
CPI linked	1.6	211	158
Unlinked	2.6	1,302	1,386
		1,513	1,544
Current maturities of debentures		1,128	1,494
Current maturities of long-term loans		447	2,835
		1,575	4,329
		3,195	6,360

(1) Most of the loans bear interest at a variable rate. The rate presented is a weighted average as of December 31, 2014.

B. See Note 25(C) for compliance with financial covenants.

C. See Note 32 for collateral.

NOTE 22: TRADE PAYABLES

	December 31	
	2014	2013
	NIS million	
Mainly open accounts		
Foreign currency or linked thereto *)	497	1,409
NIS	295	315
	792	1,724

*) The trade payables are non-interest bearing. The average credit for customers in Israel is 30 days.

NOTE 23: OTHER PAYABLES

	December 31	
	2014	2013
	NIS million	
Institutions	268	1,171
Prepaid income, advance payments from customers, and expenses payable	266	387
Salaries and incidentals	132	256
Liability for share-based payment	11	12
Related parties	5	25
Payables for joint ventures in oil and gas	378	425
Interest payable	135	297
Dividend payable	-	70
Deferred purchase costs for reinsurance	38	33
Insurance companies and insurance agents	265	179
Liabilities to insurance agents	236	232
Liability for acquisition of shares of a subsidiary from controlling shareholder	126	56
Deposits from tenants	723	695
Others and accrued expenses	464	673
	3,047	4,511

NOTE 24: EXCHANGE-TRADED FUNDS AND DEPOSIT

	December 31	
	2014	2013
	NIS million	
Exchange-traded funds and deposit	35,011	31,521
Current maturity of structured debentures	-	274
Designated deposits	2,344	-
Liability for short sale of securities	617	172
	37,972	31,967

NOTE 24: EXCHANGE-TRADED FUNDS AND DEPOSIT (CONTD.)

A. Excellence owns special purpose companies ("SPCs") that issue exchange traded funds and deposits listed on the TASE. In this context, Excellence issues exchange-traded funds ("ETFs") that track share, commodity and sector indexes, reverse certificates for share indexes and covered warrants for indexes and commodities ("the Certificates"). The issuing companies are SPCs that were set up to issue ETFs, commodity certificates and reverse certificates, and other securities approved by the board of directors of the TASE.

ETFs were issued by companies that exclusively issue ETFs and handle assets pledged in favor of the debenture holders. The certificates accurately track an index and are convertible into shares or at a financial value according to the reference index determined for that certificate. The certificates are backed by underlying assets that produce the yields of various share and goods indexes. Of the proceeds of the issuance, the companies deposit sums in accounts (banks or financial institutes) and underlying assets and/or financial instruments and derivatives that will be acquired to fulfill their obligations towards the debenture holders. The rights of the debenture holders will be exercised out of the net proceeds received from the companies from the pledged assets. Up to December 31, 2014, 179 certificates were issued (in December 31, 2013, 166 certificates).

B. Deposit certificates were issued by companies that engage exclusively in issuing deposit certificates and handling assets that are pledged in favor of the deposit holders. Deposit certificates are linked (principal and interest) to the rate of exchange for a variety of currencies against the Israeli shekel and they bear interest. Each of the deposit certificate companies is an SPC which was set up for the sole purpose of issuing deposit certificates and these companies may not engage in any other commercial activity. The companies make bank deposits from the proceeds of the issuance to secure their liabilities towards the holders of the deposit certificates. The rights of the companies in the backup deposits are the sole source of repayment for obligations to the holders of the certificates of deposit. The certificates of deposit are rated at ilAA+. Subsequent to the reporting date, the rating was upgraded to ilAAA. The rating is based, among others, on the rating of the banks in which the deposits are placed. Up to December 31, 2014, five deposit certificates were issued.

C. Additional details about the composition of assets and liabilities of SPCs as of December 31, 2014

	Indexes of Israeli shares	Indexes of foreign shares	Israeli debentures	Foreign debentures	Leveraged and strategic	indexes	Certificates of deposit	others
	NIS million							
Backed up assets, net (*)	7,592	12,269	6,014	992	496	961	9,323	1,447
Certificates	7,515	12,090	5,730	964	472	954	9,302	1,281
Liabilities	57	92	268	26	3	-	5	166
	20	87	16	2	21	7	16	-

(*) Less credit and credit balances and less liabilities for options for short sale of securities

NOTE 25: - LOANS FROM BANKS AND OTHERS

A. Composition and terms:

	Annual interest rate (1)	December 31	
		2014	2013
	%	NIS million	
Loans from banks:			
USD or USD-linked	4.4	258	5,097
GBP		-	165
Euro or euro-linked		-	1,823
Linked to the CPI	5.6	242	281
Unlinked	3.6	976	414
		1,476	7,780
Loans from others		22	90
		1,498	7,870
Less - current maturities		(447)	(2,835)
		1,051	5,035

(1) Most of the loans bear interest at a fixed rate. The rate presented is a weighted average as of December 31, 2014.

B. Settlement dates:

	December 31
	2014
	NIS million
First year - current maturities	447
Second year	296
Third year	239
Fourth year	277
Fifth year	158
Sixth year and onwards	81
	1,498

NOTE 25: LOANS FROM BANKS AND OTHERS (CONTD.)

C. Additional information

1. In December 2012, the Company entered into an agreement with a bank for a loan, the balance of which amounts to NIS 425 million at December 31, 2014. Pursuant to the agreement, the financial covenants determined in prior agreements were annulled and new covenants were established, as follows:

   - The Company has undertaken that the total guarantees that it will provide, as defined in the loan agreement will not exceed NIS 1.5 billion.

   - The Company is required to maintain certain financial ratios arising from the market value of their assets in relation to the total liabilities of the Company.

   - The Company has undertaken that if a dividend is distributed exceeding 60% of the adjusted net income attributable to equity holders of the Company, as defined in the agreement, a certain amount of the outstanding debt to the bank will be repaid prematurely, in accordance with the mechanism set out in the agreement (the adjusted net profit is the net profit attributable to the Company's shareholders less a number of adjustments, mainly the profit or loss recorded as a result of increase or decrease in control that does not involve a cash flow for these profits).

   - In addition, for a debt of NIS 300 million out of this amount, the Company undertook to maintain a collateral to debt ratio.

   As of December 31, 2014, the Company is in compliance with these financial covenants.

2. For credit lines which are mostly unused, amounting to NIS 1.3 billion from banks in Israel, the Company has undertaken to comply with certain financial covenants, including a collateral to debt ratio. As of December 31, 2014 the Company is in compliance with the required ratios Subsequent to the balance sheet date, the credit line was reduced to NIS 900 million.

3. In respect of loans from banks and others provided to subsidiaries, the balance of which amounts to NIS 1.6 billion as of December 31, 2014, the subsidiaries have undertaken to meet certain financial covenants, including in respect of the amount of their equity, the ratio of credit to balance sheet total, the ratio of equity to balance sheet total, the financial debt and debt coverage. As of December 31, 2014, the subsidiaries were in compliance with the financial covenants, other than the loans of USD 9 million provided to a subsidiary, which were classified as short-term, since the subsidiary was not in compliance with the financial covenants set for it.

D. See Note 32 for other collateral.

NOTE 26: DEBENTURES

A. Composition:

	Weighted Interest rate as of December 31, 2014	December 31	
		2014	2013
	%	NIS million	
CPI-linked debentures			
issued by the Company	5.2	4,002	4,609
Unlinked debentures issued by subsidiaries	4.4	2,714	3,379
Unlinked debentures			
issued by the Company	8.2	2,081	2,137
Unlinked debentures issued by subsidiaries	6.82	684	1,125
Debentures linked to GBP issued by subsidiaries		-	760
Debentures linked to the US dollar, issued by subsidiaries	4.3	7,688	310
		17,169	12,320
Less - current maturities		(1,128)	(1,494)
		16,041	10,826

B. Repayment dates subsequent to the balance sheet date:

	December 31
	2014
	NIS million
First year (current maturities)	1,128
Second year	3,006
Third year	1,778
Fourth year	2,797
Fifth year	2,184
Sixth year and onwards	6,276
	17,169

C. Subsequent to the balance sheet date, in February 2015, the Company issued NIS 800,000,000 par value Debentures (Series B21), listed for trading. The debentures bear fixed annual interest at a rate of 4.3% and are repayable in six unequal installments, payable on February 20th of each year from 2020 until 2025 (at a rate of 5% in 2020-2021 and 22.5% in 2022-2025). Interest on the unpaid balance of the debenture principal is paid twice a year, on August 20 and on February 20, from 2015 to 2025. The consideration of the issuance amounted to NIS 790 million (after offsetting issuance expenses of NIS 10 million). The Company undertook to comply with certain financial covenants for these debentures (mainly for the Company's equity).

NOTE 26: DEBENTURES (CONTD.)

D. On November 16, 2014, the board of directors of Delek Israel approved a change in the deeds of trusts and terms of debentures (Series A, C and D) issued by the Delek Israel in the past, for full early redemption of the debentures (principal and interest). On December 7, 2014, a general meeting of debenture holders convened to approve the change in the deeds of trust and early redemption. On December 23, 2014, the debentures were repaid ahead of their redemption date and Delek Israel was no longer a reporting company as defined in the Securities Regulations.
Delek Israel paid NIS 427 million for Debentures (Series A) (including an early redemption fee of NIS 20 million); NIS 182 million for Debentures (Series C) (including an early redemption fee of NIS 5 million), and NIS 55 million for Debentures (Series D) (including an early redemption fee of NIS 2.5 million).
The early redemption, which amounted to NIS 664 million, was financed by the independent sources of Delek Israel and though long-term bank credit.
Following early redemption of the above debentures, Delek Israel recognized a loss (before tax) of NIS 31 million in the statement of income, under finance expenses.

E. On June 30, 2014, after obtaining court approval, Delek Petroleum completed the early redemption of Debentures (Series G) and Delek Petroleum was no longer a reporting company as defined in the Securities Regulations.
Delek Petroleum paid NIS 128 million for Debentures (Series G), and following the early redemption of these debentures, Delek Petroleum recognized a loss (before tax) of NIS 9 million in the statement of income, under finance expenses.

F. For information about the debenture issue in 2014 for development of oil and gas investments, see Note 16J above.

G. See Note 32 for information about collateral.

NOTE 27: FINANCIAL INSTRUMENTS

A. Financial risk factors

The Group's activities expose it to various financial risks, such as market risk (including currency risk, CPI risk, interest risk, and price risk), credit risk and liquidity risk. The Group's comprehensive risk management plan focuses on measures to minimize possible negative effects on the financial performance of the Group. The Group uses derivative financial instruments to hedge against exposure to certain risks.
See section E below for financial risks of insurance companies.

NOTE 27: FINANCIAL INSTRUMENTS

A. Financial risk factors (contd.)

1. Exchange rate risk

The Group is exposed to exchange rate risk due to exposure to various currencies, such as the US dollar, euro, and Australian dollar. The exchange rate risk is due to future commercial transactions (including purchase of goods in foreign currency), and for recognized assets denominated in foreign currency other than the functional currency of the different companies.

The Group companies enter into transactions involving derivative financial instruments, from time to time, such as forward transactions and options to hedge their exposure to exchange rate fluctuation.

At December 31, 2014, the Company and its subsidiaries have the following open agreements:

- For the acquisition of USD 150 million for a consideration of NIS 583 million
- For the acquisition of EUR 31 million for a consideration of NIS 147 million
- For the sale of USD 14 million for a consideration of NIS 53 million
- For the sale of EUR 61 million for a consideration of NIS 285 million

Most of the EUR forward transactions are designated as unrecognized hedge accounting against future EUR assets and agreements.

Most of the USD forward transactions are designated as hedge accounting against the acquisition of USD inventory from fuel suppliers.

A 5% increase in the NIS/EUR exchange rate will result in a gain of NIS 31 million and a 5% decrease will result in a loss of NIS 31 million (as of December 31, 2013, without any effect).

A 5% increase in the NIS/USD exchange rate will result in a gain of NIS 48 million and a 5% decrease in NIS will result in a loss in the same amount (as of December 31, 2013, NIS 21 million).

2. CPI risk

The Group has loans from banks and others, and debentures linked to changes in the CPI.

A subsidiary entered into a transaction for the acquisition of 151 million index units for NIS 152 million.
An increase of 2% in the CPI will result in a loss of NIS 96 million (in 2013, NIS 118 million) and a decrease of 2% in the CPI will lead to a gain of NIS 102 million.

3. Credit risk

The Group holds cash and cash equivalents, short- and long-term investments and other financial instruments in various financial institutions in Israel and abroad on the highest level.

Group revenues are composed of large number of customers. Trade receivables include a limited number of customers that generally have a significant debt balance. The Group has no collateral for most of the trade receivables and loans. The subsidiaries assess trade receivables regularly and the financial statements include provisions for doubtful accounts which properly reflect, in the estimate of the subsidiaries, the loss in debts for which collection is uncertain.

For information about credit risks in the insurance sector, see section E below.

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

4. Liquidity risk

The table below presents the repayment dates of the Group's financial liabilities in accordance with the contractual terms, undiscounted.

December 31, 2014

	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	On demand	Total
	NIS million							
Short-term credit	1,620	-	-	-	-	-	-	1,620
Long-term bank loans	533	338	275	308	166	83	-	1,703
Trade payables	674	-	-	-	-	-	-	674
Tax and other payables	1,426	-	-	-	-	-	-	1,426
Debentures	1,808	3,441	1,733	3,009	1,208	7,466	-	18,665
Financial guarantees to associates and others	-	-	-	-	-	-	586	586
Derivative instruments	4	-	-	-	-	-	-	4
	6,065	3,779	2,008	3,317	1,374	7,549	586	24,678

December 31, 2013

	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	On demand	Total
	NIS million							
Short-term credit	1,830	-	-	-	-	-	-	1,830
Long-term bank loans	3,155	2,216	1,595	1,177	127	346	-	8,616
Trade payables	1,613	-	-	-	-	-	-	1,613
Tax and other payables	2,595	-	-	-	-	-	-	2,595
Debentures	1,714	1,735	1,639	1,327	1,162	3,552	-	11,129
Financial guarantees to associates and others	-	-	-	-	-	-	465	465
Derivative instruments	41	53	22	-	-	-	-	116
	10,948	4,004	3,256	2,504	1,289	3,898	465	26,364

For information about liquidity risks in the insurance sector, see section E below.

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

5. Interest rate risk

The Company and its investees have shekel loans at variable interest, therefore the Group is exposed to changes in interest rates in Israeli banks. Some of the Group companies took loans at variable interest at foreign interest rates, therefore they are exposed to changes in these interest rates.
The table below describes the impact on pre-tax profit and on equity (if there is no effect on pre-tax profit), following possible changes in market interest rates in respect of financial instruments bearing interest at a variable rate.

	Effect on earnings (loss)		Effect on capital	
	2014		2014	
	Increase of 0.5%	Decrease of 0.5%	Increase of 0.5%	Decrease of 0.5%
Risk factor	NIS million			
USD interest	4	(5)	-	-
NIS interest	(7)	7	-	-

	Effect on earnings (loss)		Effect on capital	
	2013		2013	
	Increase of 0.5%	Decrease of 0.5%	Increase of 0.5%	Decrease of 0.5%
Risk factor	NIS million			
USD interest	(37)	38	-	-
EUR interest	(18)	18	7	(7)
NIS interest	(7)	7	-	-

6. Price risk

The Group has investments in marketable financial instruments on the TASE, shares and debentures, classified as available-for-sale and financial assets measured at fair value through profit or loss, and other financial instruments, for which the Group is exposed to changes in fair value based on the market price on the TASE.
For the impact of the price risk on insurance subsidiaries in Israel, see section E below.
The table below presents the impact of possible changes on market prices of securities on pre-tax profit and on capital (with the exception of insurance subsidiaries in Israel).

	Effect on earnings (loss)		Effect on equity *)	
	2014		2014	
	Price increase of 10%	Price decrease of 10%	Price increase of 10%	Price decrease of 10%
Risk factor	NIS million			
Price of securities	82	(82)	92	(92)

	Effect on earnings (loss)		Effect on equity *)	
	2013		2013	
	Price increase of 10%	Price decrease of 10%	Price increase of 10%	Price decrease of 10%
Risk factor	NIS million			
Price of securities	-	-	80	(160)

*) Assuming there is no impairment of available-for-sale securities

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

7. Transactions on oil and fuel prices

The table below presents the impact of possible changes in the prices of oil and fuel on pre-tax profit:

	Gain (loss) from the change			
	2014		2013	
	Price increase of 20%	Price decrease of 20%	Price increase of 20%	Price decrease of 20%
Risk factor	NIS million			
Oil and fuel price	33	(33)	136	(136)

8. Main assumptions used in calculation of sensitivity tests

The changes selected in the relevant risk variables were based on management assessments of the reasonable changes that are likely to occur in these risk variables.

The Company performed sensitivity tests for the main market risk factors that might affect the operating results or financial position. The sensitivity analyses present the profit or loss and/or change in equity (before tax) for each financial instrument in respect of the relevant risk variable for each reporting date. Risk factors are tested on the basis of the significance of the exposure of the operating results or financial position of each risk factor in relation to the functional currency and assuming that all the other variables are constant.

The risk is not exposed to interest risk in loans at fixed interest. For loans at fixed interest, the sensitivity test for interest risk will only be performed on the variable component in the interest. Sensitivity tests for marketable investments with a quoted market price (TASE price) were based on possible changes in these market prices.

Sensitivity tests for options were generally based on the Black and Scholes model.

B. Fair value

The table below describes the balance in the financial statements and the fair value of groups of financial instruments, presented in the financial statements, not on the basis of fair value.

	Carrying		Fair value		
	December 31		December 31		Hierarchy
	2014	2013	2014	2013	Market value
	NIS million				Fair
Financial liabilities					
Long-term loans	1,473	7,639	1,496	7,759	Level 3
Debentures	14,602	9,721	15,638	11,224	*)
Total	16,075	17,360	17,134	18,983	

The carrying amount of financial instruments such as cash and cash equivalents, short-term investments, trade receivables, other receivables, loans to associates, long-term loans extended, borrowings from banks and others, liabilities to trade payables and other payables is equal to or approximates their fair value.

*) NIS 6,584 million based on Level 1, NIS 7,794 million based on Level 2, and NIS 1,260 million based on Level 3

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

C. Classification of financial instruments according to fair value level

Financial assets measured at fair value

	Level 1	Level 2	Level 3
		NIS million	
December 31, 2014			
Financial assets at fair value through profit or loss			
Debentures	653	-	-
Shares	473	-	565
Available-for-sale financial assets:			
Shares	971	-	42
Debentures	16	-	-

Financial liabilities measured at fair value

	Level 1	Level 2	Level 3
		NIS million	
December 31, 2014			
Financial liabilities at fair value through profit or loss			
CPI forward contracts	-	(3)	-
Euro forward contracts	-	(1)	-
Written purchase option	-	-	(58)

Level 3 financial assets

	NIS million
Balance as of January 1, 2014	106
Additions during the year	551
Deconsolidation	(5)
Disposals during the year	(69)
Capital reserve for translation of financial statements of investees	15
Total profit recognized in other comprehensive income	9
Balance as of December 31, 2014	607

In 2013, there were no transfers between the different fair value levels.

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

D. Linkage of monetary balances

	December 31, 2014												
	Israeli currency		Foreign currency					Monetary items in foreign operations					
	Unlinked	CPI-linked	USD	EUR	Other foreign currency	Fair value	Insurance business	USD	AUD	GBP	ETFs	Non-monetary item	Total
	NIS million												
Cash and cash equivalents	1,105	-	221	-	61	-	546	596	27	-	-	-	2,556
Performance-based cash and cash equivalents in companies	-	-	-	-	-	-	2,651	-	-	-	-	-	2,651
Short-term investments in the financial sector	372	730	13	-	-	-	-	-	-	-	37,569	-	38,684
Short-term investments in insurance companies	-	-	-	-	-	-	1,513	-	-	-	-	-	1,513
Other short-term investments	155	273	5	9	1	974	-	1,215	-	-	-	-	2,632
Trade receivables	1,163	4	77	3	-	-	-	245	-	-	-	-	1,492
Insurance premium receivable	-	-	-	-	-	-	598	-	-	-	-	-	598
Other receivables	271	-	48	-	-	-	191	270	-	-	-	44	824
Current tax assets	22	20	-	-	-	-	19	-	-	-	-	-	61
Reinsurance assets	-	-	-	-	-	-	499	-	-	-	-	-	499
Inventories	-	-	-	-	-	-	-	-	-	-	-	268	268
Deferred acquisition costs in insurance companies	-	-	-	-	-	-	426	-	-	-	-	-	426
Financial investments of insurance companies	-	-	-	-	-	-	47,392	-	-	-	-	-	47,392
Long-term loans, deposits and receivables	298	37	28	659	-	-	5	499	-	-	-	27	1,553
Investments in other financial assets	-	-	-	-	-	1,095	-	-	-	-	-	-	1,095
Investments in associates	100	22	37	-	-	-	264	-	-	-	-	1,753	2,176
Investment property	-	-	-	-	-	23	1,723	-	-	-	-	1,259	3,005
Investments in oil and gas exploration and production	-	-	-	-	-	-	-	-	-	-	-	16,483	16,483
Reinsurance assets	-	-	-	-	-	-	900	-	-	-	-	-	900
Property, plant and equipment, net	-	-	-	-	-	-	-	-	-	-	-	2,592	2,592
Deferred acquisition costs in insurance companies	-	-	-	-	-	-	932	-	-	-	-	-	932
Structured bonds	-	-	-	-	-	-	-	-	-	-	427	-	427
Goodwill	-	-	-	-	-	-	-	-	-	-	-	1,789	1,789
Other intangible assets, net	-	-	-	-	-	-	-	-	-	-	-	576	576
Deferred taxes	-	-	-	-	-	-	3	-	-	-	-	50	53
Total assets	3,486	1,086	429	671	62	2,092	57,662	2,825	27	-	37,996	24,841	131,177

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

	December 31, 2014												
	Israeli currency		Foreign currency					Monetary items in foreign operations					
	Unlinked	CPI-linked	USD	EUR	Other foreign currency	Fair value	Insurance business	USD	AUD	GBP	ETFs	Non-monetary item	Total
	NIS million												
Interest bearing loans and borrowings	2,254	646	164	-	-	-	-	91	40	-	-	-	3,195
Trade payables	294	2	406	1	48	-	-	41	-	-	-	-	792
Other payables	524	882	23	2	10	2	1,180	410	-	-	-	14	3,047
Exchange-traded funds and deposit	-	-	-	-	-	-	-	-	-	-	37,972	-	37,972
Tax liabilities	-	388	-	-	-	-	4	-	-	-	-	-	392
Financial derivatives	-	-	-	-	-	4	-	-	-	-	-	-	4
Insurance reserves and outstanding claims	-	-	-	-	-	-	4,046	-	-	-	-	-	4,046
Loans from banks and others	744	213	94	-	-	-	-	-	-	-	-	-	1,051
Other debentures	1,781	4,673	4	-	-	-	1,896	7,687	-	-	-	-	16,041
Structured bonds	-	-	-	-	-	-	-	-	-	-	432	-	432
Financial derivatives	-	-	-	-	-	58	-	-	-	-	-	-	58
Liabilities in respect of employee benefits, net	7	-	-	-	-	-	107	8	-	-	-	9	131
Insurance reserves and outstanding claims	-	819	-	-	-	-	48,665	-	-	-	-	-	49,484
Provisions and other liabilities	24	127	16	-	-	-	-	120	-	-	-	129	416
Deferred taxes	-	-	-	-	-	-	276	-	-	-	-	2,612	2,888
Total liabilities	5,628	7,750	707	3	58	64	56,174	8,357	40	-	38,404	2,764	119,949
Equity balance, net	(2,142)	(6,664)	(278)	668	4	2,028	1,488	(5,532)	(13)	-	(408)	22,077	11,228

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

E. Market risks in insurance companies

Revenue from investments arising from performance based portfolios and nostro portfolios has a material impact on The Phoenix's profits. The extent of the impact on profits depends on the characteristics of the insurance liabilities (nostro and profit participating) and the conditions of the management fees in products for which the relevant reserve is held.

1. Performance based contracts

In profit participating policies issued from 2004 onwards, all yields from investments are allocated to the policyholders and the insurer is eligible to fixed management fees at the rate of 1%-2%, depending on the track. In accordance with the decision of the Knesset Finance Committee, as of January 2014, annual management fees will be limited to a maximum of up to 1.05% of the aggregate balance and up to 4% of the current deposits, while recipients of pension and survivors allowance will pay up to 0.6% of the assets guaranteeing the fund's commitment towards them. It also decided that in 2013, management fees will be up to 1.1% of the accrued balance in the member's account and up to 4% of the current deposits. It is noted that, with regard to insurance policies, it was decided that the maximum management fee will not be applicable for insurance policies issued prior to January 1, 2013. For these products, the impact of the yields on the profits of the insurance company is reduced to exposure arising from the total scope of the reserve from which the insurer's management fees are derived.

In profit-participating policies issued up until December 31, 2003, the yield from the investment is allocated to the policyholders and the insurer is eligible to fixed management fees at a rate of 0.6% of the accrual and variable management fees of at a rate of 15% of the real profit achieved after deducting the fixed management fees. For these policies, if the return is negative, The Phoenix is not entitled to charge variable management fees until positive returns are attained covering the aggregate negative returns. In these products, in addition to the exposure arising from the amount of the accumulation, there is an effect on the Company's profits as a result of the rate of the variable management fees arising from the real yields allocated to policyholders.

In pension and provident funds, yields from investments (net of fixed management fees) are allocated to the members. Therefore, the effect of the results of the investment on the profits of the company managing the pension or provident funds depends on the management fees for the management company, based on the scope of the assets.

Regarding the assets and liabilities for these products, The Phoenix does not have direct exposure for changes in interest, fair value of investments or the CPI. The effect of the financial results on the insurance company's profits is reduced to exposure derived from variable management fees based on yields recognized for policyholders, which applies only to policies issued before 2004, and from all the liabilities on which the insurer's fixed management fees are based for all the performance-based products.

In view of the aforesaid, the sensitivity tests and maturity dates of the liabilities set forth below do not include performance based contracts.
Below is a sensitivity test for performance based contracts and the effect of any change in yield on profit (loss).

Any change of 1% in the yield on the investments according to performance-based contracts for policies issued before 2004, with liabilities of NIS 22 billion in their respect as of December 31, 2014, affects management fees in the amount of NIS 33 million and fixed management fees in the amount of NIS 1.3 million. The effect of the change on policies issued from 2004 onwards is not material.
For policies issued before 2004, if the return on these contracts is negative, The Phoenix is not entitled to charge variable management fees until positive returns are attained covering the aggregate negative returns. Therefore, the change of 1% in the real yield will not be reflected in the statements of income, except to the extent of the amount of the remaining debt to be covered.

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

2. Sensitivity tests relating to market risks for non-performance based contracts

The tables below describe the sensitivity tests presenting the change in profit (loss) and equity for the financial assets, the financial liabilities and the liabilities for insurance and investment contracts for the relevant risk variable as of each reporting date, assuming that all the other variables are fixed. These sensitivity tests do not include, as mentioned, the impact of performance based contracts as described above. The changes in the variables are in relation to the carrying amount of the assets and liabilities. In addition, it was assumed that the changes do not reflect permanent impairment of assets stated at reduced cost or available-for-sale assets, therefore, in the sensitivity tests, impairment losses were not included for these assets. The sensitivity tests reflect direct impacts only, without secondary impacts.

It is noted that the sensitivities are not linear, hence larger or smaller changes in relation to the changes described below are not necessarily simple extrapolation of the impact of the changes.

December 31, 2014 (The Phoenix)

	Interest rates (1)		Investment in equity instruments (2)		Change in CPI		Change in exchange rate	
	+ 1%	-1%	+ 10%	-10%	+ 1%	-1%	+ 10%	-10%
	NIS million							
Profit (loss)	43	(14)	11	(11)	(30)	30	(21)	21
Comprehensive income (loss) (3)	(93)	122	120	(120)	(30)	30	24	()

December 31, 2013 (The Phoenix)

	Interest rates (1)		Investment in equity instruments (2)		Change in CPI		Change in exchange rate	
	+ 1%	-1%	+ 10%	-10%	+ 1%	-1%	+ 10%	-10%
	NIS million							
Profit (loss)	28	(16)	9	(9)	(25)	25	(25)	25
Comprehensive income (loss) (3)	(95)	107	103	(103)	(25)	25	20	(20)

(1) The sensitivity analysis to change in interest refers to fixed interest instruments and variable interest instruments. The exposure is for the carrying amount of the instrument. The sensitivity tests did not take into account, out of the assets with direct interest risk, non-marketable debt assets, cash and cash equivalents, reinsurance assets, non-marketable financial liabilities, and liabilities in respect of insurance contracts and investment contracts.

(2) The sensitivity analysis does not include the effect on insurance liabilities in life insurance, since in life insurance, the discount rate is usually derived from the tariff interest. The Company performs an adequacy test for yield-guaranteed life assurance reserves against the value of the portfolio. The 1% decrease in the interest will result in a reduction of NIS 285 million in income and comprehensive income.

(3) Investment in instruments that have no fixed cash flow, or The Phoenix has no information about this cash flow (according to IFRS 7, this does not include investments in associates)

(3) The sensitivity analysis for comprehensive income (loss) also reflects the effect of profit (loss) for the period.

(4) In the sensitivity test to the CPI and to currency, non-monetary items were also taken into account, according to the directives of the Commissioner.

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

3. Liquidity risks

Liquidity risk is the risk that The Phoenix will be required to dispose of its assets at an inferior price in order to meet its liabilities.

A) The Phoenix is exposed to risks arising from uncertainty regarding the date The Phoenix will be required to pay claims and other benefits to policyholders in respect of the scope of finances that will be available at that date. However, a significant part of its insurance liabilities in the life insurance sector are not exposed to liquidity risk due to the nature of the insurance contracts as described below.

B) It is noted, however, that a possible unexpected requirement to raise funds in a short time could require significant disposal of assets within a short time, at prices that do not necessarily reflect their market value.

C) Performance-based contracts in life assurance: In accordance with the conditions of the contracts, the policyholders are entitled to receive the value of the investments, and no more. Therefore, if the value of the investments falls for any reason, there will be a corresponding decrease in the level of the Company's liabilities.

D) Non-performance based contracts in life assurance: 23.5% of the life assurance portfolio is for non-performance based contracts, however they guarantee an agreed yield. These contracts are mainly hedged by designated bonds (Hetz life linked bonds) issued by the Bank of Israel. The Company may exercise these debentures when these policies are called for redemption.

E) The Phoenix's liquidity risk is mainly due to the balance of assets that are not designated bonds and are not against performance based contracts. These assets represent 59% only (NIS 59 billion) out of all the assets of The Phoenix.
Out of the above balance of assets, NIS 8 billion are marketable assets that can be sold immediately. NIS 39 billion are held against holders of benchmark certificates, exchange traded funds, reverse certificates, complex certificates and certificates of deposit.
In accordance with the investment directives, The Phoenix is required to hold liquid assets (government bonds or cash and cash equivalents) amounting to at least 30% of the required capital.

4. Management of assets and liabilities

The tables below summarize the estimated maturity dates of The Phoenix's non-discounted insurance and financial liabilities. As the amounts are not discounted, there is no correlation between them and the balance of the insurance and financial liabilities in the balance sheet.

The estimated maturity dates of the life insurance and health insurance liabilities are included in the tables as follows:
Savings: contractual maturity dates, in other words, retirement age, without assumed cancellations, and assuming the savings will be withdrawn as a lump-sum and not as an annuity.
Annuity for payment, disability income insurance for payment, and long term care for payment – based on an actuarial estimate.
Other –reported under "Without a defined maturity date".
The estimated payment dates of gross general insurance liabilities are based on an actuarial estimate that assigns an estimated date to the total undiscounted liabilities according to claim payment experience. Total liabilities include provisions for expected deviations and an unearned premium reserve less deferred acquisition costs.
The maturity dates of financial liabilities and liabilities for investment contracts were included on the basis of the contractual maturity dates. In contracts in which the other party has the right to choose the date for payment of the amount, the liability is included on the basis of the earliest date that the Company can be asked to pay the liability.

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

Liabilities for life insurance and health insurance contracts (The Phoenix)

	Up to 1 year	Over 1 year and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 15 years	Over 15 years	Without a defined payment date	Total
	NIS million						
December 31, 2014	2,270	5,012	2,673	1,184	984	1,345	13,468
December 31, 2013	2,130	4,685	2,797	1,293	1,163	1,028	13,096

*) Not including performance based contracts

Liabilities for general insurance contracts (The Phoenix)

	Over 1 year and up to 3 years	Over 3 years and up to 5 years	Over 5 years	Without a defined payment date	Total
	NIS million				
December 31, 2014	2,975	878	1,057	205	5,115
December 31, 2013	2,931	834	981	265	5,011

Financial liabilities and liabilities for investment contracts

	Up to 1 year	Over 1 year and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 15 years	Total
	NIS million				
December 31, 2014					
Financial liabilities	1,231	1,351	1,618	-	4,200
Liabilities for investment contracts	-	-	1	-	1
Liabilities for performance based investment contracts	2,288	-	-	-	2,288
Liability for contingent consideration and provision for payment for the option to acquire an investee	219	-	-	-	219
December 31, 2013					
Financial liabilities	1,220	1,419	1,037	-	3,676
Liabilities for investment contracts	2	7	-	1	10
Liabilities for performance based investment contracts	1,145	-	-	-	1,145
Liability for contingent consideration and provision for payment for the option to acquire an investee	107	-	-	-	107

*) Liabilities up to one year include NIS 2,288 million (December 31, 2013, NIS 1,145 billion) repayable on demand. These liabilities were classified as repayable up to one year, even though the actual repayment dates could be later.

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

5. Credit risks - debt assets by rating

Debt assets of insurance companies in Israel

	Local rating *)				
	December 31, 2014				
	A and above	A to BBB	Lower than BBB	Unrated	Total
	NIS million				
Marketable debt assets					
Government bonds	3,113	-	-	-	3,113
Corporate debentures	984	989	255	22	2,250
Total marketable debt assets in Israel	4,097	989	255	22	5,363
Non-marketable debt assets					
Government bonds	6,580	-	-	-	6,580
Corporate debentures	281	1,509	22	11	1,823
Deposits in banks and institutions	615	-	-	-	615
Other debt assets according to securities:					
Mortgages	-	-	-	59	59
Loans on policies	111	-	-	-	111
Loans pledged by real estate	-	67	-	-	67
Other securities	462	402	13	114	991
Unsecured	5	65	-	24	94
Total non-marketable debt assets in Israel	8,054	2,043	35	208	10,340
Total debt assets in Israel	12,150	3,032	290	230	15,703
Of which, internally-rated debt assets	400	898	45	-	1,343

*) Each rating includes all the ranges, for example: A includes A- to A+.

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

Debt assets of insurance companies in Israel

	Local rating *)			
	December 31, 2013			
	A and above	A to BBB	Lower than BBB	Total
	NIS million			
Marketable debt assets				
Government bonds	3,380	-	-	3,380
Corporate debentures	833	978	192	2,003
Total marketable debt assets in Israel	4,213	978	192	5,383
Non-marketable debt assets				
Government bonds	6,233	-	-	6,233
Corporate debentures	303	676	23	1,002
Deposits in banks and institutions	692	-	-	692
Other debt assets according to securities:				
Mortgages	-	-	75	75
Loans on policies	113	-	-	113
Loans pledged by real estate	-	69	-	69
Other securities	480	381	18	879
Unsecured	19	5	90	114
Total non-marketable debt assets in Israel	7,840	1,131	206	9,177
Total debt assets in Israel	12,053	2,109	398	14,560
Of which, internally-rated debt assets	585	923	170	1,678

*) Each rating includes all the ranges, for example: A includes A- to A+.

Debt assets abroad

	International rating *)				
	December 31, 2013				
	A and above	A to BBB	Lower than BBB	Unrated	Total
	NIS million				
Debt assets abroad					
Government bonds	17	-	-	-	17
Corporate debentures	-	8	17	-	25
Total marketable debt assets abroad	17	8	17	-	42
Non-marketable debt assets					
Mortgages	-	-	4	-	4
Loans in other securities	-	17	-	-	17
Unsecured loans	-	-	18	75	93
Total non-marketable debt assets abroad	-	17	22	75	114
Total debt assets abroad	17	25	39	75	156
Of which, internally-rated debt assets	-	17	22	-	39

*) Each rating includes all the ranges, for example: A includes A- to A+.

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

Credit risks for other assets (in Israel)

	Local rating *)				
	December 31, 2014				
	A and above	A to BBB	Lower than BBB	Unrated	Total
	NIS million				
Loans to associates	-	-	-	198	198
Other receivables, other than balances from reinsurers	-	-	-	186	186
Other financial investments	551	17	-	169	737
Cash and cash equivalents	696	-	-	-	696

*) Each rating includes all the ranges, for example: A includes A- to A+.

	Local rating *)				
	December 31, 2013				
	A and above	A to BBB	Lower than BBB	Unrated	Total
	NIS million				
Loans to associates	-	-	-	182	182
Other receivables, other than balances from reinsurers	-	-	-	334	334
Other financial investments	384	1	126	17	528
Cash and cash equivalents	586	-	-	-	586

*) Each rating includes all the ranges, for example: A includes A- to A+.

Credit risks for non-equity instruments (in Israel)

	Local rating *)				
	December 31, 2014				
	A and above	A to BBB	Lower than BBB	Unrated	Total
	NIS million				
Unused credit facilities	-	-	-	194	194

	Local rating *)				
	December 31, 2013				
	A and above	A to BBB	Lower than BBB	Unrated	Total
	NIS million				
Unused credit facilities	-	-	-	68	68

*) Each rating includes all the ranges, for example: A includes A- to A+.

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

Credit risks for other assets (in other countries)

	International rating *)				
	December 31, 2014				
	A and above	A to BBB	Lower than BBB	Unrated	Total
	NIS million				
Other financial investments	17	105	10	319	451

	International rating *)				
	December 31, 2013				
	A and above	A to BBB	Lower than BBB	Unrated	Total
	NIS million				
Other financial investments	158	70	108	160	496

*) Each rating includes all the ranges, for example: A includes A- to A+.

Debt assets of insurance companies abroad

	International rating			
	December 31, 2013			
	A and above	A to BBB	Lower than BBB	Total
	NIS million			
Government bonds	77	-	-	77
Corporate debentures	1,333	115	174	1,622
Total marketable debt assets abroad	1,410	115	174	1,699

6. Exposure to credit risks of reinsurers

The insurance companies insure some of their business affairs with reinsurance, mainly through reinsurers abroad. However, reinsurance does not exempt the direct insurers of their liability towards the policyholders according to the insurance policies.

The insurance companies are exposed to risks due to uncertainty regarding the ability of the reinsurers to pay their share of the liabilities for insurance contracts (reinsurance assets) and their liabilities for claims paid. This exposure is managed by ongoing monitoring of the situation of the reinsurer in the global market and compliance with its financial obligations.

The Phoenix is exposed to credit risk to a single reinsurer, due to the structure of the reinsurance market and the limited number of reinsurers with an adequate rating.

According to the directives of the Commissioner, the board of directors of The Phoenix determines, once a year, the maximum exposure for reinsurers, based on international rating. The Phoenix manages these exposures by individual evaluation of each of the reinsurers. In addition, the exposures of The Phoenix are dispersed amount different reinsurers, generally reinsurers with high international rating.

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

December 31, 2014:

In the financial statements of insurance companies in Israel

	Total premiums for reinsurers for 2013	Debt (credit) balances, net	Reinsurance assets					Total exposure	Debts in arrears	
			Total life insurance *)	Health insurance	Property insurance	Liability insurance	Reinsurer deposits		6-12 months	Over 1 year
Name of reinsurer	NIS million									
AA or above										
Munich Reinsurance Co AG	55	(12)	22	70	30	12	84	38	-	-
Swiss Reinsurance Co	113	(11)	91	100	64	32	79	197	-	-
Kolnische Ruckversicherungs	59	1	30	103	-	-	35	99	-	-
Others	104	(3)	2	11	61	88	19	140	-	-
AA or above	331	(25)	145	284	155	132	217	474	-	-
A	331	(1)	13	-	358	282	90	562	-	-
BBB	4	-	-	-	12	-	1	11	-	-
Lower than BBB or unrated	1	(3)	1	-	3	13	-	14	-	-
Total	667	(29)	159	284	528	427	308	1,061	-	-

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

December 31, 2013:

In the financial statements of insurance companies in Israel

	Total premiums for reinsurers for 2012	Debt (credit) balances, net	Reinsurance assets					Total exposure	Debts in arrears	
			Total life insurance *)	Health insurance	Property insurance	Liability insurance	Reinsurer deposits		6-12 months	Over 1 year
Name of reinsurer	NIS million									
AA or above										
Munich Reinsurance Co AG	94	(9)	22	106	31	15	112	53	-	-
Swiss Reinsurance Co	98	(10)	93	84	53	36	78	178	-	-
Kolnische Ruckversicherungs	64	11	31	94	-	-	34	102	-	-
Others	71	(3)	2	-	60	109	12	156	-	-
AA or above	327	(11)	148	284	144	160	236	489	-	-
A	306	(4)	13	-	288	275	69	503	1	-
BBB	19	3	-	-	32	1	7	29	-	-
Lower than BBB or unrated	-	(6)	1	-	-	17	-	12	-	1
Total	652	(18)	162	284	464	453	312	1,033	1	1

NOTE 27: FINANCIAL INSTRUMENTS (CONTD.)

December 31, 2013:

In the financial statements of foreign insurance companies

	Total premiums for reinsurers for 2013	Current credit balances, net	Reserves for unexpired risks	Outstanding claims		Reinsurer deposits	Total exposure (A)
				Assets	Liabilities		
	NIS million						
A- (minus) and above							
Hartford Fire Insurance Co.	615	-	329	22	260	-	611
JRG Reinsurance Co Ltd.	159	(61)	45	-	271	-	255
Others	732	(121)	290	35	478	-	682
	1,506	(182)	664	57	1,009	-	1,548
B and above	1	(5)	-	-	81	-	76
Unrated	19	(12)	-	-	71	-	59
Total	1,526	(199)	664	57	1,161	-	1,683

(A) The total exposure to reinsurers is the share of reinsurers in insurance reserves and outstanding claims, net of deposits and net of the amount of the credit notes received from the reinsurer to secure their liabilities, plus (less) the net current debit (credit) balance.

(B) The rating was determined by the rating company AM Best.

(C) Republic received credit notes in the amount of NIS 830 million from reinsurers to secure their liabilities

NOTE 28: ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS

Post-employment benefits

Labor laws and the Severance Pay Law in Israel requires Group companies operating in Israel to pay compensation to employees if they are dismissed or when they retire or to make routine deposits in defined deposit plans under section 14 of the Severance Pay Law, as described below. The liability of the Group companies for this is recognized as a post-employment benefit. The liability of the Group companies for employee benefits is based on the valid labor agreement and the employee's salary, which generate the right for compensation.

Post-employment benefits are usually financed by deposits classified as a defined benefit plan or as a specific deposit plan as described below.

Defined deposit plan

The provisions of section 14 of the Severance Pay Law, 1963 ("the Severance Law) apply to part of the compensation payments, according to which the Group's routine deposits in the pension fund and/or insurance policies exempt it from any other liability towards the employees.

Defined benefit plan

The Group has a defined benefit plan for severance pay under the Severance Pay Law. By law, employees are entitled to compensation if they are dismissed or on demand. The liability for severance is based on the actuarial method.

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS

A. Liabilities for insurance contracts and investment contracts

	2014		2013	
	Gross	Reinsurance	Gross	Reinsurance
	NIS million			
Liabilities for insurance contracts and non-performance based investment contracts	18,380	1,319	20,616	3,178
Liabilities for insurance contracts and non-performance based investment contracts	35,150	80	30,892	81
	53,530	1,399	51,508	3,259
Net of short-term presentation	4,046	499	5,976	1,799
	49,484	900	45,532	1,460

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

A. Liabilities for insurance contracts and investment contracts (contd.)

Liabilities for non-performance-based insurance contracts and investment contracts

	December 31					
	2014	2013	2014	2013	2014	2013
	Gross		Reinsurance		Residual	
	NIS million					
Life insurance and long-term saving:						
Insurance contracts	10,687	10,235	100	103	10,587	10,132
Investment contracts	1	7	-	-	1	7
Less amounts deposited in the Company as part of a defined benefit plan for Group employees	(19)	(19)	-	-	(19)	(19)
Total life insurance and long-term saving	10,669	10,223	100	103	10,569	10,120
Management companies of provident funds	819	798	-	-	819	798
Insurance contracts included in Health insurance	1,620	1,381	264	263	1,356	1,118
Insurance contracts included in General insurance	5,272	8,214	955	2,812	4,318	5,441
Total liabilities for non-performance based insurance contracts and investment contracts	18,380	20,616	1,319	3,178	17,062	17,477

Liabilities for performance-based insurance contracts and investment contracts

	December 31					
	2014	2013	2014	2013	2014	2013
	Gross		Reinsurance		Residual	
	NIS million					
Life insurance and long-term saving:						
Insurance contracts	32,547	29,472	60	59	32,487	29,413
Investment contracts	2,288	1,145	-	-	2,288	1,145
Less amounts deposited in the Company as part of a defined benefit plan for Group employees	(61)	(61)	-	-	(61)	(61)
Total life insurance and long-term saving range	34,774	30,556	60	59	34,714	30,497
Insurance contracts included in health insurance	376	336	20	22	356	315
Total liability for insurance contracts and performance-based investment contracts	35,150	30,892	80	81	35,070	30,812

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

B. Liabilities for insurance contracts included in the general insurance sector, by category:

	December 31					
	2014	2013	2014	2013	2014	2013
	Gross		Reinsurance		Residual	
	NIS million					
In Israel						
Compulsory motor insurance	3,962	3,858	427	433	3,535	3,425
Property and other branches	1,310	1,287	528	485	783	802
Total liabilities for insurance contracts included in general insurance	5,272	5,145	955	918	4,318	4,227
Deferred acquisition costs:						
Compulsory motor insurance	51	46	7	6	44	40
Property and other branches	145	140	29	27	116	113
Total	196	186	36	33	160	153
Liabilities for general insurance contracts less deferred acquisition costs:						
Compulsory motor insurance and liabilities (C1)	3,911	3,812	420	427	3,491	3,385
Property and other branches	1,165	1,147	499	458	667	689
Total liabilities for general insurance contracts less deferred acquisition costs	5,076	4,959	919	885	4,158	4,074

	December 31					
	2013	2012	2013	2012	2013	2012
	Gross		Reinsurance		Residual	
	NIS million					
Abroad						
Total liabilities for insurance contracts included in the general insurance sector	1,168	1,172	655	562	513	610
Provisions for outstanding claims						
Motor	549	668	396	476	153	192
Property	144	210	30	82	114	128
Liability	1,209	1,263	775	752	434	511
Total provisions for outstanding claims	1,902	2,141	1,201	1,310	701	831
Total	3,070	3,313	1,856	1,872	1,214	1,441

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

C. Change in liabilities for insurance contracts included in the general insurance sector, net of deferred acquisition costs:

In Israel

1. Compulsory motor insurance

	December 31					
	2014	2013	2014	2013	2014	2013
	Gross		Reinsurance		Residual	
	NIS million					
Balance as of the beginning of the year	3,812	3,781	426	480	3,386	3,301
Aggregate cost of claims for the current underwriting year	661	610	43	30	619	580
Change in balances at the beginning of the year as a result of linkage to the CPI and investment gains before discounting assumptions	(3)	63	-	4	(3)	59
Change in estimated cost of claims accumulated in liabilities for prior underwriting years (5)	(72)	(209)	12	(64)	(84)	(145)
Total change in aggregate cost of claims	586	464	55	(30)	532	494
Payments to settle claims in the year:						
For the current underwriting year	(7)	(8)	(1)	-	(7)	(8)
For prior underwriting years	(420)	(431)	(24)	(43)	(396)	(388)
Total payments for the year	(427)	(439)	(25)	(43)	(403)	(396)
Other	(60)	6	(36)	20	(24)	(14)
Balance as of the end of the year	3,911	3,812	420	427	3,491	3,385

1. Opening and closing balances include outstanding claims, accrual, unearned premium, and net of deferred acquisition costs.
2. The aggregate cost of claims (ultimate) is the balance of the outstanding claims (without accrual), unearned premium net of deferred acquisition costs with the addition of the total claims payments including direct and indirect expenses to settle claims.
3. The payments include indirect expenses to settle claims (administrative and general recorded in the claims) in relation to the underwriting years.
4. The aggregate cost of claims is adjusted according to the model in view of actual development of the claims.
5. The gross change in the estimated aggregate cost of claims for prior underwriting years in 2014 is mainly due to a decrease in reserves in compulsory motor insurance following the adjusted forecast in the actuarial model for the cost of claims, including the gradual release of the standard deviation. In 2013, most of the decrease is due to the compulsory motor insurance branch, employer obligations, third party and professional liability arising mainly from updates in the actuarial model, and a decrease in the assessment of the claims department.
6. The increase in reinsurance in the estimated aggregate cost of claims for prior underwriting years in 2014 is mainly due to a large claim in product liability, which is fully covered by reinsurance.

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

2. Property and other branches

	December 31					
	2014	2013	2014	2013	2014	2013
	Gross		Reinsurance		Residual	
	NIS million					
Balance as of the beginning of the year	1,147	979	458	360	689	619
Aggregate cost of claims for the events in the reporting year (5)	842	988	150	268	692	720
Change in the aggregate cost of claims for events prior to the reporting year (6)	87	(30)	119	(15)	(32)	(15)
Payments to settle claims in the year:						
For events in the reporting year	(580)	(571)	(75)	(79)	(505)	(492)
For events prior to the reporting year	(349)	(251)	(165)	(78)	(183)	(173)
Total payments	(929)	(822)	(240)	(157)	(688)	(665)
Change in provision for unearned premium, net of deferred acquisition costs	19	32	11	2	8	30
Balance as of the end of the year	1,166	1,147	498	458	669	689

1. Opening and closing balances include outstanding claims, unearned premium, and net of deferred acquisition costs.
2. The aggregate cost of claims for events in the reporting year includes the balance of outstanding claims at the end of the reporting year with the addition of total claims payments in the reporting period, including direct and indirect expenses to settle claims.
3. Payments to settle claims during the year include payments for events prior to the reporting year.
4. The payments to settle claims include direct and indirect expenses to settle claims (general and administrative recorded in the claims) attributed to the damage years.
5. The aggregate cost of claims in 2013 for events in the reporting year was also affected by damages caused by the storm in 2013.
6. The increase in the gross aggregate cost of claims for events prior to the reporting year is mainly due to several large claims in property loss and engineering which are fully covered by reinsurance. The decrease in the cost of aggregate claims in retention for events prior to the reporting year is mainly due to vehicle property and business branches in which most of the change in the estimates arises from the retention, and from a reinsurance transaction following the damages caused by the storm in 2013.

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

Abroad

	December 31, 2013		
	Gross	Reinsurance	Residual
	NIS million		
Total liabilities for insurance contracts in the general insurance sector at end of year	1,168	655	513
Change in provisions for claims			
Balance as of the beginning of the year	2,141	1,310	831
Aggregate cost of claims for the current underwriting year	1,542	904	638
Change in estimated cost of claims for underwriting years	26	19	7
Total change in aggregate cost of claims	1,568	923	645
Payments to settle claims during the years			
For the current underwriting year	812	410	402
For prior underwriting years	847	531	316
Total payments for the period	1,659	941	718
Effect of changes in exchange rate for foreign operations	(148)	(91)	(57)
	1,902	1,201	701
Balance as of the end of the year	3,070	1,856	1,214

(*) Deconsolidation following the sale of Republic in 2014, see Note 14.

D. Insurance risks

Insurance risk, including:

Underwriting risks: the risk of using incorrect prices due to deficiencies in the underwriting process and due to the gap between the risk when pricing and establishing the premium and the actual occurrence so that the collected premiums are insufficient for covering future claims and expenses. The gaps may arise from accidental changes in business results and from changes in the cost of the average claim and/or the incidence of the claims as a result of various factors.

Reserve risks: the risk of an incorrect assessment of the insurance liabilities which might cause the actuarial reserves to be inadequate for covering all the liabilities and claims. The actuarial models according to which the Company assesses its insurance liabilities are based on the fact that the pattern of the behavior of past claims represents forward looking information. The Company's exposure is comprised of the following risks:

1. Model risk –the risk of choosing an incorrect model for pricing and/or assessing the insurance liabilities
2. Parameter risk –the risk of using incorrect parameters, including the risk that the amount paid for settling the Company's insurance liabilities or that the date of settlement of the insurance liabilities is different than expected

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

D. Insurance risks (contd.)

Catastrophe risk: the exposure to a single catastrophe such as natural disaster, war, terror, natural damages or earthquake that will result in significant damage.

The extent of the expected maximum loss in general insurance business in Israel in 2015, due to exposure to a single catastrophic event or aggregate damage for a particularly large event with maximum possible loss (MPL) of 2.1% is NIS 1,874 million gross and NIS 60 million in retention plus reinstatement of the coverage

In life insurance business there is a capital requirement against damage for a particularly large event (catastrophe) at a rate of 0.17% of the amount of the risk for death and there is a reinsurance contract that covers catastrophe events.

Collapse of reinsurers, change in capacity and tariffs of reinsurers: Insurance companies use reinsurers to hedge against insurance risks or to share them with reinsurers. The collapse of reinsurers, change in reinsurance contracts and tariffs might impair the Company's ability to pay insurers or limit their ability to provide insurance.

1. Insurance risk in life insurance and health insurance contracts

General

Following is a description of the various insurance products, methods, and the assumptions used to calculate their respective liabilities based on product type.
According to the Commissioner's directives, the insurance liabilities are calculated by an actuary pursuant to standard actuarial methods and consistently with the previous year. The liabilities are calculated according to the relevant coverage data, such as age and gender of policyholder, term of insurance, date of commencement of insurance, type of insurance, periodic premium and insurance amount. The provision is made gradually for policies with a performance-based savings component ("performance-based policies") only.

Actuarial methods used to calculate the insurance liabilities

(1) Adif and investment tracks insurance programs

Adif and investment track insurance programs consist of an identified savings component. The basic and main reserve is in the amount of the aggregate savings plus the yield according to the policy's terms as follows:

- Principal linked to an the investment portfolio (performance based contracts)

- Principal linked to the CPI plus a fixed guaranteed interest or credited by a guaranteed yield against adjusted assets (performance based contracts)

For insurance components that are attached to these policies (such as occupational disability, death and long term care) the insurance liability is calculated separately as set out below.

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

(2) Insurance programs such as endowment (traditional)

Endowment and similar insurance programs include a savings component in the event that the policyholder is still alive at the end of the term of a program with an insurance component of death risk during the period of the program. For these products, the insurance liability is calculated for each covered aspect as a discounting of the cash flows for the anticipated claims, including payment at the end of the period, net of future anticipated premiums. This calculation is based on assumptions according to which the products were priced and/or on assumption based on the claims experience, including the interest rates ("the Tariff Interest"), mortality or morbidity tables. The calculation is according to the net premium reserve method, which does not include the component that was loaded on the premium tariff for covering the commissions and expenses, in the anticipated flow of receipts and on the other hand it does not deduct the anticipated expenses and commissions.
The reserve in respect of performance based traditional products based on the actual yield achieved less management fees.

(3) Liabilities for annuities are calculated according to anticipated life expectancy on the basis of the updated mortality tables that are constructed in accordance with information published by the Ministry of Finance in the Commissioner’s circular.

4) Liabilities for annuities paid for life in respect of valid policies which have not yet reached the annuity realization stage, or the policyholder has not reached retirement age, are calculated according to the probability of annuity withdrawals and life expectancy, as well as according to the number of cancellations expected in the annuity portfolio up to the retirement date.

The provision for supplementary reserve for annuities is made gradually, for policies with a performance-based savings component ("performance-based policies") only, in accordance with the Commissioner's regulations, taking into account the profits expected from the policies until the policyholders reach retirement age.

The gradual provision is performed using the K discount factor, which is limited to the rate of the future income that is expected from the management fees arising from investments held against insurance reserves or from premium payments, net of the expenses that relate to the policy. The K factor is determined so as to provide an adequate gradual accrual of the reserve until the anticipated retirement date. K factor in performance-based polices is 0.85%, unchanged from last year.

The supplementary reserve for annuity included in The Phoenix's financial statements as of December 31, 2014 and December 31, 2013, amounts to NIS 776 million and NIS 571 million, respectively. The balance of the provisions recognized gradually in profit or loss, using the discounted K factors, until the policyholders reach retirement age, amount to NIS 870 million as of December 31, 2014. Alongside recognition of the provisions, investment revenue and other revenues over the period will be recognized in profit or loss, so that The Phoenix believes that total revenue less the provision in profit or loss over the period is positive.

It is noted that the information about the supplementary reserve for annuities and the balance of the provisions that will be recognized in the future refer to funds accrued in policies up to the end of each of the reporting periods, and do not include additional liability for additional future accrual.

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

(5) Other life insurance programs include pure risk products (such as occupational disability, death, dread diseases and disability) sold as independent policies or attached to policies with a basic program such as Adif, investment track or traditional. An actuarial liability is calculated in respect of some of these programs. The calculation is according to the gross premium reserve method which includes all the premium components in the anticipated flow of receipts and deducts the liability cost and the anticipated expenses and commissions. Negative provisions were not offset by positive provisions. Some of the plans used the net reserve premium method, described above.

(6) Liabilities for continuous claims in payment, in long term care and occupational disability insurance, the insurance liability is calculated according to the duration of the anticipated payment.

(7) Liabilities for outstanding claims in life insurance and health insurance are calculated on the basis of the experience of the Company.

(8) Liabilities for claims incurred but not yet reported (IBNR) in life assurance and health insurance are calculated on the basis of the experience of the Company.

(9) Insurance liabilities for collective insurance consist of a reserve for IBNR reserve (claims incurred but not yet reported), reserve for continuity and provision for future losses, if necessary.

(10) For collective life, health and long-term care insurance, including dental and sick leave insurance, the actuarial liability is calculated on the basis of the experience of the individual collective. .

Major assumptions used in the calculation of insurance liabilities

(1) Discount rate

For endowment and similar insurance programs (traditional). For pure risk products with fixed premium, the interest used for discounting is as follows:

- In insurance policies that are mainly backed by designated debentures, the Tariff Interest is at a rate of 3% to 5%;
- For performance based products issued in 1991 onwards, the Tariff Interest is at a rate of 2.5%, linked. In accordance with the terms of the policy, changes in interest are carried to policyholders.
- The discounting rate could change as a result of material changes in the long-term interest rate in the market.

(2) Morbidity and mortality rates

A) The mortality rates used in the calculation of insurance liabilities for death of policyholders prior to attaining the age of retirement (namely excluding the mortality of policyholders who receive retirement pensions and those receiving monthly compensation for disability or long term care) are generally the same as the rates used to determine the tariff.

B) The liability for life annuity payments is based on updated mortality tables
Increase in the mortality rate assumption, due to increase in actual mortality rate to a level exceeding the existing assumption, will result in an increase of insurance liabilities for mortality of policyholders prior to attaining the age of retirement and decrease in liability for annuities payable for life.
It is noted that there has been a reverse trend of increase in the life expectancy and decrease in mortality rate in the last decades. The mortality assumption used in the calculation of the liability for annuity takes into account assumptions for future increase in life expectancy.

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

C. The morbidity rates relate to the prevalence of claims for mortality from serious diseases, occupational disability, long term care, operations and hospitalization and disability from accident. These rates are based on the Company's experience or researches of reinsurers. In areas of long term care and disability, the period for paying annuities is determined according to the company's experience or researches of reinsurers.
As the assumption regarding the morbidity rate increases, the insurance liability for morbidity rate from serious diseases, disability, long term care, operations and hospitalization will increase.
In 2014, morbidity assumptions were adjusted for some healthcare products, in accordance with the updated experience of The Phoenix. The effect of the adjustments on the reserve amounts to NIS 24 million (before tax).

(3) Pension rates

Life insurance policies, including savings component, were maintained for funds deposited until 2008 in two tracks: capital track and annuity track. In certain policies, the policyholder may select the track upon retirement. Since the insurance liability is different in each of these tracks, the company is required to determine the rate of policies in which the policyholder selects the pension track. This rate is based on the supervision guidelines with adjustment to the Company's experience. As from 2008, all plans are for pension.

(4) Cancellation rates

The cancellation rates affect the insurance liabilities in respect of part of the health insurances and the annuities paid for life during the period before beginning the payments. The cancellation of insurance contracts can be due to the cancellation of policies initiated by the company due to discontinuation of the premium payments or surrenders of policies at the policyholders' request. The assumptions regarding the cancellation rates are based on the company's experience and they are based on the type of product, the life span of the product and sales trends.

(5) Continuity rates

There are health insurances and collective long-term care insurances in which the policyholders are entitled to continue to be insured under the same conditions, even if the collective contract is not renewed. In respect of this option of the policyholders, the company has a liability that is based on assumptions regarding the continuity rates of the collective insurances and the continuity rates of the contracts with the policyholders after the collective contract expires.
If there is a higher probability that the collective contract will not be renewed (a higher continuity rate) the insurance liability will also increase, since the insurance will continue under the previous conditions, without adjusting the underwriting to the change in the policyholders' state of health.

In March 2012, a circular was issued regarding preparation of a long-term care insurance plan, which means application of the continuity section in collective long term care policies. At the end of 2013, a new draft was published, revising the rules for continuity and deferring the effective date to June 2015. The Company has a large number of collectives with a long-term care component, which including continuity provisions for the transition from the collective to the individual. In addition, the transition to individual policies will affect the increase of the Company's individual long-term care portfolio.

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

(6) Sensitivity analysis in life assurance

December 31, 2014

	Cancellations (repayments, settlements and deductions)		Morbidity rate		Mortality rate	
	+10%	-10%	+ 10%	-10%	+ 10%	-10%
	NIS million					
Profit or loss and comprehensive income (equity)	17	(19)	(287)	69	160	(185)

December 31, 2013

	Cancellations (repayments, settlements and deductions)		Morbidity rate		Mortality rate	
	+10%	-10%	+ 10%	-10%	+ 10%	-10%
	NIS million					
Profit or loss and comprehensive income (equity)	10	(12)	(114)	46	119	(94)

2. Insurance risk in general insurance contracts

Summary of the main insurance branches

The Phoenix underwrites general insurance contracts, mainly compulsory motor insurance, liability, motor casco and property. The Company abroad underwrites mainly property, motor and liability insurance, both private and commercial.

Compulsory motor insurance in Israel covers the policyholder and driver for any liability that they might incur, in accordance with the Road Accidents Victims Compensation Law, 1975, due to bodily injury to the driver, passengers or pedestrians injured by the vehicle. Compulsory motor insurance claims are long tail, in other words, it could be several years before the claim is settled.

Liability insurance is designed to cover the policyholders' liability for damage that he may cause to a third party. The main types of insurance are third party liability insurance, employer liability insurance and other liability insurances such as professional liability, product liability and director and officeholder liability. The time of filing the claims and settlement is affected by a number of factors such as the type of coverage, the policy terms and legislation and legal precedents. Compulsory motor insurance claims are generally long tail, in other words, it could be several years before the claim is settled.

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

Policies that insure against motor vehicle damage and third party motor property damage grant the policyholder coverage for property damage. The coverage is generally limited to the value of the vehicle that was damaged. The premium for motor vehicle property insurance requires approval of the general policy by the Commissioner of Insurance and is an actuarial rate and partially differential (which is not uniform for all insured parties and is adjusted for risk). The premium is based on a number of parameters, those related to the vehicle of the policyholder (such as type of vehicle and year of manufacture), and those related to the nature of the policyholder (such as the age of the driver and claims history). Underwriting is partly through the actual tariff, and partly through a system of procedures which are intended to check the claims history of the policyholder including presentation of proof of "no-claims" from the previous insurer for the last three years, proof of updated protection, which are integrated automatically when issuing the policies. In most cases, motor vehicle property insurance policies are issued for one year. In most cases, claims for these policies are made close to the time that the insurance incident occurs.

Property insurance provides policyholders with coverage for physical damage to their property. The main risks covered by property insurance are risks of fire, explosion, break-in, earthquake and damage by natural forces. Property insurance sometimes includes coverage for loss of profits following physical damage to the property. Property insurance is an important part of residential, merchant, engineering, and cargo (maritime, land, air) insurance policies. In most cases, claims against these policies are settled close to the date of the insurance event.

Principles for calculating actuarial valuations in general insurance

General

A) Liabilities in respect of general insurance contracts include the following main components:

- - Provision for unearned premium
- - Premium deficiency
- - Outstanding claims including indirect expenses for their settlement
- - Excess of income over expenses (aggregate)
- - Less deferred acquisition costs:
-

The provision for unearned premium and excess of income over expenses is calculated independently of any assumptions and accordingly, is not exposed to the reserve risk. For the manner in which these provisions are calculated, see Note 2 above.

B) According to the Commissioner's directives, the outstanding claims are calculated by an actuary, according to standard actuarial methods and consistently with the previous year. The selection of the appropriate actuarial method for each branch of insurance and for each year of occurrence/underwriting, is based on the compatibility of the method to the branch and sometimes there is a combination of methods. The valuations are primarily based on past experience of the development of claim payments and/or development of the amount of the payments and specific estimates. The valuations include assumptions regarding the average cost of claim, cost of handling the claims and frequency of the claims. Additional assumptions may address changes in interest rates, exchange rates and timing of payments. Payment of claims includes direct and indirect expenses of settlement less claims recoveries and deductible.

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

C) The use of actuarial methods that are based on the development of the claims is mainly adequate when there is stable and sufficient information regarding the payment of the claims and/or the specific valuations in order to estimate the total expected cost of claims. When the available information in handling the claims is insufficient, sometimes the actuary uses a computation which weighs between the known estimate (in the company and/or the branch) such as LR and the actual development of the claims. Greater weight is given to the valuation based on experience as time passes and additional information is accumulated for the claims.

D) Quality valuations and judgments are also taken into account as to the degree that past trends will not continue in the future. For example: due to a non-recurring event, internal changes such as change in the portfolio mix, underwriting policy and handling procedures of claims and for external factors such as legal ruling and legislation. If the above changes were not fully reflected in past experience, the actuary updates the models and/or makes specific provisions on the basis of statistical and/or legal estimates, as appropriate.

E) The actuarial assessment is based on statistical estimates that include a component of uncertainty. The statistical estimate is based on various assumptions, which may not necessarily be realized, therefore, the actual cost of claims could be higher or lower than the statistical estimate.

F) In several large claims with non-statistical profile, the reserve (in gross and on retention) is determined on the basis of the opinion of the company's experts and in accordance with the recommendations of their legal advisors.

G) The reinsurers' share of the outstanding claims is calculated according to the type of agreement (proportionate or unproportionate), actual claims experience and the premium that was transferred to the reinsurers

H) The evaluation of the outstanding claims for the share of The Phoenix in the pool in incoming transactions and joint insurance received from other insurance companies (leading insurers) was based on a calculation made by the pool or by the leading insurers or by The Phoenix.

Actuarial methods in main insurance branches:

A) Motor property

In the motor property branch, the liabilities are calculated on the basis of the development of payments and/or development of outstanding claims model (link ratio / chain ladder), with reference to the types of coverage, such as comprehensive, third party, types of vehicles, such as 4-ton and over 4-ton and types of damage, such as accident, theft and natural disasters.
For recent months of damage, which are not mature, use was also made in the averages method in determining the cost of claim per policy.

There are separate estimates of the claims department in the following cases:

- - Old claims
- - Claims for car theft and natural damages

The individual estimates take into account the deductibles.

Subrogation and remnants are taken into consideration and the actuarial model takes into account the development of all the payments (positive and negative). In addition, a model was built to estimate the expected amount of subrogation, and an appropriate provision for indirect expenses to settle claims was calculated.

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

B) Compulsory motor insurance

In the motor property branch, the liabilities are calculated on the basis of the development of payments and/or development of outstanding claims model (link ratio / chain ladder). For later underwriting years, the cost of claims is based on the LR rate and the payments development model and/or outstanding claims development model (Bornhuetter-Ferguson). The tail of the development is calculated on the basis of the Sherman model.

There are separate estimates of the claims department in the following cases:

- Old claims
- Particularly large claims

The outstanding claims are estimated separately on the gross level and on the reinsurance level. The share of the reinsurer in excess for the last three underwriting years is based on the distribution adjustment model for large claims, taking into account known claims for these years. In older underwriting years, the estimate is for actual claims.

Estimates for facultative reinsurance are made in a separate model (gross and retention).

The individual estimates take into account the deductibles.
Subrogation and remnants are taken into consideration and the actuarial model is based on the development of all the payments (positive and negative). In addition, a provision was calculated for indirect expenses for settling claims.

The valuation of the outstanding claims for the Company's share of the pool in based on the calculation made by the Association of Insurance Companies in Israel.

C) Property and other branches

In the property and other branches, liabilities are calculated on the basis of the payments development model and outstanding claims development model (link ratio / chain ladder). For periods that are not mature, use was also made in the averages method in determining the cost of claim per policy.

There are separate estimates of the claims department in the following cases:

- Old claims
- Claims arising from natural disasters

The outstanding claims are estimated separately on the gross level and on the reinsurance level.
The share of the reinsurer in claims for excess is estimated according to the actual claims.
Estimates for facultative reinsurance are made in a separate model to claims in branches in which the share of the reinsurer is material.

The individual estimates take into account the deductibles.
Subrogation and remnants are taken into consideration and the actuarial model takes into account the development of all the payments (positive and negative). In addition, a provision was calculated for indirect expenses for settling claims.

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

D) Branches in which actuarial assessment is not made

Insurance for marine hull, aircraft, other risks and incoming business includes outstanding claims on the basis of a separate evaluation of each claim according to an opinion received from the insurance lawyers and The Phoenix experts handling the claims and ceding companies for incoming business, with the addition of IBNR if necessary.

Assumptions and essential models for determining insurance liabilities in general insurance:

Chain ladder/link ratio

These methods are based on the development of historical claims (such as development of payments and/or development of amount of payments, and valuations of the individual claims and development of the number of claims), in order to valuate the anticipated development of existing and future claims. The use of these methods are mainly suitable after a sufficient period since the event occurred or the policy is underwritten, when there is enough information from the existing claims in order to evaluate the total anticipated claims. The difference between the methods is due to the method for calculation of the average development (simple or weighted average). In branches with highly diverse claims, as well as the average development coefficient, the standard deviation of the development coefficients is calculated.

Bornhuetter-Ferguson (BF)

This method combines early estimates known in the company or branch, and an additional estimate based on the claims themselves. The early estimates utilize premiums and loss ratio for evaluating the total claims. The second estimate utilizes actual claims experience based on other methods (such as chain ladder). The combined claims valuation weighs the two estimates, while greater weight is given to the valuation based on the claims experience as time passes and additional information is accumulated for the claims. This method is mainly used when there is insufficient information.

The averages

At times, as in the Bornhuetter-Ferguson method, when the claims history in the last periods is insufficient, the historical average method is utilized. In this model, the claims cost is determined based on the average cost of the claim per policy for earlier years and the number of policies in the later years. Another method for calculation is the multiplication of the cost of the historical claim for the policy and the number of policies in the relevant period.

Sherman model

This is a mathematic model used to adjust non-linear distribution with development coefficients calculated using chain latter/link ratio models. Through the distribution, it is possible to calculate the development coefficients for prior periods for which information is not available (development tail).

NOTE 29: LIABILITIES FOR INSURANCE CONTRACTS (CONTD.)

D) Branches in which actuarial assessment is not made (contd.)

The main assumptions taken into consideration in the actuarial valuation:

(a) Outstanding claims in the compulsory motor insurance and liability branches were discounted at the lower of annual interest at a rate of 3% or a risk-free interest rate. The change in the rate of risk-free interest resulted in an increase of NIS 15 million in insurance liabilities in the motor insurance and liability branches in 2014. In 2013, the change in the rate of risk-free interest did not have a material effect on the insurance liabilities.

An increment was included for the risk margin (standard deviation) in the base of the reserve in the compulsory motor insurance and liability branches.

(b) The basic assumption for each calculation method is that the historical behavior of the claims reflects the future behavior.

(c) When analyzing development of payments, insurance companies in Israel add a claims tail according to the Sherman model, to the extent required.

NOTE 30: PROVISIONS AND OTHER LIABILITIES

	December 31	
	2014	2013
	NIS million	
Liability for remediation of environmental hazards (1)	23	106
Costs for undertaking to dispose of assets (2)	265	161
Deposits from reinsurers	117	206
Prepaid revenue	-	29
Others	11	191
	416	693

(1) The balance as of December 31, 2014 represents the estimation of the Group companies regarding liabilities for environmental quality in respect of pollution discovered in a number of gas stations in Israel, and in respect of potential pollution at Pi Glilot terminals. See also Note 2.

(2) Mainly for production assets of oil and gas, see Note 2V(2).

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

A. Contingent liabilities

There are contingent claims, including motions for certification of class action suits, against certain investees for significant sums that might reach billions of shekels. The financial statements of the Company or of the relevant Group companies include provisions for the costs that might arise from these claims only if it is more likely than not (meaning a probability of more than 50%) that a liability arising from a past event will be created, and the amount of the liability can be reliably quantified or estimated. The amounts of the provisions are based on the assessment of the relevant Group companies regarding the extent of the risk in each of the claims (other than for some claims which are in the preliminary stage and therefore, the chances of their success cannot be estimated. The estimates of the relevant Group companies regarding the risk are based on the opinion of their legal counsel and on the estimate of the relevant Group companies regarding the reasonable amounts in the settlements that these companies are expected to bear if the settlements are agreed upon by both parties.

Details of the material claims filed against the Group companies are provided below (claims against Group companies that were closed up to the approval date of the financial statements, without material effect on the statements, were not included in this disclosure):

1. Contingent claims against Delek Israel

Contingent claims have been filed against Delek Israel and its investees, amounting to significant sums that could reach several hundred million or billions of shekels. In some cases, it is not possible to assess their outcome at this stage, therefore no provision was recorded in the financial statements. Following is a description of the material contingent claims as at the publication date of the report:

(1) In November 2006, three motions for certification of class action suits were filed against Delek Israel, third parties and also against the former deputy CEO of Delek Israel (which was subsequently stricken from the motion). In 2007, the motions were joined into one motion. The applicants claim that Delek Israel, together with the other defendants, acted, among other things, in a fraudulent, misleading and negligent manner and violated their statutory duty.

The motions and claims were filed following an investigation by the Israel Police concerning the dilution of fuels at several gas stations marketing Delek Israel fuels and in view of possible damages that may have been incurred as a result of this. The amount of all the motions totaled NIS 1,400 million, and was subsequently revised to NIS 554 million.

In all of these proceedings, Delek Israel filed motions for summary dismissal, motions to try all three proceedings before the same judge and motions to extend the deadline for the submission of a response to the motion for approval until after the hearing on the summary dismissal. The court granted the motion to try the proceedings before the same judge.

The applicants filed a motion for a continuance in the proceedings in the motion for certification of a class action until receipt of a peremptory decision against the other defendants (but not against Delek Israel) in a criminal proceeding instituted against them. The court allowed a continuance in the proceedings until a decision is made in a criminal proceeding. Delek Israel filed a motion for leave to appeal the decision for a continuance in the proceedings and in August 2009, the court denied the motion for leave to appeal and upheld the stay of proceedings. In October 2011, a criminal ruling was handed down.

Following the court ruling on September 19, 2012, on October 31, 2012, the applicants filed an amended motion for certification in view of criminal ruling.

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

A. Contingent Liabilities (Contd.)

According to the amended motion, a number of Delek Israel's gas stations in the Jerusalem area sold fuel diluted with other substances for more than three years, and gas pumps meters were calibrated so that the actual quantity sold was lower than the purported amount. The motion is based on factual claims in the indictment filed against some of the respondents and on judgments handed down in the criminal proceeding, although it does not clearly refer to the fact that the factual determinations in the criminal judgments did not confirm the facts that were claimed in the indictment. On December 25, 2012, Delek Israel' filed a motion to order the dismissal in limine of the revised motion for certification of a class action, and alternatively, to order refiling of the revised motion, based on the criminal judgments.

Parallel to the motion, a motion was also filed to extend the date for filing a response to the motion for certification of the class action.

Subsequent to the proceedings that were conducted on the matter, Delek Israel was required to file its response to the motion for certification of a class action before the ruling on the motion for dismissal in limine.
On March 14, 2013, Delek Israel filed its response to the motion. In its response, Delek Israel claimed that to the extent that the criminal judgments are at the basis of the motion for certification, they do not tie Delek Israel to acts of dilution, or establish personal grounds for the applicants. Delek Israel further claimed that based on expert opinion, the diluted fuel is of the same quality as any of the hundreds and thousands of mixes that are considered as "standard fuel"; and that in any case, it is not legally or factually possible to attribute liability to the Company for the acts of dilution.

On March 24, 2013, the other respondents also filed their responses to the motion. In their response, the respondents claimed, among other things, that the applicants do not meet the conditions for certification of the motion as a class action, because the evidential basis does not establish grounds for a claim against the respondents or at least against most of them, for dilution of fuel or calibrations and certainly not in the manner and scope that justify the claim, and that the applicants did not include an expert opinion that supports their claims of damages incurred.

On May 2, 2013, the applicants filed a response in which they claim that to establish grounds for misleading conduct, there is no requirement to demonstrate any guilt of the misleading entity, and that in any event, there is a presumption of misleading conduct under the provisions of the Consumer Protection Law. The applicants further claim that the absence of agency relationships between Delek Israel and the operators of gas stations carrying its name cannot be claimed and that the documents submitted by Delek Israel in its response do not establish this.

A pretrial hearing was held on May 13, 2013, in which the respondents, including Delek Israel, announced that they do not insist on the motion for dismissal in limine, but retain the claims set out in the motion and may argue them at a later stage of the motion for certification. The court ordered the applicants to submit, within 30 days, the evidence underlying their claim for the stage of the motion for certification. On June 12, 2013, the applicants filed a list of the evidences underlying their claim.

Another preliminary hearing was held on April 6, 2014.

On November 12, 2014, a pretrial hearing was held and dates were set for hearing of witnesses on April 29, 2015.

The management of Delek Israel believes, partially based on the opinion of its legal counsel, that without knowing the identity of the witnesses and due to the lack of available information, the outcome of the motion for certification cannot be assessed at this stage.

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

A. Contingent Liabilities (Contd.)

(2) In August 2011, a motion for certification of a class action suit was filed against Delek Israel. The plaintiffs are customers using the Dalkan (automatic refueling system) to purchase diesel fuel. The plaintiffs contend that according to the series of agreements between the Company and Delek Israel, they were charged a higher price for diesel fuel, compared to the price paid by random customers (who are not Dalkan customers) and accordingly, they are entitled to receive a refund for the excess charge from Delek Israel, as well as the other members of the group they represent (customers using the Dalkan to purchase diesel fuel Dalkan in the seven years preceding the motion for certification). The plaintiffs are claiming NIS 181,440 thousand for the class action for amounts allegedly collected from members of the group in contravention of the law. The plaintiffs are also seeking additional legal remedies.

On March 21, 2012, Delek Israel petitioned to join this motion with another motion on a similar issue in an amount of NIS 65 million, or to dismiss one of the motions in accordance with section 7(A) of the Class Action Law, and on June 13, 2012, the court approved the motion.

On December 8, 2013, the court ruled to manage the claim as a class action.

On January 7, 2014, Delek Israel filed a motion at the Supreme Court for leave to appeal the ruling to manage the claim as a class action.

On 2 February 2014, the plaintiffs in the class action filed a statement of claim with the District Court.

On July 2, 2014, a hearing was held in the Supreme Court regarding the application for leave to appeal. A ruling on the application for leave to appeal is pending, and the court recommended that the parties reach a settlement.

The management of Delek Israel believes, partially based on the opinion of its legal counsel, taking into account the above proceedings, that the Company does not have material exposure beyond the amounts included in its financial statements.

(3) On August 28, 2011 a motion for certification of a class action suit was filed against Delek Israel and other fuel companies. According to the motion, the fuel companies attributed expenses unrelated to the sale of gasoline to the marketing margin, which is part of the maximum price of 95 and 96 octane gasoline, in contravention of the law and while misleading the regulator.

The total claim amounts to NIS 1 billion. The share of Delek Israel is NIS 21.4%. The grounds for the motion are by virtue of the Torts Ordinance, Supervision Order, Consumer Protection Law and unjust enrichment.

The parties are in preliminary negotiations for a possible dismissal.

The management of Delek Israel believes, partially based on the opinion of its legal counsel, that it is more likely than not that the motion will be dismissed, therefore a provision was not included in the financial statements.

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

A. Contingent Liabilities (Contd.)

(4) In June 2014, a petition was filed with the High Court of Justice against the Antitrust Commissioner (the Commissioner"), Delek Israel, and other fuel companies. In the petition, the Commissioner was asked to determine that the agreement between the fuel companies and three hundred gas stations, which included contracts signed prior to 1993, are a restrictive practice, and that the supply agreements that were signed subsequent to the arrangements with the Commissioner from the 1990s, which are valid beyond the periods agreed on in the arrangements, are a restrictive practice and to complete his assessment regarding regional monopolies of fuel products for gas stations and/or operation of gas stations and to declare such regional monopolies as such.

A hearing of the petition before the panel of judges was set for June 1, 2015.

The management of Delek Israel believes, partially based on the opinion of its legal counsel, that it is unlikely that the petition will be accepted.

(5) On September 22, 2014, a motion for certification of a class action suit was filed against Delek Israel, claiming that in two gas stations operated by Delek Israel, there are fewer self-service pumps than the number required under the Control of Prices of Goods and Services Ordinance, 2002, therefore Delek Israel charged an additional price for full service and an additional night and holiday fee in contravention of the Law. The amount of the claim is estimated at NIS 17 million.
On February 9, 2015, a pretrial hearing was held.
On February 24, 2015, the applicants filed a petition for an order for disclosure of documents and a petition to receive daily fueling reports of the first and last day of each month in the relevant period and for each of the pumps at the gas station.
The management of Delek Israel believes, partially based on the opinion of its legal counsel, that in view of the preliminary stage of the proceeding, the outcome of the Motion cannot be assessed at this stage.

(6) Soil and groundwater pollution was discovered in a number of Delek Israel gas stations. In these stations, Delek Israel conducts soil analyses and drillings to the ground water to characterize the nature of the pollution. Delek Israel also received demands from the Ministry of Environmental Protection and the Water Commission to perform tests to identify soil and water damage.

(7) Several claims have been filed against Delek Israel and subsidiaries as part of regular business. The management of Delek Israel believes, based on the opinion of its legal counsel, that adequate provisions have been made for these claims, beyond the existing insurance cover.

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (CONTD.)

A. Contingent Liabilities (Contd.)

2. Contingent claims against The Phoenix and its investees

The Phoenix has general exposure, which cannot be estimated or quantified, partly due to the complexity of the services provided by The Phoenix to its policyholders and members. The complexity of these arrangements includes potential for claims of interpretations and other due to differences in information between The Phoenix and the other parties to the insurance contracts referring to a range of commercial and regulatory terms. It is impossible to predict the types of claims that will arise in this area, and the exposure arising from these and other claims in respect of the insurance contracts, through the hearings mechanism set out in the Class Actions Law.

In recent years, there has been a significant increase in the scope of motions for certification of class action suits against The Phoenix and the number of claims certified as class actions. This is part of the general increase in motions for certification of class action suits in general, including against companies operating in the same sector as The Phoenix, mainly due to the Class Actions Law, 2006. This significantly increases the potential exposure of The Phoenix to losses if the class actions against The Phoenix and/or the subsidiaries are accepted.

Motions for certification of class actions are filed in accordance with the Class Actions Law, 2006 ("the Class Actions Law"). The procedure for motions for certification of class actions are divided into two main stages: The first stage is the hearing of the motion for certification of a class action ("the Motion for Certification" or the "Certification Stage", respectively). If the Motion for Certification is summarily dismissed, the hearing stage on the level of the class action is concluded. A ruling in the Certification Stage may be appealed at the court of appeal. In the second stage, if the Motion for Certification is accepted, the class action will be heard ("the Certification Stage of a Class Action"). The ruling at the Certification Stage of a Class Action can be appealed at the court of appeal. The Class Actions Law includes specific arrangements for settlements, in the approval stage and in the Certification Stage of a Class Action, and arrangements for withdrawal of the plaintiff from the Motion for Certification or from the class action.

In respect of the motions for certification of class action suits (including that have been certified and their certification is under appeal) as described below, the management of The Phoenix believes, based also on the opinion of its legal counsel, that it is more likely than not that the statements of defense of The Phoenix and/or subsidiaries of The Phoenix will be accepted and the motion for certification of a class action suit is more likely than not to be rejected, and are not covered by a provision in the financial statements. Provisions were included in the financial statements to cover the exposure estimated by The Phoenix and/or its subsidiaries for motions for certification of class action suits for a claim which, in whole or in part, it is more likely than not that the defense of The Phoenix and its subsidiaries will be dismissed.

The management of The Phoenix believes, based also on the opinion of its legal counsel, that the provisions made in the financial statements to cover the exposure estimated by The Phoenix and/or its subsidiaries are appropriate.

Claims that have been certified as class actions and some motions for certification of class actions:

A) On December 19, 2006 a claim was filed with the District Court of Tel Aviv against The Phoenix Insurance, accompanied by a motion for certification of the lawsuit as a class action suit.
The lawsuit and the motion for certification as a class action suit involves a matter that falls under the "disability by accident "appendix that is added, at the policyholder's request, to the life assurance policy ("the Appendix").

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (CONTD.)

A. Contingent Liabilities (Contd.)

This appendix contains a table listing the monetary compensation to be paid out of the full insurance amount in respect of various forms of bodily damage, such as the loss of a leg or an arm. The plaintiffs claim that the insurance company pays compensation based on the percentage of the disability that was determined for the damaged organ, thus limiting its liability under the policy.

The remedy requested by the plaintiff is that The Phoenix pays the difference between the compensation due under the policy, according to the plaintiff, and the actual compensation paid, for the entire class.

The plaintiff's own damages were set at approximately NIS 77 thousand, whereas for the entire class, the plaintiff does not have information that allows calculation of the total damage.

On January 11, 2009, subsequent to the hearing and written summations, the court certified the claim as a class action suit.

After managing the case in the District Court, including filing of affidavits, written summaries, and completion of oral arguments, on February 27, 2014, the District Court handed down judgment on the class action, ordering restitution to the class members, as defined below, of the difference between the insurance compensation paid to them and the insurance compensation due to them, as a multiplication of the partial and permanent disability that was set for them as the maximum insurance amount in the policy.

The court defined the class as the group of policyholders who purchased an accident disability policy from The Phoenix Insurance, and when the motion for certification was filed, three years had not passed since the occurrence of the insured event, meaning, since the accident, and who received insurance compensation that is not equivalent to the multiplication of the partial and permanent disability in the maximum insurance amount, including any policyholders with cause that was established up to the judgment, even if they received insurance benefits by virtue of the decision of the Commissioner of Insurance, and even if they signed a waiver or a settlement agreement, provided the settlement agreement does not explicitly refer to this claim, while waiving the policyholder's right to receive the insurance compensation notwithstanding the judgment, as set out above ("the Class).
However, pursuant to the judgment, policyholders whose case was resolved in a peremptory court ruling and policyholders who signed the settlement agreement or a waiver referring explicitly to this claim, without reserving the policyholder's right to receive the difference in insurance compensation in accordance with the judgment handed down for the claim, are not included in the Class.
The court further ruled that The Phoenix Insurance is entitled to offset amounts owed to each Class member, as set out above, for any undisputed debt.
The court appointed an officer to review the eligibility of the Class members and payment of the compensation due to them.

The plaintiff's attorney filed a motion to correct alleged errors in the judgment, mainly: to charge the defendants for interest and linkage differences for their payments to the Class members, to charge the defendants for VAT on payments of attorney's fees and compensation and to charge attorney's fees at the higher rate (10%) for Class members who have not yet received insurance compensation, even if they are payable by virtue of the Commissioner of Insurance's decision.

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (CONTD.)

A. Contingent Liabilities (Contd.)

On April 7, 2014, the court ruled that linkage and interest differentials are to be added to the payment, that the legal fees set include VAT and that there was no reason for amending the ruling in this regard, and that the policyholders eligible for relief under the ruling should be distinguished from the policyholders eligible for relief only under the ruling of the Commissioner, with regard to whom the reduced attorney's fees (3% including VAT) will apply.

On May 1, 2014, the plaintiffs filed appeal of the district court judgment with the High Court of Justice with respect to the ruling pertaining to the period of limitation, denial of special interest relief, rewarding the plaintiffs compensation and their attorneys' fees. The hearing of the appeal is set for October 26, 2015.

In addition, following negotiations with the Commissioner of Insurance, on August 29, 2013, the Commissioner of Insurance issued a draft decision on "payment of insurance compensation in accident disability insurance policies" ("the Draft Decision"), whereby the Phoenix Insurance will pay insurance compensation to the policyholders who are entitled to the difference in insurance compensation according to the calculation method of the Commissioner, pursuant to the decision of May 17, 2006, in the matter of Menora Insurance Company Ltd. The Phoenix Insurance filed and presented to the Commissioner of Insurance its response and reference to the Draft Decision. On May 1, 2014, the Commissioner of Insurance announced that, due to the ruling of the district court, he sees that there is no place for his further handling of the "cryptic coefficient" issue mentioned in the draft judgment.

B) On June 1, 2011, a claim and motion for certification of a class action suit was filed against the other insurance companies at the Central District Court.
According to the plaintiffs, the defendants pay the insurance benefits, which are foreclosed at the request of a third party, upon expiry of the foreclosure, at nominal values and without any revaluation, or in some cases, with linkage differences only.
The plaintiffs estimate that the claim against all the defendants amounts to NIS 350 million.

According to the expert opinion attached to the claim, the amount of the claim against The Phoenix Insurance is NIS 56 million.
On December 12, 2012, the District Court certified the motion for certification and approved the filing of a class action suit against The Phoenix Insurance (and against the other defendants in the motion for certification ("the Certification Ruling").

In the Certification Ruling, the group members are defined as any eligible person (meaning, policyholders and injured persons) who received insurance benefits from the defendants after June 1, 2008, whose right to payment was delayed due to foreclosure of the asset, or receivership orders or any rights of third parties, provided the yields from the moneys in the delayed period for the foreclosure were not transferred in full to the eligible party. The grounds of the claim are the right of the group members to receive linkage differences and interest, which represent the benefits produced by the defendants in the delay period due to the foreclosure. The remedy claimed is payment of linkage differences and interest to the class members at a rate representing the benefit to the defendants in the delay period due to the foreclosure. The plaintiffs filed an amended statement of claim. The parties are in the process of arbitration, and the arbitrator appointed a reviewer. In November 2014, the plaintiffs announced the termination of the arbitration process. In accordance with the court ruling and the agreements with the plaintiffs' counsel, the date for filing a statement of defense for the class action was extended to March 18, 2015, and another motion was filed with the consent of the parties to extend it to March 31, 2015. The preliminary hearing was set for April 15, 2015.

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (CONTD.)

A. Contingent Liabilities (Contd.)

C) On January 3, 2008, a claim and motion for certification of a class action suit was filed against the other insurance companies at the Tel Aviv-Jaffa District Court.
The plaintiffs argue that the defendants collected management fees in profit-sharing life insurance policies contrary to the instructions of Regulation 6A to the Insurance Businesses Supervision Regulations (Terms in Insurance Contracts), 1981 ("The Supervision Regulations") and contrary to the instructions of the Insurance Commissioner.
As argued, the defendants acted in contravention of the law in two aspects (or at least in one of them):

A. They collected regular monthly management fees exceeding 0.05% until 2004 (inclusive), apart from 2002.

B. They collected the variable fees monthly and not at the end of the year, thus allegedly depriving the policyholders of the proceeds for the variable management fees, collected throughout the year.

The lawsuit against Phoenix Insurance refers only to the second argument set out above.
The group that the plaintiffs seek to represent any person who is or was insured by one or more of the defendants, under a combined profit-participating life assurance policy type, issued between 1992 and 2003 (inclusive).

The total damage incurred as argued by the entire group was estimated by the plaintiffs at a nominal amount of about NIS 244 million of which the plaintiffs attribute NIS 40 million to The Phoenix Insurance.
The remedies sought by the plaintiffs include ordering the reimbursement of the excess management fees that were allegedly collected unlawfully, or the reimbursement of the monthly proceeds allegedly lost by each member of the group.

The plaintiffs also move for a mandatory injunction that will instruct the plaintiffs to change their mode of operation.
The Phoenix Insurance filed its response to the motion for certification.
On August 10, 2011, the other defendant insurance companies filed their response to the motion for certification (after the plaintiffs withdrew by consent the motion for certification against two of the companies).
In a pre-trial hearing held on September 18, 2011, the court recommended that the parties reach a settlement to close the case.
On June 30, 2013, a petition to approve the settlement agreement and the settlement agreement in the class action was filed at the Court The settlement agreement establishes a mechanism for reimbursing class members holding the policies of The Phoenix Insurance listed in the settlement, and for which The Phoenix Insurance collected variable management fees, in the relevant period beginning on January 3, 2001 and ending on January 1, 2006 (when The Phoenix Insurance, at its own initiative, changed the mechanism for collecting variable management fees).

In accordance with the settlement, reimbursement will be 53% of the difference between the calculation method claimed by the plaintiffs in the motion for certification and the method used by The Phoenix Insurance until it changed the collection mechanism. Legal fees and compensation to the applicant of the motion for certification will also be paid in a total amount of 15%, and it was proposed that half of this amount will be at the expense of the class. The reimbursed amounts are subject to the review of the officer appointed under the settlement agreement and to a minimum amount undertaken by Phoenix Insurance.

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (CONTD.)

A. Contingent Liabilities (Contd.)

On August 12, 2013, the parties submitted a revised settlement agreement for the approval of the Court, in view of the comments regarding the settlement agreement and its wording in a hearing held on July 15, 2013. On September 1, 2013, the Court ordered publication of the settlement agreement and appointed an officer to review the settlement.
On August 3, 2014, the auditor filed his opinion with the court.
On October 20, 2014, the Attorney General filed an objection to the settlement agreement. On November 9, 2014, The Phoenix Insurance submitted its response to the position of the Attorney General.
In the hearing held on November 23, 2014, several aspects of the settlement were heard. At the end of the hearing, it was agreed that a revised settlement arrangement would be submitted together with a motion to approve the revised settlement based on the revisions and changes agreed upon in the hearing. On December 8, 2014, the revised settlement agreement was filed together with foregoing motion to approve the revised settlement. A ruling on the motion is yet to be handed.

D) On May 12, 2013, a claim was filed against The Phoenix Insurance, together with a motion for certification as a class action "the Motion for Certification") at the Tel Aviv-Jaffa District Court.
The claim refers to non-payment of interest and linkage differences by law for payment of insurance compensation. The plaintiff claims that the insurance company is required to pay interest and linkage for insurance compensation as from the date of the insurance event until actual payment. Alternatively, the plaintiff claims, the insurance company is required to pay interest as from 30 days after the filing date of the claim until the date of actual payment of insurance compensation to the policyholder.
According to the plaintiff, The Phoenix Insurance does not pay interest at all, not from the date of the insurance event nor as from 30 days after the filing date of the claim, and does not pay statutory linkage differences.

The group that the plaintiff seeks to represent is anyone who received, during the seven years prior to filing this claim and/or who will receive, up to the judgment in this claim, insurance compensation from The Phoenix Insurance, insurance, without the addition of statutory interest for the insurance compensation ("the First Group"), and anyone who received, during the seven years prior to filing this claim and/or who will receive, up to the judgment in this claim, insurance compensation from The Phoenix Insurance, insurance, without the addition of statutory linkage differences for the insurance compensation (“the Second Group”).
The damage estimated by the plaintiff in respect of the members of the First Group for the unpaid interest, at a conservative calculation based on ordinary, unlinked interest, amounts to NIS 44 million per year and NIS 308 million cumulatively over 7 years (if the court rules that the interest should be calculated from the date of the insurance event) and NIS 18 million per year and NIS 126 million over seven years (if the court rules that the interest should be calculated as from 30 days after filing the claim against the insurance company). Interest and linkage differences for the unpaid interest debt of The Phoenix Insurance should be added to these amounts, from the date of actual payment of the insurance compensation and until the date that The Phoenix Insurance pays the interest and linkage differences as required by law. The damage estimated by the plaintiff in respect of the members of the Second Group, is NIS 42 million per year and NIS 294 million over seven years.

Interest and linkage differences for the unpaid linkage difference debt of The Phoenix Insurance should be added to these amounts, from the date of actual payment of the insurance compensation and until the date that The Phoenix Insurance pays the interest and linkage differences as required by law.

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (CONTD.)

A. Contingent Liabilities (Contd.)

The remedies sought by the plaintiff include to order The Phoenix Insurance to pay the member of the First Group linked interest by law as defined in section 1 of the Interest and Linkage Law, 1961 ("The Interest and Linkage Law") and based on the interest rate in accordance with the Interest and Linkage Law or in accordance with the interest rate established in the policy (whichever is higher), for the period commencing from the date of the insurance event until the date of actual payment of the insurance compensation or alternatively, for the period commencing 30 days from filing of the insurance claim and until the actual payment date of the insurance compensation; to require The Phoenix Insurance to pay interest and linkage differences in accordance with the provisions of sections 28 and 56 of the Insurance Contract Law; to require The Phoenix Insurance to pay interest and linkage differences for the deficient payment to members of both groups, as from the payment date of deficient insurance compensation to a policyholder and until the date that The Phoenix pays interest and linkage differences as required by law.
Alternatively, if it is determined that the compensation to the group members is not practical, it is requested that the court orders compensation to the public as it deems fit; to award special compensation to the plaintiff and attorney's fees to the plaintiff's counsel.
The Phoenix Insurance filed its response to the motion for certification. On February 22, 2015, a pretrial hearing was held for the case. The case has been scheduled for written summations. The Phoenix Insurance is required to file its summations by June 1, 2015.
The plaintiff filed a motion to join the hearing with three motions for certification that were filed against three other insurance companies regarding the same matter. On February 22, 2015, the court accepted the motion and the hearing for all the motions was joined.

E) On January 8, 2014, a claim and motion for certification of a class action suit was filed against The Phoenix Insurance and two other insurance companies (jointly with The Phoenix Insurance: "the Defendants") at the Tel Aviv-Jaffa District Court (jointly: "the Claim").
According to the plaintiffs, the Defendants overcharge for comprehensive car insurance. The plaintiffs allege that the Defendants sell insurance according to a higher value than the actual value of a car, as weighted by them in an insurance event, meaning total loss, in different situations, including when the vehicle was purchased by the policyholder from a rental or leasing company.
According to the plaintiffs, when selling a comprehensive insurance policy, the Defendants charge the policyholders excessive amounts due to calculation of a higher value for the vehicle, even though they know in advance that in an insurance event, the value of the vehicle will be reduced for "special variables" or "special components" whereby the "real value" of the insured car is significantly lower.

The class that the plaintiffs seek to represent is any policyholder who purchased comprehensive insurance from the Defendants for vehicles with special variables according to the policy, and the insurance policy states that in a total loss insurance event, a certain percentage will be deducted from the value of the vehicle, without reducing the insurance premium accordingly, in the last seven years ("the Class).
To estimate the general damage and based on the information available to the plaintiffs, the plaintiffs estimate the damage to the entire Class at NIS 200 million, according to the size of the Defendants and the number of policyholders based on information on the Defendants' websites. The damage claimed is since 2006, seven years back.

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (CONTD.)

A. Contingent Liabilities (Contd.)

The main remedies sought by the plaintiffs are to refund all the excess premiums collected from policyholders in contravention of the law, together with statutory interest, to provide declaratory relief whereby the Defendants are not permitted to charge a premium according to the value of a vehicle that does not include the deduction of the "special component" from the value of the vehicle, and an injunction prohibiting the Defendants from continuing to charge excessive premiums.

The Phoenix Insurance filed its response to the motion for certification. The plaintiffs filed their rebuttal to the responses to the motion for certification on December 2, 2014. A pretrial hearing was scheduled for April 21, 2015.

F) On June 23, 2014, a claim and motion for certification of a class action suit was filed against The Phoenix Insurance and six other insurance companies (jointly with The Phoenix Insurance: "the Defendants") at the Jerusalem District Court (jointly: "the Claim").
According to the plaintiffs, the grounds for the claim are the defendants' alleged collection of higher premiums in life insurance policies they issue with respect to mortgage insurance purchased by policyholders from them.
The plaintiffs contend that the surplus premiums are due to the set insurance amount being higher than the balance of the loan to the lending bank and as a result, the plaintiffs and members of the group, as defined below, are forced to pay the defendants higher monthly premiums than those they would have to pay if the insurance amount was equivalent to the amount of the mortgage recorded at that time in the books of the lending bank.
The class that the plaintiffs seek to represent is "all the customers of the defendants who were insured by one or more defendant during last seven years (in whole or in part) prior to filing of the claim, and who purchased from them a life insurance policy for the purpose of insuring a mortgage loan taken from one of the mortgage banks in Israel, and as a result of the decision and considerations of the defendant, the insurance amount they were required to pay, in the past seven years, was higher than the balance of the loan to the bank and therefore, the policyholders overpaid for the life insurance on the mortgage that they took" ("the Class").

The plaintiffs estimate that the general damage caused to all the members of the Class amounts to NIS 1.18 billion. Of this amount, the damage attributed to the policyholders of The Phoenix Insurance amounts to NIS 339.5 million.

The main remedies that the plaintiffs seek include a refund to the members of the Class of the premium differences between the premium that they should have paid according to the correct balances of the loan to the lending banks and the actual premium that they paid according to the insurance amount with the defendants, with the addition of compensation for distress caused to them; to change the way the defendants work so that the defendants will proactively calculate the insurance amount and the premiums arising from it, based on the accurate figures of the mortgage loan every month and no less than once every six months, and particularly in accordance with the interest rates, linkage terms and relative track breakdown of the loan per policyholder; to provide the policyholders with detailed information regarding the method for calculating the insurance amount and premium, and to explain to the policyholder the option of informing the defendants every month or at least once every six months regarding the balance of the loan to the banks, in cases where accurate figures cannot be used and as a result forcing the defendants to use various estimates; to charge the defendants for expenses, compensation to the plaintiffs and legal fees for their attorneys.

On January 6, 2015, the defendants filed their responses to the motion for certification. The plaintiffs are required to submit their response to the defendants response to the motion for certification by April 1, 2015. A preliminary hearing was scheduled for April 22, 2015.

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (CONTD.)

A. Contingent Liabilities (Contd.)

G) The table below presents a summary of the amounts claimed in contingent motions for certification as class actions, claims approved as class actions and other material claims against The Phoenix and/or its subsidiaries, as noted by the plaintiffs in the statements of claim they filed. It is clarified that the amount claimed is not necessarily quantification of the estimated amount of exposure by the Company and/or subsidiaries, as these are estimates by the plaintiffs whose cases will be deliberated in the legal proceedings. It is further clarified that the table below does not included proceedings that have been concluded, including proceedings which have been concluded after approval of a settlement.

Class	Number of claims	Amount claimed (NIS million)
Claims certified as class actions:		
Amount attributable to The Phoenix	4	133
The amount of the claim was not noted	1	-
Contingent motions for certification of class actions:		
Amount attributable to The Phoenix	12	2,025
Claims attributable to several companies without attribution of a specific amount to the Company	11	2,067
The amount of the claim was not noted	1	-
Other material claims		
Amount attributable to The Phoenix	4	72
Claims attributable to several companies without attribution of a specific amount to the Company	1	5,232
Other claims	17	46

The total provision for class actions, legal proceedings and others, filed against The Phoenix and /or its subsidiaries, as described above, amounts to NIS 98 million (December 31, 2013, NIS 93 million). For further information, see the statements of The Phoenix that are available to the public.

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (CONTD.)

A. Contingent Liabilities (Contd.)

3. – Several law suits amounting to several hundred million shekels have been filed against Gadot and others, for bodily injury and damage to property with regard to Gadot's activity in the Kishon River area.

   - In some of these cases, there are serious factual disputes and there are many facts that need to be decided and are unknown to Gadot. Moreover, the aforementioned proceedings are very complex and problematic since, among other reasons, most of the suits pertain to ongoing events that occurred over decades, in which a very large number of entities are involved, including the State and local authorities, therefore it is not possible to assess the responsibility and the share of any one entity involved in the suits. It is also scientifically difficult to determine the degree of causal connection between the discharge of industrial wastewater and the damages alleged by the plaintiffs.

   - In some of the claims, the plaintiffs appealed to the Supreme Court, and in others, in the opinion of Gadot's legal counsel, the plaintiffs will take steps to appeal the ruling at the Supreme Court. The management of Gadot believes, based on the opinion of Gadot's legal counsel, that due to the uncertainty of these claims and proceedings, at this stage, it is more likely than not that Gadot will not be required to pay a significant amount, therefore the financial statements do not include a provision for them.

   - Subsequent to the balance sheet date, on January 18, 2015, a motion for certification of a class action was filed against Gadot. The motion and the claim refer to environmental protection and the allegations against Gadot are that its activities cause environmental hazards and violate the provisions of various environmental protection laws. The amount of financial relief for all Class members amounts to NIS 25 million. In view of the preliminary stage of the motion, Gadot's legal counsel is unable to estimate the likelihood that the claim will be certified as a class action and the likelihood that Gadot will be required to pay a significant amount.

4. On September 2, 2012, a motion for certification of a class action was filed against Cohen Development and Industrial Buildings Ltd., the Company and some members of the Cohen and Tadmor family, former controlling shareholders of Cohen Development and Industrial Buildings Ltd. ("the Respondents") regarding the procedure for acquiring control in Cohen Development and Industrial Buildings Ltd. by the Company.
   The remedies sought in the class action include monetary relief, which the applicant estimates at no less than NIS 49 million and declaratory relief that the shares acquired from the respondents shall not confer any rights and shall be dormant shares as long as they are held by Delek Group.

   After litigation at the Tel Aviv-Jaffa District Court (Economic Division), in April 2014 the court dismissed the motion for certification as a class action against the Cohen and Delek Group, regarding the procedure for the transaction to gain control of Cohen, but partially upheld the motion in respect of the Cohen family.
   On June 12, 2014, the applicants appealed the decision of the District Court at the Supreme Court, raising claims against the partial approval of their application and against the dismissal of the motion for certification regarding the Company and Cohen Development and Industrial Buildings Ltd. In addition, on June 26, 2014, the Cohen and Tadmor families filed a petition for a rehearing of the ruling of the District Court. On November 26, 2014, the Supreme Court ordered that the hearing of the appeals of the applicants and the Cohen and Tadmor families should be joined. At this time, the date of the hearing of the joint proceeding is scheduled for June 1, 2015.

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (CONTD.)

5. On May 20, 2014, a claim and motion for certification as a class action was filed against the Company, the chairman of the board of directors and the CEO of the Company, for alleged impairment of the value of the shares of the subsidiary Delek Energy Systems Ltd. The relief requested in the class action is financial compensation estimated at NIS 100 million (which was subsequently amended). On October 20, 2014, the applicant petitioned the court to amend the motion so that the controlling shareholder in the Company will be added to the respondents. In December 2014, the court hearing was held and shortly thereafter, a ruling accepted the motion for the amendment. In January 2015, the applicant filed an amended motion for certification and an amended statement of claim, including amendments that were not in the original motion, including an increase of the amount of the claim to NIS 400 million. The application date of the respondents' response to the amended motion was scheduled for April 23, 2015. The management of the Company estimates, based partially on the opinion of its legal counsel, that in view of the preliminary stage of the proceeding, the outcome or risks of the motion cannot be assessed at this stage, therefore a provision for this motion was not included in the financial statements.

6. On June 18, 2014, the Limited Partnerships received a claim and motion for its certification as a class action, which was filed at the Central District Court against the partners in the Tamar Lease, including the Limited Partnerships. According to the applicant, the partners in the Tamar lease abused their monopoly power regarding the selling prices of natural gas from the Tamar reservoir to Israel Electric Corporation ("the Motion" and "the Class Action", respectively).
   The relief sought in the Class Action includes financial relief which the applicant estimates at NIS 2.5 billion (against all the Tamar partners), an order requiring the partners in the Tamar lease to refrain from selling natural gas from the Tamar reservoir in an amount that exceeds the amount set out in the class action, and an order declaring that the sale in an amount that exceeds this amount is an abuse of market monopoly status.
   The Limited Partnerships believe, based on the opinion of its legal counsel, that it is unlikely that the claim will be certified as a class action.

7. Several claims have been filed against Group companies as part of regular business. The Group's management believes, based on the assessment of the management of the companies, that adequate provisions have been made for these claims, beyond the existing insurance cover.

B. Guarantees

As of December 31, 2014, the following guarantees are in place:

	NIS million
Guarantees for agreements of associates (1)	305
Guarantees for agreements of subsidiaries (2), (3), (4), (5)	518
	823

(1) Including guarantees of NIS 244 million in favor of IDE for construction and operation of desalination plants

(2) The Company provided a guarantee of NIS 29 million to a wholly-owned subsidiary of Delek Real Estate. See also Note 12 above.

(3) Delek Energy provided a guarantee for the indemnification of buyers of oil and gas assets disposed of as of balance sheet date, for the period up to December 31, 2016, in an amount of up to an amount of USD 12 million.

(4) The Company and subsidiaries are the guarantor for the liabilities of subsidiaries towards third parties. The liabilities for the guarantees amounted to NIS 442 million as of December 31, 2014.

(5) The Company signed two unlimited performance guarantees in favor of the Republic of Cyprus to secure full implementation of all undertakings of each Limited Partnership. See also Note 16H(3) above.

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (CONTD.)

C. Agreements

1. As of December 31, 2014, Delek Israel has the following agreements with third parties, for the rent and lease of stations, facilities and buildings:

	NIS million
First year	164
Second year through the fifth year	378
More than five years	616
	1,158

In addition, Delek Israel has agreements for the purchase of petroleum products (supply in January-December 2015) amounting to NIS 4,023 million (as of December 31, 2013, NIS 5,100 million).

2. See Note 16 for agreements in respect of investments in oil and gas exploration.

3. As of December 31, 2014, The Phoenix Insurance has agreements for acquisition of investment property amounting to NIS 56 million, of which, an amount of NIS 36 million is for performance-based contracts (as of December 31, 2013, there were no agreements to purchase investment property).

4. The Phoenix Insurance has obligations for future investments in venture capital and investment funds amounting to NIS 618 million as of December 31, 2014, of which NIS 497 million is for performance-based contracts (as of December 31, 2013, NIS 445 million, of which NIS 375 million is for performance-based contracts).

5. Leases

Leases in which the Group is the lessor

The Phoenix leases a number of commercial buildings (investment property) to external institutions. The lease agreements are for variable periods that cannot be canceled, with rental fees linked to the CPI. Renewal of the leases at the end of their term is subject to the consent of The Phoenix and the lessors.

Minimum lease fees that are payable for lease contracts that cannot be canceled as of December 31, 2013:

	NIS million
Up to 1 year	125
From year 2 - five years	443
More than five years	545
	1,113

NOTE 31: CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (CONTD.)

D. Indemnification and insurance of officers

1. The Group has undertaken to indemnify all entitled officers of the Group for any action taken in virtue of their service as officers in the Group in the past, present and future. The Group has undertaken to indemnify all entitled officers of the Group for any action taken in virtue of their service as officers in the Group in the past, present and future.

2. The Group has decided to exempt officers of the Group from their liability under the duty of care toward the Group pursuant to Chapter three, Part six of the Companies Law, 1999.

3. The Company has insured the liability of officers for a total liability limit of USD 100 million.

NOTE 32: LIENS

A. To secure loans from banks, debentures and loans from others, amounting to NIS 11.6 billion as of December 31, 2014, collateral was provided as follows:

- The Company and its subsidiaries recorded fixed and floating liens on their non-current and current assets, including on inventories, specific deposits, the right to trade receivables, certain oil and gas assets, the right to receive overriding royalties, specific liens on certain shares of investees and participating units and mortgages on all the companies ’rights in properties in respect of which credit was granted.

- Subsidiaries have undertaken to meet certain conditions, including refraining from recording a lien in favor of others without the prior agreement of the lending corporations

- See Note 25C and 26 for undertakings to meet financial covenants.

B. As collateral for repayment of the principal, interest and linkage differences that the SPCs issuing Excellence's structured instruments undertook to pay to the debenture holders, and to secure full and accurate fulfillment of all its other obligations under the terms of the debenture and deed of trust, these companies placed a fixed first lien on all its rights in the non-marketable debentures that were issued for them and a first floating lien on their rights in the bank accounts in which the consideration of the issuance and proceeds received from the non-marketable debentures were deposited. The pledged non-marketable debentures were deposited with a trustee (see Note 19).

C. As collateral for repayment of the consideration that the SPCs issuing Excellence's ETFs and deposit certificates undertook to pay the certificate holders, these companies placed a current first lien on all the bank accounts in which the net consideration of the issuance was deposited and/or in which the base asset and financial instruments were deposited as collateral for holders of the ETFs. The deposits that will be used to cover the companies' activities in options and/or financial instruments were pledged in favor of the trustee in a second lien (see Note 24).

D. For information about liens and financial covenants for investments in oil and gas assets and for the issue of debentures by the Limited Partnerships, see Note 16.

NOTE 33: CAPITAL

A. Composition of share capital

	December 31, 2014		December 31, 2013	
	Registered	Issued and paid up	Registered	Issued and paid up
	Number of shares			
Ordinary shares of NIS 1 par value each	15,000,000	11,983,595	15,000,000	11,983,595

The shares are listed on the TASE.

B. As of December 31, 2014, SPCs own 108,606 ordinary shares of the Company.

C. On December 8, 2014, the Company approved a share buyback plan through the subsidiary partnership, Delek Financial Investments 2012 Limited Partnership ("the Partnership"), which is wholly owned by the company, for three months as from December 9, 2014 up to March 8, 2015. In December 2014, the Partnership acquired 57,091 Company shares of NIS 1 par value each for NIS 61.2 million. As of December 31, 2014, the Partnership holds 133,179 Company shares of NIS 1 par value.
Subsequent to the balance sheet date, in January and February 2015, the Partnership acquired 75,031 Company shares of NIS 1 par value each for NIS 71.1 million.

Subsequent to the acquisitions, the Partnership holds 208,480 Company shares of NIS 1 par value each.

In addition, as of December 31, 2014, the Company holds indirectly 242,907 shares acquired in prior years.

D. Dividends

1. On March 30, 2014, the Company declared a dividend of NIS 160 million, which was distributed on April 24, 2014 (the dividend per share is NIS 13.6278).

2. In August, 2014, the Company declared a dividend of NIS 150 million, which was distributed on September 29, 2014 (the dividend per share is NIS 12.776).

3. In November 2014, the Company declared a dividend of NIS 150 million, which was distributed on December 30, 2014 (the dividend per share is NIS 12.776).

4. Subsequent to the balance sheet date, in March 2015, the Company declared a dividend of NIS 150 million (the dividend per share is NIS 12.776). The dividend will be paid in April 2015.

NOTE 34: MINIMUM CAPITAL REQUIRED OF AN INSURER

1. The information below regarding the required and existing equity of The Phoenix Insurance is in accordance with Control of Financial Services Regulations (Insurance) (Minimum Equity Required of an Insurer) -1998 and its provisions ("the Capital Regulations") and the Commissioner's directives.

	December 31	
	2014	2013
	NIS million	
Minimum capital		
Amount required at the balance sheet date according to the Capital Regulations and Commissioner's directives (A)	3,018	2,796
Actual amount calculated in accordance with the Capital Regulations		
Tier 1 capital	2,715	2,651
Hybrid tier 2 capital	777	776
Subordinated tier 2 capital (B)	362	543
Hybrid tier 3 capital	395	-
Total actual amount calculated in accordance with the capital regulations	4,249	3,970
Excess	1,231	1,174
Apart from the general requirements in the Companies Law, distribution of a dividend from excess capital in insurance companies is also subject to liquidity requirements and compliance with the investment regulations. In this matter, the amount of the investment in investees, against which it is mandatory to place excess capital under the Commissioner's guidelines, therefore constituting non-distributable excess	543	454

	December 31	
	2014	2013
	NIS million	
(A) The required amount includes capital requirements for:		
General insurance/initial capital	484	475
Long-term care insurance	65	58
Exceptional risks in life insurance	317	280
Deferred acquisition costs in life insurance and health insurance	989	909
Unrecognized assets as defined in the Capital Regulations	26	74
Investments in consolidated insurance companies and management companies	49	40
Investment and other assets	721	631
Catastrophe risks in general insurance	132	115
Operating risks	235	214
Total amount required under the amended Capital Regulations	3,018	2,796

(B) Subordinated debt certificates issued by December 31, 2009

NOTE 35: COST OF REVENUES

	Year ended December 31		
	2014	2013 *)	2012 *)
	NIS million		
Purchase of oil, fuel and products	5,057	5,576	5,707
Increase in residual insurance liabilities and payments for insurance contracts	7,947	9,104	8,193
Other production expenses and costs	303	396	433
Depreciation, depletion and amortization	434	800	430
Salary and incidentals	68	75	82
Transportation	14	15	16
Production cost of gas sold and oil and gas exploration expenses, net	237	166	176
Cost of electricity supplied	133	95	112
	14,193	16,227	15,149

*) Restated, see Note 2JJ

NOTE 36: SELLING, MARKETING AND GAS STATION OPERATING EXPENSES

	Year ended December 31		
	2014	2013 *)	2012 *)
	NIS million		
Salary and incidentals	146	148	142
Maintenance of gas stations	279	259	257
Advertising and sales promotion	16	19	19
Amortization and depreciation	62	59	56
Commissions for agents	20	16	20
Commissions and acquisition costs in insurance companies	1,314	1,187	1,121
Others	46	67	64
	1,883	1,755	1,679

*) Restated, see Note 2JJ

NOTE 37: GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31		
	2014	2013 *)	2012 *)
	NIS million		
Salary and incidentals	856	826	753
Amortization and depreciation	217	205	220
Office maintenance	83	101	97
Professional services	87	88	88
Others	10	41	65
	1,253	1,261	1,223

*) Restated, see Note 2JJ

NOTE 38: OTHER EXPENSES, NET

	Year ended December 31		
	2014	2013 *)	2012 *)
	NIS million		
Provision for impairment of property, plant and equipment	28	27	30
Goodwill impairment of intangible assets	620	201	-
Gain on disposal of assets	(1)	(102)	(4)
Other expenses, net	52	36	19
	699	162	45

*) Restated, see Note 2JJ

NOTE 39: FINANCE INCOME (EXPENSES)

	Year ended December 31		
	2014	2013 *)	2012 *)
	NIS million		
A. Finance income			
Net change in the fair value of financial assets at fair value through profit or loss.	13	2	28
Profit from disposal of available-for-sale securities	59	2	102
Interest-bearing loans from banks	20	30	16
Dividends from available-for-sale securities	14	4	17
Derivative financial instruments	-	45	28
Finance income from associates	32	6	10
Finance income from loans to the seller (1)	31	-	-
Others	75	20	98
	244	109	299

(1) For further information, see Note 14.

B. Finance expenses			
Finance expenses for credit from banks, debentures and others	979	1,268	1,261
Loss from early redemption of debentures	40	-	-
Impairment of available-for-sale securities	-	-	14
Derivative financial instruments	139	14	8
Other finance expenses, net	91	34	19
	1,249	1,316	1,302

*) Restated, see Note 2JJ

NOTE 40: EXPENSES BY TYPE OF POLICY - INSURANCE IN ISRAEL

Information for the year ended 31 December, 2014:

	Policies with a savings factor (including appendixes) according to policy date of issue			Risk-free policy		
			From 2004	Risk sold as single policy		
	Up to 1990 (1)	Up to 2003	Performance based	Individual	Collective	Total
	NIS million					
Gross premiums:						
Traditional/mixed	65	34	-	-	-	99
Saving factor	68	954	1,902	-	-	2,924
Other	17	203	128	407	87	842
Total (2)	151	1,191	2,030	407	87	3,865
Premiums for direct investment contracts for insurance reserves	-	-	1,175	-	-	1,175
Financial margin including management fees (3)	158	268	120	1	-	547
Profit (loss) from life insurance operations	(32)	154	(126)	68	13	77
Other comprehensive income from life insurance operations	(4)	-	-	-	-	(5)
Comprehensive income (loss) from life insurance operations	(36)	153	(126)	68	13	72
Loss from pension and annuity						27
Total profit (loss) from life insurance and long-term savings						99
Annualized premium for insurance contracts –new business	-	1	93	80	-	174
One-time premium for insurance contracts	-	-	1,051	-	-	1,051
Annualized premium for investment contracts –new business	-	-	99	-	-	99

NOTE 40: EXPENSES BY TYPE OF POLICY - INSURANCE IN ISRAEL (CONTD.)

Information for the year ended 31 December, 2013:

	Policies with a savings factor (including appendixes) according to policy date of issue			Risk-free policy		
			From 2004	Risk sold as single policy		
	Up to 1990 (1)	Up to 2003	Performance based	Individual	Collective	Total
	NIS million					
Gross premiums:						
Traditional/mixed	73	38	2	-	-	113
Saving factor	65	942	1,936	-	-	2,943
Other	19	212	123	360	91	805
Total (2)	157	1,192	2,061	360	91	3,861
Premiums for direct investment contracts for insurance reserves	-	-	749	-	-	749
Financial margin including management fees (3)	191	333	96	1	-	621
Profit (loss) from life insurance operations	95	287	(90)	77	5	374
Other comprehensive income from life insurance operations	(4)	(1)	-	-	-	(5)
Comprehensive income (loss) from life insurance operations	91	286	(90)	77	5	369
Loss from pension and annuity						(2)
Total profit (loss) from life insurance and long-term savings						367
Annualized premium for insurance contracts –new business	-	1	141	77	-	219
One-time premium for insurance contracts	-	3	657	-	-	660
Annualized premium for investment contracts –new business	-	-	59	-	-	59

NOTE 40: EXPENSES BY TYPE OF POLICY - INSURANCE IN ISRAEL (CONTD.)

Information for the year ended 31 December, 2012:

	Policies with a savings factor (including appendixes) according to policy date of issue			Risk-free policy		
			From 2004	Risk sold as single policy		
	Up to 1990 (1)	Up to 2003	Performance based	Individual	Collective	Total
	NIS million					
Gross premiums:						
Traditional/mixed	83	44	1	-	-	128
Saving factor	76	934	1,852	-	-	2,862
Other	22	224	111	310	97	764
Total (2)	181	1,202	1,964	310	97	3,754
Premiums for direct investment contracts for insurance reserves	-	-	116	-	-	116
Financial margin including management fees (3)	124	109	78	8	2	321
Profit (loss) from life insurance operations	(21)	29	(79)	69	10	8
Other comprehensive income from life insurance operations	57	7	3	7	2	76
Comprehensive income (loss) from life insurance operations	36	36	(76)	76	12	84
Profit from pension and annuity						56
Total profit (loss) from life insurance and long-term savings						140
Annualized premium for insurance contracts –new business	-	1	397	63	-	461
One-time premium for insurance contracts	-	4	698	-	-	702
Annualized premium for investment contracts –new business	-	-	8	-	-	8

1. The products issued up to 1990 (including the growth in respect thereof) were designed mainly to guarantee yield, and they are hedged mainly by designated debentures.
2. The increase in existing policies is not included in the annualized premium for new business, but in the operational expenses of the original policy.
3. The financial margin does not include the Company's further income collected as a percentage of the premium and it is calculated according to deduction of expenses for investment management. The financial margin in policies with guaranteed yield is based on the actual investment income during the reporting period net of the product of the guaranteed yield rate during the year, multiplied by the average reserve for the year in the various insurance funds. In this matter, investment income includes the change in fair value of available for sale financial assets recognized in the statement of comprehensive income. In performance based contracts, the financial margin is the total fixed and variable management fees calculated on the basis of the average yield and balance of the insurance reserves.

NOTE 41: TAXES ON INCOME

A. Tax laws that apply to the Group companies

1. Income Tax (Inflationary Adjustments) Law, 1985

According to the law, until 2007, the results for tax purposes are adjusted for the changes in the CPI.

In February 2008, the Knesset passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the Adjustments Law from 2008 onwards. As from 2008, the results for tax purposes are measured at nominal values, with the exception of certain adjustments for changes in the Israeli CPI up to December 31, 2007.

2. Petroleum Profits Tax Law, 2011

In January 2011, the government of Israel approved the recommendations of the Sheshinski commission to amend taxes in the oil and gas exploration sector in Israel. Following the recommendations, on March 30, 2011, the Petroleum Profits Taxation Law, 2011 was passed an in April 10, 2011, it was published in the Official Gazette. The main points of the law are as follows:

A) Application of oil and gas profits taxation:
The proposed formula for the levy is based on the recovery factor ("the R Factor"), according to the ratio between the net cumulative revenues from the project and the cumulative investments as defined in the Law. The minimum rate of the levy will be 20% if the R Factor is 1.5, and will rise progressively up to a maximum rate of 50%, until the R Factor reaches 2.3. In addition, it was determined that the rate of the levy will be reduced at a multiple of 0.64 in the difference between the rate of corporate tax rate set out in section 126 of the Income Tax Ordinance for each tax year and a tax rate of 18% (following the change in subsection 3(b) below, as from 2014, the rate of maximum taxation was reduced to 44.56%).
Additional provisions were set for the levy, such as: the levy will be recognized as a deductible expense for income tax purposes, will not include export installations, will be calculated and imposed on each reservoir separately (ring fencing); for payment by the holder of the oil right calculated as a percentage of the produced oil, the payee will be required to pay a levy on the amount of payment received, and this amount will be deducted from the levy liability of the holder of the oil right.

In view of the characteristics of the oil and gas profits levy, the measurement, classification, and presentation of the levy in the financial statements is similar to the accounting method for taxes on income.

B) Investments will be awarded accelerated depreciation at a rate of 10%, with an option of choosing depreciation in the amount of the taxable income in that year.

C) Taxation of oil partnerships: The law stipulates provisions for calculation and reporting of the partners 'profits in oil exploration partnerships, including the calculation of taxes for these profits.

D) Interim provisions were set out, including the following:

1) The provisions of this law will apply to a project that commenced commercial production before the effective date, with the following changes:

(a) If a levy is imposed on a project in the tax year of the effective date, the rate of the levy in that tax year will be half of the rate of the levy that would have been imposed on the oil profits were it not for the provisions of this subsection, and no more than 10%.
(b) If the R Factor in the tax year of the effective date exceeds 1.5, rules were determined for calculation of the R Factor for each subsequent tax year.
(c) The rate of levy imposed on the venture's oil profits in each of the tax years from 2012 through to 2015 will be equal to half of the rate of the levy that would be imposed on the oil profits without the provisions of this section.

NOTE 41: TAXES ON INCOME (CONTD.)

2) The following provisions will apply to a project that starts commercial production after the effective date but before January 1, 2014:

   (a) The minimum levy factor will be 2 instead of 1.5 and the maximum will be 2.8 instead of 2.3.
   (b) The rate of depreciation for an asset acquired in 2011-2013 will be 15% instead of 10%.

E) According to the amendment to the Income Tax Regulations (Deductions from Income of Oil Rights Holders), 2011 ("the Amendment"), recognition as a current expense in development expenses of reservoirs that start commercial production after January 1, 2014 will be eliminated and amortization will be applied in accordance with the Taxation of Petroleum Profits Law.

F) Bill: Taxation Model for Export Transactions

On March 26, 2014, the Ministry of Finance published the Taxation of Petroleum Profits (Amendment) Bill, 2014 ("the Bill"). It is noted that on November 23, 2014, the Bill was approved by the Ministerial Committee for Legislation, after several amendments and changes by the Ministry of Finance. The legislative proceedings at the Knesset for the Bill have not yet begun.

The proposals in the Bill address mainly the method for determining proceeds for exported gas ("the Export Proceeds"), for calculation of the levy on oil profits. The proposals refer to several methods for determining the transfer price for calculation of export proceeds.

In this matter, according to the Bill, for oil that is not natural gas, which has a standard and accepted international price, it will be determined that the preferred method for determining the Transfer Price is the comparable uncontrolled price (CUP). However, in view of the difficulties (the absence of a competitive market and absence of a standard and accepted international price for natural gas) when implementing the price comparison method for the sale of natural gas for use in the area outside the

State of Israel, it is proposed that the Transfer Price based on the price comparison method will be subject to the tax decision in accordance with the law, with the approval of the Director General of the Ministry of Finance.
In the absence of a tax decision, the Bill proposes that for a transaction for the sale of natural gas for use outside the State of Israel, the Transfer Price will be determined by a method that extracts the market price that a non-related customer pays or would pay for natural gas, directly or indirectly, to holders of rights in the reservoir.

In addition to the provisions of the Bill in respect of export proceeds, the Bill establishes additional provisions for calculation of the levy that the partners in the oil project are required to pay. These include provisions for a levy on any activity performed as a "support component" for the sale of oil, including cleaning and treating oil and delivering it to the export facility or the transmission system, delivering the oil, and issuing sales permits. The Bill also establishes provisions for including the cost of "mixed" facilities (used for export activities as well as for sales to the local market) in the R factor.
Implementation of the amendments to the Bill, if adopted, will affect the determination of the future amount of the levy that will apply to the revenue of the Limited Partnerships.

3. <u>Foreign subsidiaries</u>

Foreign subsidiaries are subject to the provisions of the law in the countries in which they operate.

NOTE 41: TAXES ON INCOME (CONTD.)

B. Tax rates applicable to Group companies

1. Companies in Israel

The rate of corporate tax in 2012 and 2013 was 25%; and in 2014, 26.5%. The rate of tax that applies to financial institutions in 2014 is 37.71%.

In August 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budgetary Goals for 2013-2014), 2013 was published ("the Budgetary Law"), which includes, among other things, fiscal changes with the main objective of deepening tax collection for those years.

These changes include, among other things, an increase in the corporate tax rate from 25% to 26.5%, elimination of tax cuts for a preferred enterprise (National Development Area A - 9% and an area that is not with National Development Area A - 16%), and in some cases, an increase in rate of tax on a dividend in respect of the Law for Encouragement of Capital Investments to a rate of 20%, as from January 1, 2014. and additional changes such as revaluation gains taxes, as from August 1, 2013, however the entry into force of the provisions for revaluation gains is subject to publication of regulations defining "retained earnings exempt from corporate tax" and regulations that define provisions for preventing double taxation that is liable to apply to assets outside of Israel. As of the publication date of these financial statements, these regulations have not yet been published.

The deferred tax balances included in the financial statements as of December 31, 2014 are calculated according to the new tax rates, the legislation of which was completed as of the balance sheet date, therefore they include the above changes, to the extent that they will be relevant to the Company.

C. Tax assessments

1. The Company has final tax assessments up to and including 2010.

2. The majority of the subsidiaries have received tax assessments that are considered final up to and including 2008-2010.

3. Following the distribution of profits by the Limited Partnerships in 2014, it is noted that there are negotiations with the Tax Authority regarding the classification of these distributions for tax purposes. The Company and its professional advisors believe that there is no cause for the tax charge for these distributions, therefore a provision for tax was not included in the financial statements.

D. Carry-forward losses for tax purposes

As of December 31, 2014, the Company has carry-forward losses of NIS 1.8 billion for tax purposes. Deferred taxes were not recognized for the balance of these losses.

As of December 31, 2014, the subsidiaries have carry-forward business losses of NIS 4.9 billion for tax purposes. In addition, as of December 31, 2014, the subsidiaries have carry-forward capital losses of NIS 0.9 billion for tax purposes. Deferred tax assets of NIS 0.5 million were included in the financial statements for the balance of the business losses.

NOTE 41: TAXES ON INCOME (CONTD.)

E. Deferred taxes

Composition:

	Balance sheet		Statement of income		
			Year ended		
	December 31		December 31		
	2014	2013	2014	2013 *)	2012 *)
	NIS million				
Property, plant and equipment	(364)	(401)	(49)	(50)	(36)
Financial assets measured at fair value	(128)	(64)	(10)	(17)	19
Share-based payment	16	17	(1)	2	1
Intangible assets	(230)	(981)	128	63	(9)
Oil and gas assets	(2,762)	(2,483)	7	(61)	(163)
Other temporary differences	80	(460)	4	(344)	143
Carry-forward losses for tax purposes	547	1,254	(24)	401	201
Employee benefits	6	28	1	(2)	(2)
Deferred tax income (expenses)			56	(8)	154
Deferred tax liabilities, net	(2,835)	(3,090)			

*) Restated, see Note 2(JJ)

The deferred taxes are calculated according to tax rates of between 26.5% and 37.7% based on the expected applicable tax rate at the time of exercise.

Deferred taxes for items recognized in other comprehensive income

	Year ended December 31		
	2014	2013	2012
	NIS million		
Taxes for available-for-sale financial assets	40	43	(90)
Others	(33)	52	-
	7	95	(90)

NOTE 41: TAXES ON INCOME (CONTD.)

F. Income tax in the statements of income

	Year ended December 31		
	2014	2013*)	2012*)
		NIS million	
Current taxes (including petroleum profits tax)	248	486	230
Deferred taxes (see also section E above)	(56)	8	(154)
Taxes for prior years	5	(2)	1
	197	492	77

*) Restated, see Note 2(JJ)

G. Adjustment of theoretic tax

Below is a presentation of the tax amount that would be applicable if all the income was taxable at the regular corporate tax rates in Israel and the tax amount charged to the statement of income for the reporting year:

	Year ended December 31		
	2014	2013*)	2012*)
		NIS million	
Income (loss) before taxes on income	296	660	(14)
Statutory tax rate	26.5%	25%	25%
Tax computed at the statutory tax rate	78	165	(4)
Increase (decrease) in tax liabilities for:			
Utilization of carryforward losses from previous years	(11)	7	3
Losses carried forward for which no tax benefit was recorded	56	60	52
Petroleum profits tax	24	(2)	58
Effect of the change in the tax rate	-	166	2
Share of holders of non-controlling interests in gains of consolidated partnerships	(59)	(20)	(5)
Company's share the results in companies and partnerships accounted for at equity, net	(60)	72	(61)
Taxes for prior years	5	(2)	3
Adjustments for different tax rate in merged companies	77	137	39
Exempt revenue, unrecognized expenses and other adjustments, net	89	(89)	(10)
	197	492	77

*) Restated, see Note 2JJ

H. The Company is registered for value added tax purposes as a joint licensed dealer (consolidation of dealers) together with some of its subsidiaries.

NOTE 42: NET EARNINGS (LOSS) PER SHARE

Quantity of shares and the earnings (loss) attributable to the majority shareholders used to calculate the net earnings (loss) per share:

	Year ended December 31					
	2014		2013		2012	
	Qty. of weighted shares	Net profit (loss)	Qty. of weighted shares	Net profit (loss)	Qty. of weighted shares	Net profit (loss)
	Thousands	NIS million	Thousands	NIS million	Thousands	NIS million
For calculation of basic net earnings (loss)	11,544	(765)	11,386	740	11,233	464
Adjustment for the Group's portion in basic loss (earnings) per share of investees	-	425	-	(1,306)	-	(737)
Group's portion in diluted earnings (loss) per share of investees	-	(425)	-	1,306	-	724
Effect of potential ordinary shares, diluted	-	-	36 *)	-	30	-
For calculation of diluted net earnings (loss)	11,544	(765)	11,422	740	11,263	451

*) For the diluted loss per share from continuing operations, the effect of the options was not taken into account due to the anti-dilutive effect.

NOTE 43: OPERATING SEGMENTS

A. General

Under IFRS 8, the Group's operating segments are determined on the basis of management reports, which are mainly based on the investments in each subsidiary.

The operating segments are as follows:

- Oil and gas exploration and production: The main operation is in the Tamar joint venture, the Ratio Yam joint venture, the Yam Tethys joint venture, and other oil rights, mainly offshore the coast of Israel.

- Fuel in Israel: The main operation is marketing and sale of fuels and commodities at gas stations and other outlets, and storage and production of fuels in facilities.

- Insurance and finances in Israel: The operations are carried out by The Phoenix and its subsidiaries.

- Automotive and spare parts: The main operation is importing and marketing of Mazda, Ford and BMW vehicles and spare parts, through the associate Delek Automotive.

- Other: The main operation is investment in infrastructure, including mainly desalination and establishment of power stations, trading in derivatives through Barak Capital and the biochemical operation that includes mainly production and marketing of fructose, citric acid and ingredients for nutritional additives.

NOTE 43: OPERATING SEGMENTS (CONTD.)

A. General (CONTD.)

It is noted that following the classification of the operating results of Delek US, DEBV, Republic, and Roadchef under income (loss) from discontinued operations, these companies and their operations are no longer presented as reportable segments. For comparative purposes, these operating results were not presented as reportable segments also when classified as discontinued operations. In addition, in view of the disposal of these companies, the Company started to review the reportable segments in accordance with their contribution to the net income from continuing operations attributable to the Company's shareholders. Following this change, there was no change in the Company's reportable segments.

The Company's operations are mainly in Israel.

B. Segment reporting

1. Revenue

	Year ended December 31		
	2014	2013 *)	2012 *)
	NIS million		
Revenue from external sources			
Oil and gas exploration and production	1,387	1,283	853
Fuel in Israel	5,954	6,492	6,624
Insurance and finance in Israel **)	11,190	12,725	10,907
Other segments	490	486	540
Adjustments	102	(136)	(65)
Total in statement of income	19,123	20,850	18,859

*) Restated, see Note 2JJ

**) Represents insurance premiums on retention in life assurance and general insurance

2. Segment results and reconciliation to net income (loss)

	Year ended December 31		
	2014	2013 *)	2012 *)
	NIS million		
Oil and gas exploration and production	754	415	247
Fuel in Israel	65	126	125
Insurance and finance in Israel	843	1,279	583
Other segments	(5)	(18)	(74)
Adjustments	(562)	(357)	(118)
Operating income	1,095	1,445	763

*) Restated, see Note 2JJ

NOTE 43: OPERATING SEGMENTS (CONTD.)

3. Contribution to net profit (loss) from continuing operations attributable to Company shareholders

	Year ended December 31		
	2014	2013	2012
	NIS million		
Oil and gas exploration and production	93	70	22
Fuel in Israel	4	34	9
Insurance and finance in Israel	255	368	168
Automotive	107	125	77
Other segments	(6)	(28)	(61)
Adjustments	(771)	(732)	(447)
Loss from continuing operations attributable to equity holders of the Company	(318)	(163)	(232)

4. Segment assets

	December 31	
	2014	2013
	NIS million	
Insurance and finance in Israel	100,323	91,808
Fuel in Israel	3,443	3,778
Oil and gas exploration and production	20,159	16,291
Other segments	1,022	637
	124,947	112,514
Investments in associates		
Insurance and finance in Israel	584	489
Automotive	928	900
Fuel in Israel	102	122
Oil and gas exploration and production	28	3
Other segments	534	723
	2,176	2,237
Assets not attributed to segments *)	4,054	15,720
Total consolidated assets	131,177	130,471

*) As of December 31, 2013, assets attributable to discontinued operations were also included.

NOTE 43: OPERATING SEGMENTS (CONTD.)

5. Segment liabilities

	December 31	
	2014	2013
	NIS million	
Insurance and finance in Israel	94,321	85,421
Fuel in Israel	917	1,046
Oil and gas exploration and production	700	637
Other segments	195	298
	96,133	87,402
Liabilities not attributed to segments *)	23,816	32,164
Total consolidated liabilities	119,949	119,566

*) As of December 31, 2013, liabilities attributable to discontinued operations were also included.

6. Acquisition cost of long term assets

	Year ended December 31		
	2014	2013	2012
	NIS million		
Insurance and finance in Israel	241	236	223
Fuel in Israel	100	126	103
Oil and gas exploration and production	636	1,582	2,743
Other segments	287	64	27
Discontinued operations	225	789	1,033
	1,489	2,797	4,129

7. Amortization and depreciation

Insurance and finance in Israel	850	467	213
Fuel in Israel	95	94	89
Automotive	17	27	28
Oil and gas exploration and production	433	851	399
Other segments	58	34	61
Discontinued operations	311	620	681
	1,764	2,093	1,471

NOTE 43: OPERATING SEGMENTS (CONTD.)

C. Geographic information

1. Income by geographic markets (by location of customers)

	Year ended December 31		
	2014	2013 *)	2012 *)
	NIS million		
USA	101	102	166
Europe	124	156	163
Israel	18,876	20,556	18,456
Other	22	36	74
	19,123	20,850	18,859

*) Restated, see Note 2JJ.

2. As of December 31, 2014, most of the assets used in the segment and the acquisition cost of the long-term assets are in Israel.

NOTE 44: INTERESTED AND RELATED PARTIES

A. CEO of the Company

1. In 2014, the Company's board of directors and compensation committee approved the payment of a bonus of NIS 1,400 thousand to the CEO for 2013.

2. For information about the phantom options granted to the Company's CEO see section H below.

B. Chairman of the board of directors

1. In prior years, the chairman of the board of directors was granted options in an investee in which he serves as a director. The full amount of the benefit was recognized in prior periods.

2. In 2014, the Board of Directors and compensation committee approved the payment of a bonus amounting to NIS 400 thousand to the chairman of the Board of Directors for 2013.

NOTE 44: INTERESTED AND RELATED PARTIES (CONTD.)

C. For further information about guarantees provided to related parties, see Note 31B. For further information about the loans and guarantee provided to Delek Real Estate, see Note 12.

D. For further information about natural gas and condensate supply agreements with related parties, see Note 16J(2).

E. Balances with interested and related parties

	December 31	
	2014	2013
	NIS million	
Trade receivables	24	31
Other receivables	23	35
Long-term loans, deposits and receivables	85	74
Loans and capital notes to associates	95	215
Insurance assets	11	13
Trade payables	15	5
Other payables	15	25

F. Transactions with interested and related parties

	Year ended December 31		
	2014	2013	2012
	NIS million		
Sales	113	164	168
Purchases	13	27	49
Selling, general and administrative expenses	74	58	44
Finance income	30	18	7

G. Benefits for key managers (including directors) employed in the Group

The senior managers and some of the members of the board of directors in the Company are eligible, in addition to their salary, to non-monetary benefits, such as the use of a company car. In addition, the Company contributes to defined post-employment benefit plans.

Senior managers also participate in the options plan.

Benefits for key managers (including three directors) employed in the Company:

	Year ended December 31					
	2014		2013		2012	
		Amount		Amount		Amount
	No. of people	NIS million	No. of people	NIS million	No. of people	NIS million
Short-term benefits	9	18	9	15	8	12
Share-based payment	5	-	6	11	5	6
		18		26		18

NOTE 44: INTERESTED AND RELATED PARTIES (CONTD.)

Benefits for directors who are not employed by the Company:

	Year ended December 31					
	2014		2013		2012	
		Amount		Amount		Amount
	No. of people	NIS million	No. of people	NIS million	No. of people	NIS million
Benefits for non-employee directors	6	2.8	6	2.5	6	1.0

H. Share-based payment

On November 1, 2012, the Company's board of directors approved a phantom options plan for managers, senior officers and employees. The options were granted at no cost and will be exercisable into a cash grant equal to the difference between the increase in the market price of the Company's shares at the exercise date and the exercise price. The exercise price was set at NIS 735 per share, unlinked and will be subject to certain adjustments as stipulated in the allocation agreement.

.According to the plan, the options will vest in two equal lots. The first lot will vest one year after the approval date of the allotment and the second two years after the approval date of the allotment. The options will expire two years after the end of the vesting period of the second lot. A total of 21,769 options were allocated under the plan. According to an appraisal received by the Company, the financial value of the options at October 31, 2012 is NIS 8.13 million.

Out of the total amount of the options, the audit committee and the board of directors resolved to allocate 10,884 phantom options (0.09% of the fully diluted capital did not relate to options for acquisition of the Company's shares), under the plan, to the CEO of the Company. According to an appraisal received by the Company, the financial value of the phantom options granted to the CEO under the plan as of the allocation date is NIS 4 million.

Calculation of the financial value was based on the binomial average for pricing the options and based on the following assumptions: Calculation of the financial value was based on the binomial model for pricing the options and based on the following assumptions:

Share price (NIS)	738.5
Exercise price of each option (NIS)	738.5
Standard deviation (%)	62.86
Capitalization rate (%)	2.7
Expected life (years)	4

In 2014, 5,500 options were exercised for this plan in return for NIS 4 million.
As of December 31, 2014, the carrying amount of the liabilities for this plan amounted to NIS 4 million, and income recognized for the plan in 2014 amounted to NIS 0.2 million, and in 2013 and 2012, an expense of NIS 11 million and NIS 1 million was recognized for the plan, respectively (of this amount, NIS 5.5 million and NIS 0.4 million, respectively, were recognized for the options granted to the CEO).

I. In the regular course of business, the Group companies conduct transactions at market prices and at regular credit terms with corporations that are related parties, at insignificant amounts.

Principal partnerships and investees

Holding Company	Company	Rate of holding and control of the investee at December 31, 2014 (1)	Rate of holding of the Group in final retention at December 31, 2014 (1)	Presentation
		%	%	
Delek Group Ltd.	Delek Petroleum Ltd.	100	100	Subsidiary
	Cohen Development and Industrial Buildings Ltd. (3)	51.76	51.76	Subsidiary
	Delek Infrastructure Ltd.	100	100	Subsidiary
	Delek Power Stations - Limited Partnership	100	100	Subsidiary
	Delek Automotive Systems Ltd.	24.19	24.19	Associate
	Gadot Biochemical Industries Ltd.	100	100	Subsidiary
	Delek Energy Systems Ltd. (3)	87.05	87.05	Subsidiary
	Delek Drilling Limited Partnership (4)	6.14	60.42	Subsidiary
	Yam Tethys Joint Venture	4.441	31.4	Proportionate consolidation
	Avner Oil Exploration - Limited Partnership (4)	8.45	50.07	Subsidiary
	The Phoenix Holdings Ltd.	52.32	52.32	Subsidiary
	Delek Finance US Inc.	100	100	Subsidiary
	Delek Sea Maagan (2011) Ltd.	100	100	Subsidiary
	Israel Delek Holdings Group Ltd.	100	100	Subsidiary
	Delek Financial Investments –Limited Partnership	100	100	Subsidiary
	Navitas Petroleum Ltd. (5)	60	60	Associate
Delek Petroleum Ltd.	Delek The Israel Fuel Corporation Ltd.	100	100	Subsidiary
	Ltd. Delek Hungary Holding Ltd.	98.4	100	Subsidiary
Delek The Israel Fuel Corporation Ltd.	Delek Industries Ltd. (formerly Delek Oils-Delkol Ltd.)	100	100	Subsidiary
	Delek Heating Ltd.	100	100	Subsidiary
	Delek Transportation Ltd.	100	100	Subsidiary
	Delek Menta Roads Ltd.	100	100	Subsidiary
	United Petroleum Export Co. Ltd.	75	75	Subsidiary
	Tanker Services Ltd.	75	75	Subsidiary
	Delek Pi Glilot –Limited Partnership	100	100	Subsidiary
	Delek Retail Lots Ltd.	100	100	Subsidiary
	Inbal Fuel and Properties Ltd.	100	100	Subsidiary
	Delek Ivshekovsky Limited Partnership	100	100	Subsidiary
	Delek Israel Fuel Marketing Partnership	100	100	Subsidiary
	Delek-Kliot Partnership	100	100	Subsidiary
	Delek Hungary Holding Ltd.	1.6	100	Associate
	Orhan Mei Megiddo Ltd.	50	50	Associate
	Delek Saadon Projects Initiation and Development Ltd.	50	50	Associate
	Delek Ein Yahav Ltd.	50	50	Associate
	Delek Ramat Hasharon Ltd.	50	50	Associate

(1) Direct and indirect ownership and control (without the holdings of Excellence exchange traded funds and profit-sharing policies of The Phoenix)

(3) Holds 50% of the capital of the general partner Avner Oil and Gas Exploration Ltd, which holds 1.81% of Avner Oil Exploration - Limited Partnership

(4) Held also by Delek Energy

(5) The Company holds 50% of the voting rights.

Principal partnerships and investees

Holding Company	Company	Rate of holding and control of the investee at December 31, 2014 (1)	Rate of holding of the Group in final retention at December 31, 2014 (1)	Presentation
		%	%	
	Joe Gourmet Coffee Ltd. *)	51	51	Associate
	Delek Yagel GMP Ltd. *)	60	60	Associate
The Phoenix Holdings Ltd.	The Phoenix Insurance Company Ltd.	100	52.3	Subsidiary
	The Phoenix Investments & Finance Ltd.	100	52.3	Subsidiary
	Ad 120 Residence Center for Senior Citizens Ltd.	100	52.3	Subsidiary
The Phoenix Insurance Company Ltd.	The Phoenix Insurance Agencies 1987 Ltd.	100	52.3	Subsidiary
	The Phoenix Capital Raising (2009) Ltd.	100	52.3	Subsidiary
The Phoenix Investments & Finance Ltd.	Atara Technology Ventures Ltd.	100	52.3	Subsidiary
	Atara Partnership Management Ltd.	100	52.3	Subsidiary
	Excellence Investments Ltd.	89.8	46.9	Subsidiary
	Mehadrin Ltd.	41.42	21.67	Associate
	Gama Management and Clearing Ltd.	100	52.3	Subsidiary
Delek Infrastructure Ltd.	IDE Technologies Ltd.	50	50	Associate
Delek Power Stations - Limited Partnership	I.P.P. Delek Ashkelon Ltd.	100	100	Subsidiary
Delek Automotive Systems Ltd.	Delek Motors Ltd.	100	24.19	
	Delek Motors Spare Parts (1987) Ltd.	100	24.19	
	DMR Properties (1985) Ltd.	100	24.19	
	DSR Delek Automobile Agencies 1994 –Registered Partnership	75	18.14	

(1) Direct and indirect ownership and control (without the holdings of Excellence exchange traded funds)

(*) The Group does not consolidate the financial statements of Joe Gourmet Coffee Ltd. and Delek Yagel GPM Ltd. due to actual participating rights held by holders of non-controlling interests.

Principal partnerships and investees

Holding Company	Company	Rate of holding and control of the investee at December 31, 2014 (1)	Rate of holding of the Group in final retention at December 31, 2014 (1)	Presentation
		%	%	
Delek Energy	Delek Drilling Management (1993) Ltd.	100	87.05	Subsidiary
	Delek Drilling Trusts Ltd	100	87.05	Subsidiary
	Delek Drilling Limited Partnership (2)	63	60.66	Subsidiary
	Avner Oil and Gas Ltd.	50	69.2	Subsidiary
	Avner Oil Exploration - Limited Partnership (2)	47	50.25	Subsidiary
	Avner Trusts Ltd.	50	69.2	Subsidiary
	Delek Drilling –Limited Partnership			
	Yam Tethys Joint Venture (2)	26	31.4	Proportionate consolidation
	Michal Matan Joint Venture	16	17.3	Proportionate consolidation
	Ratio Yam joint venture	23	25.1	Proportionate consolidation
	Avner Oil Exploration - Limited Partnership			
	Yam Tethys Joint Venture (2)	23	31.4	Proportionate consolidation
	Michal Matan Joint Venture	16	17.3	Proportionate consolidation
	Ratio Yam joint venture	23	25.1	Proportionate consolidation
IDE Technologies Ltd.	VID Water Desalination Ltd.	50	25	Associate
	OTID Desalination Partnership	50	25	Associate

(1) Direct and indirect ownership and control (without the holdings of Excellence exchange traded funds)

(2) Also held directly by Delek Petroleum Ltd.

Chapter D

Additional Information on the Corporation

Delek Group

Chapter D - Additional Information about the Company

Company name:	Delek Group Ltd.
Company number in the Registrar of Companies:	52-004432-2.
Date of Statement of Financial Position: (Standard 9)	December 31, 2014
Date of periodic report: (Standard 1 and 7)	March 30, 2015

Regulation 8B: Valuation

A financial study to assess the value of the Group's shares in Phoenix Holdings Ltd. ("The Phoenix").

Below are the main points specified in this financial study:

A. Topic of the study: Evaluation in investment in The Phoenix shares.

B. Date of study: At December 31, 2014.

C. Value of the investment examined in the study: The value of the investment at December 31, 2014 (after deduction of NIS 450 million during the first nine months of 2014) amounted to NIS 1,790 million.

D. Value set for the investment based on the study: The investment has been impaired by an amount of NIS 58 million (see details in the attached study). Subsequent to foregoing impairment, the balance of the investment as at December 31, 2014 is NIS 1,732 million.

E. Identity and qualifications of the Valuator: Prof. Yoram Eden (for addition information see Appendix A to the financial study). There is no mutual dependency between the Valuator and the Company.

F. The assumptions and model used by the Valuator in his assessment:

Subsequent to the publication of the Law to Promote Competition and Reduce Concentration, 2013 ("Concentration Law"), the Group is required to separate its significant non-financial operations from its significant financial operations, as these are defined in the Law, within a period of up to six years (from the end of 2013). In view of the foregoing, the value in use of the Group's investment in Phoenix, as a whole, is being reviewed on the assumption, at this stage, that due to the Concentration Law, the Group will be required to sell its holdings in Phoenix (which holds, inter alia, the financial instruments institutes, The Phoenix Insurance Company Ltd. and Excellence Investments Ltd.) within the three years from the end of 2014 (i.e. by the end of 2017). The Valuator estimated the current value of the cash flow projections to be generated for Phoenix through to the anticipated date of disposal by the Group (three years) and the estimated amount that the Group will yield from the disposal of the Phoenix shares at the end of the period.

Below are the key assumptions used for assessing the value in use:

1. Cash flow projections for a period of three years with respect to cash flows that Phoenix will achieve from each of its sub-segments of operation. Various key assumptions were taken into account in assessing the projected cash flows from each segment of operation, such as growth rates, projected inflation rates, return on assets and investments, etc.

2. In view of position of the Securities Authority staff published in March 2014 regarding the method for estimating projected proceeds when disposing of assets listed for trade, the proceeds from the disposal of Phoenix shares in the third year (end of 2017) were taken into account at the market price of Phoenix shares at December 31, 2014, with addition of adjustments for estimating the operating value of Phoenix with respect to the difference between the market value of its financial liabilities and their carrying value.

3. The after tax discounting rate was estimated at 9%.

For further information, see the valuation attached to the Group's Periodic Report.

Regulation 9D: The Company's report on the state of liabilities, by repayment dates.

Parallel to publication of this periodic report, the Company is publishing an immediate report regarding the state of the liabilities of the Company and its investees consolidated in its financial statements, by repayment dates, constituting an integral part of the periodic report.

Regulation 10C: Use of proceeds for securities

In February 2015 the Company issued 800,000,000 par value debentures (Series EE) of the Company under the Company's shelf prospectus dated July 5, 2013 and a shelf offering memorandum dated February 19, 2015. The proceeds from the issue, in the amount of NIS790 million (less costs of issue) will be used by the Company to repay debts.

Regulation 11: **The Company's investments in each of its subsidiaries and material affiliates as at the date of the statements of income:**

Companies held directly by the Company

Company name:	Security no. on the TASE	Type of security	Par value	No. of par value/participating unit held by the Group	Capital held (%)	% in voting rights	Total investment at date of statements of income (NIS millions)	NIS price of securities on the TASE at date of statements of financial position	Balance of outstanding loans, debentures and capital notes (including interest receivable) in statements of financial position (NIS millions)
Delek Petroleum Ltd.	1111376	Ordinary shares	NIS 0.01	1,100	100	100	1,477	-	458
Cohen Development and Industrial Buildings Ltd.	810010	Ordinary shares	NIS 1	3,406,165	51.76	51.76	310	83.67	-
Delek Sea Maagan (2011) Ltd.	-	Ordinary shares	NIS 0.1	10,000	100	100	-	-	77
Delek Automotive Systems Ltd. (1)	829010	Ordinary shares	NIS 1	22,549,443	24.19	24.19	928	34.80	-
Delek Energy Systems Ltd.	565010	Ordinary shares	NIS 1	4,477,725	87.05	87.05	3,056	1,772	-
Delek Drilling – Limited Partnership (2)	475020	Participating units	-	33,571,588	6.14	6.14	88	14.31	-
Avner Oil Exploration - Limited Partnership (3)	268011	Participating units	-	281,906,903	8.45	8.45	674	2.72	-
The Phoenix Holdings Ltd.	767012	Ordinary shares	NIS 1	130,623,264	52.31	53.29	1,732	10.34	-
Gadot Biochemical Industries Ltd.	1093004	Ordinary shares	NIS 0.1	18,406,090	100	100	78	-	-
Delek Finance US Inc. (4)	-	Ordinary shares	USD 0.01	100	100	100	506	-	-
Delek Infrastructure Ltd.	-	Ordinary shares	NIS 1	100	100	100	476	-	54
Navitas Petroleum Limited	-	Ordinary shares - voting rights	GBP 1	500	60	50	(9)	-	38
		Ordinary shares - voting rights		600					
Delek Power Stations Limited Partnership	-	Participating units	-	-	100	100	(80)	-	257

Material companies held by the Company's subsidiaries (Delek Petroleum and Delek Infrastructures and Delek Energy)

Company name:	Security no. on the TASE	Type of security	Par value	No. of par value/participating unit held by the Group	Capital held (%)	% in voting rights	Total investment at date of statements of income (NIS millions)	NIS price of securities on the TASE at date of statements of financial position	Loan balances (including interest receivable) in statements of financial position (NIS millions)
IDE Technologies Ltd. (5)	-	Ordinary shares	NIS 1	651,137	50	50	528	-	-
Delek Drilling – Limited Partnership (6)	475020	Participating units	-	342,592,968	62.64	62.64	738	14.31	-
Avner Oil Exploration - Limited Partnership (7) (8)	268011	Participating units	-	1,583,495,230	47.48	47.48	3,775	2.72	-
Delek- The Israel Fuel Corporation Ltd.	-	Ordinary shares	NIS 1	11,348,640	100	100	1,096	-	-
I.P.P Delek Ashkelon Ltd.	-	Ordinary shares	NIS 1	1,100,000	100	100	(10)	-	132
I.P.P Delek Soreq Ltd.	-	Ordinary shares	NIS 1	1,100,000	100	100	31	-	146

(1) Under the shareholders agreement between the Company and Gil Agmon, so long as the Company holds more than 20% of Delek Automotive, the Company will be entitled to appoint two directors. If the Company's holding will be between 15%-20%, the Company will be entitled to appoint one director.

(2) Held also by Delek Energy

(3) Avner Partnership is held by Delek Energy and by Cohen Development (through its holdings in the general partner - Avner Oil and Gas Ltd.)

(4) Holds 99.9 % of Republic shares

(5) Under the agreement between the Company and ICL, the Company can appoint a director to IDE for each eligible unit that consists of a holding of 12.5% of IDE (accordingly, the Company is eligible to appoint maximum 4 directors).

(7) Holding through the subsidiary, Delek Energy Systems, 87.05 % held by the Company

(8) The investment amount presented in the table represents the balance of Delek Energy's investment in the Avner Partnership indirectly by Delek Group (including Delek Energy's investment in the General Partner that holds 1.8% of Avner Partnership).

Regulation 12: Material changes in investments in subsidiaries and affiliates in the reporting period:

Date of change	Nature of the change	Company name:	Share no. on the TASE	Class of share	Total par value	Par value	Consideration (NIS millions)
Mar 2014	Sale	Delek US Holdings Inc.	NASDAQ	Ordinary shares	3,000,000	USD 1	315
May 2014	Sale	Delek US Holdings Inc.	NASDAQ	Ordinary shares	10,580,000	USD 1	1,097
June 2014	Sale	Delek Capital Ltd.	-	Ordinary shares	499,000	NIS 0.01	237
Aug 2014	Sale	Delek Europe BV	-	Ordinary shares	1,800,000	EUR 0.01	1,666
Sept 2014	Sale	RoadChef Limited	-	Ordinary shares	341,000,000	GBP 0.1	910
Oct 2014	Sale	Republic	-	Ordinary shares	405,060	USD 0.01	263
Aug 2014	Acquisition	Delek Energy Systems Ltd.	565010	Ordinary shares	20,000	NIS 1	48
Feb 2015 (*)	Sale	Delek Automotive Systems Ltd.	829010	Ordinary shares	1,045,000	NIS 1	40

(*) Subsequent to balance sheet date

Regulation 13: **Comprehensive and net income of subsidiaries and affiliates and the Company's revenues therefrom as of the date of the financial statements for the year ended December 31, 2014 (NIS millions).**

Company name:	Net earnings (loss) for year		Annual comprehensive profit (loss)		Income received by the Company from:					
					Dividends		Interest		Management fees	
	Attributable to the Company's shareholders	Equity attributed to holders of minority rights	Attributable to the Company's shareholders	Equity attributed to holders of minority rights	Through Dec 31, 2014	From Jan 1, 2015 through date of publication of the report	Through Dec 31, 2014	From Jan 1, 2015 through date of publication of the report	Through Dec 31, 2014	From Jan 1, 2015 through date of publication of the report
Delek Automotive Systems Ltd.	723	-	723	-	131	-	-	-	0.1	-
Delek Energy Systems Ltd.	140	94	231	137	-	-	-	-	0.3	-
Delek Drilling – Limited Partnership	253	-	367	-	21	-	-	-	-	-
Gadot Biochemical Industries Ltd.	(89)	-	(76)	-	-	-	-	-	0.1	-
I.P.P. Delek Ashkelon Ltd.	22	-	22	-	-	-	-	-	0.9	0.2
Phoenix Holdings Ltd.	504	27	444	27	105	-	-	-	1	-
Delek- The Israel Fuel Corporation Ltd.	14	-	(14)	2	100	-	-	-	0.3	-
Avner Oil Exploration - Limited Partnership	237	-	340	-	29	-	-	-	-	-
IDE Technologies Ltd.	112	25	82	17	21	24	-	-	1.9	0.5
Cohen Development and Industrial Buildings Ltd.	13	-	21	-	-	16	-	-	1.3	-

Regulation 20: **Trading the Company's securities on the TASE, dates and reasons for interruption of trade**

Securities listed for trade: On February 22, 2015, NIS 800 million par value debentures (Series EE) issued by the Company under a shelf offering memorandum dated February 19, 2015, were listed.

Interruption of trade: Other than limited interruption of trade due to the publication of the Company's financial statements and announcement, trading of the company's securities was not interrupted.

Regulation 21: Payments made to senior officers (NIS thousands)

21A(1): Below is a breakdown of the benefits given in 2014 to each of the five recipients of the highest benefits among the senior officers at the Company or at a corporation under its control, and which were given to them in lieu of their tenure at the company or at a corporation under its control, as recognized in the financial statements (the figures hereunder represent the cost to the employer):

Recipient				Benefits in lieu of services					Other benefits		Total	
Name	Position	Employment basis	% of holding in Company's equity	Salary	Management fees	Bonus	Share-based payment	Other	Interest	Other	Total	Total without share based payments
Yitzhak Oz (1)	Co-CEO of Agam Leaders (Israel) Insurance Agency 2003	Full-time	0	-	2,450	2,641	-	-	-	67	5,158	5,158
Eyal Lapidot (2)	CEO of Phoenix	Full-time	0	3,653	-	1,000	-	-	-	-	4,653	4,653
Shimon Kalman (3)	Executive VP, Head of the Administration and Financial Division of Phoenix	Full-time	0	2,415	-	650	1,335	-	-	-	4,400	3,065
Roy Yakir (4)	CEO Excellence Investments Ltd.	Full-time	0	2,123	-	700	1,110	-	-	-	3,933	2,823
Moshe Sasson (5)	Co-CEO of Agam Leaders (Israel) Insurance Agency 2003	Full-time	0	-	2,015	1,301	-	-	-	67	3,383	3,383

21[A](2): Below is a breakdown of the benefits paid to each of the Company's three senior officers who are not among those appearing in the foregoing table, and the royalties awarded them with respect to their tenure at the Company, as recognized in the financial statements:

Recipient				Benefits in lieu of services					Other benefits		Total	
Name	Position	Employment basis	% of holding in Company's equity	Salary	Management fees	Bonus	Share-based payment	Other	Interest	Other	Total	Total without share based payments
Asi Bartfeld (6)	CEO of the Company	Full-time	0.02 %	1,868	-	1,400	-	-	-	192	3,460	3,460
Gideon Tadmor (7)	In charge of the gas and oil business	Full-time	0.001 %	-	1,551	1,400	-	-	-	-	2,951	2,951
Amir Lang (8)	VP Business Developments	Full-time	0	886	-	1,400	-	-	-	95	2,381	2,381

21[A](3): Breakdown of the remuneration paid to each of the Company's interested parties, who are not represented in the foregoing table, with respect to their office in the Company and in its investees, in NIS thousands:

Recipient				Benefits in lieu of services									
Name	Position	Scope of position	Holding Company equity	Salary	Bonus	share-based payment	Management fees	Consultancy fees	Commission	Other	Directors Remuneration	Other Benefits	Total
Gabi Last (9)	Chairman of the Board of Directors	Full-time	0.04 %	1,716	400	-	-	-		-	-	102	2,218
Moshe Amit (10)	Director (serves as Chairperson of Excellence)	70 %	-	-	1,050	-	953	-		-	183	-	2,186
Avi Harel (11)	Director (also serves as a director of Phoenix Holdings, Phoenix Insurance and Excellence)	-	-	-	-	-	-	-		-	1,122	-	1,122
Mazal Bronstein (12)	Director (until September 30, 2014 also served a director of Delek Petroleum)	-	-	-	-	-	-	-		-	371	-	371
Carmit Elroi (13)	Director (also serves as director of Delek Israel, and Delek Drilling)	-	-	-	-	-	-	-		-	437	-	437
Idan Wells (14)	Director (also serves as a director of Delek Energy Systems, provides consultancy services to the Company and subsidiaries)	50 %	-	-	-	-	-	564	-	-	-	-	564
Moshe Bareket (15)	Director Until October 10, 2014, served as Chairman of The Phoenix board of directors	-	-	-	-	-	971	-	-	-	264	-	1,235
Directors. External Directors (16)	-	-	-	-	-	-	-	-		-	706	-	706

Regulation 21 – cont'd

Notes on the figures represented in the tables:

(1) Mr. Yitzhak Oz - serves as co-CEO at Agam Leaders (Israel) Insurance Agency (2003) Ltd. ("Agam"). The management fees and bonus specified with regard to Yitzhak Oz is the management fees paid to N.A.R Holdings Ltd. (""Oz Ltd.""), a private company wholly owned by Yitzhak Oz. The management fees include fixed fees of NIS 159,000 per month, linked to the CPI, with the base CPI being that for July 2005. In addition, the management fees include the value of a company car. The bonus to which Mr. Yitzhak Oz is entitled is an annual bonus deriving from the combined profits of Agam Holdings and Agam Israel, as follows: Profits of Agam Holdings and Agam Israel for the relative year, before tax deduction, impairment of goodwill, deduction of management fees and bonuses to shareholders (" the profit for bonus"). The annual bonus will be at 5.025% of the profit for bonus, whereby should the profit for bonus in any given year be higher than NIS 47 million Oz Ltd.will be entitled, in addition, to a bonus at the rate of 8.375% of the profit exceeding NIS 47 million. Yitzhak Oz receives rent payments for stores that he owns and which are rented to Agam.

(2) Eyal Lapidot - serves as the Chairperson of the board of directors of Phoenix Holdings and Phoenix Insurance since June 01, 2009. In March 2009, Phoenix's board of directors approved Phoenix's engagement in an employment contract with Eyal Lapidot. The employment contract became effective on June 1, 2009 for a period of 5 years.

On October 2, 2014 The Phoenix board of directors approved renewing and amending Eyal Lapidot's employment agreement as of April 1, 2014 through December 31, 2017 (inclusive), (the "Employment Contract"). On November 9, 2014 the Employment Contract was also approved by the general meeting of The Phoenix Holdings.

The main points of his employment terms as drawn up by The Phoenix are: The Phoenix and Eyal Lapidot may, at any time and for any reason, terminate the employment contract with prior written notice of 6 months by either party ("Prior Notice Period"). The Phoenix may waive Eyal Lapidot carrying out work during the prior notice period, however it will be required to pay his full salary, including bonuses (if approved in the future) and provisions for social benefits and to continue providing all other payments, rights and perks, and this period will be considered as a period of employment for all intents and purposes. Notwithstanding the foregoing, The Phoenix may terminate the Employment Contract immediately without severance compensation under certain circumstances (conviction under certain conditions, etc.) ("immediate notice"). Upon termination of Eyal Lapidot's employment, for any reason whatsoever, with the exclusion of circumstances of immediate notice, he will be entitled to an acclimation period of 6 consecutive months from the end of the prior notice period and the actual utilization of any accrued leave, during which he will not be required to perform work for The Phoenix ("the Acclimation Period"). During the acclimation period, Eyal Lapidot will receive his full salary from Phoenix, including all payments, provisions, benefits and rights to which he is entitled under the terms of his employment contract. The acclimation period will be considered to be a cooling-off period ("the Cooling-off Period"). If Eyal Lapidot waives his right to receive the salary and full rights he is entitled to during the acclimation period, the cooling-off period will be canceled. The employee-employer relations between The Phoenix and Eyal Lapidot will be terminated at the end of the cumulative period of the advance notice period, acclimation period and utilization of accrued leave ("Date of termination of employer-employee relations").

The gross monthly salary paid to Eyal Lapidot is NIS 120 thousand and is updated according to the increase in the consumer price index, and the base index is the index for November 2008. Eyal Lapidot is also eligible for provisions for social benefits, other perks including a car and reimbursement of expenses as generally accepted for managers of his standing. In addition to the total salary, Eyal Lapidot is entitled to an additional annual amount of NIS 1,100,000, which will be linked to the CPI and the base CPI is the CPI for April 2014 ("Additional Fixed Amount"). In the event that the eligibility for the additional fixed amount will be for part of a year, the amount will be calculated pro rata. Eyal Lapidot will not be eligible for social benefits for the additional fixed amount, but will be eligible for payment thereof until the date of termination of employer-employee relations as set out above.

It is noted that, in The Phoenix financial statements for 2013, a benefit was included for a share-based payment in the amount of NIS 1,282 thousand regarding allotted options that were not actually approved. In 2014 the expense was cancelled in The Phoenix’s books and the foregoing figures do not include this cancelled expense. It is also noted that the terms of Eyal Lapidot's employment did not include a variable compensation component.

(3) Mr. Shimon Kalman - Deputy CEO of The Phoenix and as of October 2009 has served as head of the administration and financial division of The Phoenix. Shimon Kalman's monthly salary of NIS 95,000 is linked to the known CPI at the end of July 2009, on a quarterly basis. Shimon Kalman is also entitled to an

annual bonus based on The Phoenix's policy and the considerations of the CEO of The Phoenix. In this matter, his employment contract stipulates that the annual bonus that Shimon Kalman is eligible for will not fall lower than six months salary ("the fixed bonus component"), and a pro rata share of the fixed bonus component will be paid once every quarter.

Upon termination of Shimon Kalman's employment, for any reason whatsoever, other than under circumstances that deny payment of severance compensation, he is eligible to an acclimation period of six months from the end of the prior notice period. During the acclimation period, he is eligible to receive his salary and all the benefits and ancillary terms in the contract. Shimon Kalman is also eligible for provisions for social benefits, other perks and reimbursement of expenses as generally accepted for managers of his standing. In May 2010, Phoenix's board of directors decided to allot to Shimon Kalman a total of 600,000 options, each of which is exercisable into one ordinary nominally listed NIS 1 par value share of Phoenix. The options were allotted free of charge. On December 10, 2012 The Phoenix board of directors approved allotting to Shimon Kalman 200,000 options exercisable for 200,000 ordinary NIS 1 par value shares of The Phoenix, free of charge, in place of the first tranche of the 600,000 options allotted to Shimon Kalman on May 13, 2010, as set out above, and which expired on October 1, 2012, without exercise. On December 18, 2013 The Phoenix board of directors approved allotting to Shimon Kalman 616,285 options exercisable for 616,285 ordinary NIS par value shares of The Phoenix.

(4) Roy Yakir - Deputy CEO of The Phoenix Group, also serves, as of April 2013, as Chief Investment Officer of Phoenix Group and CEO of The Phoenix Investments and Finances Ltd. Roy Yakir's monthly salary of NIS 97,000 is linked to the known CPI at the end of April 2013, on a quarterly basis. Roy Yakir is also entitled to an annual bonus based on The Phoenix's compensation policy and the considerations of the CEO of The Phoenix. Upon termination of Roy Yakir's employment with The Phoenix, for any reason whatsoever, other than under circumstances that deny payment of severance compensation, he is eligible for an acclimation period of four months from the end of the prior notice period. During the acclimation period Roy Yakir will be eligible to receive a salary including all the benefits and ancillary terms in the contract. Roy Yakir is also eligible for provisions for social benefits, ancillary perks and reimbursement of expenses as is customary for managers of his standing. On December 18, 2013 The Phoenix board of directors approved allotting to Roy Yakir 600,000 options exercisable for 600,000 ordinary NIS par value shares of The Phoenix.

(5) **Moshe Sasson** - serves as co-CEO of Agam. The salary and bonus set out with regard to Moshe Sasson are management fees paid to Y.H.G. Sasson Ltd. ("Sasson Ltd."), a private company wholly owned by Moshe Sasson. The management fees include a fixed fee of NIS 140 thousand per month, linked to the CPI, with the base CPI being that for May 2008. In addition, the management fee includes the value of a company car. The bonus to which Mr. Moshe Sasson is entitled is an annual bonus deriving from the combined profits of Agam Holdings and Agam Israel, as follows: Profits of Agam Holdings and Agam Israel for the relative year, before tax deduction, impairment of goodwill, deduction of management fees and bonuses to shareholders (" the profit for bonus"). The annual bonus is 2.475 % of the profit for bonus, whereby if the profit for bonus in any given year be higher than NIS 47 million Sasson Ltd.will be entitled, in addition, to a bonus at the rate of 4.125 % of the profit exceeding NIS 47 million. Moshe Sasson receives rent payments for stores that he owns and which are rented to Agam.

(6) Asi Bartfeld - Asaf Bartfeld is employed as CEO of the Company ("Asi Bartfeld" or "the CEO") under an employment contract dated July 21, 1996 and amendments. His monthly salary under the contract is revised from time to time and is linked to the CPI. Asi Bartfeld is also entitled to a convalescent bonus, annual vacation leave, in-service study fund, severance benefits and pay, a company car (class 7) and payment for the expenses thereof and participation in telephone expenses. The monthly salary and convalescent bonus constitute the basis for provisions for fringe benefits. The agreement is for an unlimited period or until age 65. The Company is permitted to terminate the agreement with 12 months prior notice, and Mr. Bartfeld is permitted to terminate it with four months prior notice. The Company may waive employment during the advance notice period and pay a salary for this period. Under special circumstances, the Company is entitled to terminate the employment agreement immediately. In addition to the foregoing severance compensation, in the event of dismissal, Asi Bartfeld is entitled to a retirement bonus in the amount of the determining salary for provisions for fringe benefits, for each year of employment, and in the event of resignation, the CEO is entitled to a retirement bonus in an amount equivalent to half of the foregoing amount. Asi Bartfeld is entitled to receive an annual bonus in accordance with the Company's remunerations plan as set out in section 1.17.3 in the chapter on the description of the Company's business. In 2014, Asi Bartfeld received a bonus in the amount of NIS 1,400 thousand for 2013 in accordance with the Company's compensation policy, as set out in section (18) below. His bonus for 2014 has not yet been approved.

Phantom options: In November 2012 the audit committee and the board of directors of the Company decided to award a total of 10,884 phantom options to Asi Bartfeld, under the phantom options plan for senior managers and officers from 2012. In 2014 Asi Bartfeld exercised 5,442 options for an amount of NIS 3.9

million. The financial value of the options allotted to Asi Bartfeld as at December 31, 2014 is NIS 2 million. For further information pertaining to the phantom options plan, see subsection (17) below.

Settlement regarding holdings in Delek Capital Ltd. (a company liquidated in 2010) Asi Bartfeld held 1% of the issued and paid-up share capital of Delek Capital (liquidated), since its establishment in May 2006. On January 5, 2011, the Company's audit committee and board of directors approved Delek Investment (a subsidiary that merged with and was assimilated into the Company) engaging in an agreement with Asi Bartfeld, who serves as CEO of Delek Investments, with regard to regulating his holdings in Delek Capital, without distribution of assets and liabilities. The agreement fixes a mechanism by which, when all the assets will be sold to third parties or upon termination of Mr. Bartfeld's tenure as CEO of the Company, the earlier date ("the Effective Date"), the Company will pay to Mr. Bartfeld, in consideration for his holdings in Delek Capital shares, an amount equivalent to one hundredth (1/100) of the theoretic value of Delek Capital, on the effective date of its liquidation. For further information, see the immediate report issued by the Company on January 6, 2011 (Ref. No. 2011-01-009015).

(7) Gideon Tadmor - has served, since October 19, 2011, head the Company's oil and gas exploration operations (and as such, he serves as Chair of Delek Drilling Management (1993) Ltd. and CEO of Avner Oil and Gas Ltd.). On October 31, 2012 and November 1, 2012 the Company's audit committee and board of directors approved, respectively, engaging in a service agreement with Gideon Tadmor, through a wholly owned company belonging to him ("Tadmor Ltd."), which replaced the existing terms of his employment at that time in the Company. The term of the agreement was fixed for two years and the agreement expired on October 31, 2014 ("the Agreement"). The terms of Gideon Tadmor's employment under the agreement through October 31, 2014 were as follows:

Tadmor Ltd. provides the Company with services in a scope that does not fall below the scope of a full time position.

For these services, the Company pays Tadmor Ltd. a monthly amount of NIS 135,150[1,] linked to the CPI. Gideon Tadmor was also eligible for the following fringe benefits: a car as customary for executive officers of the Company, the Company will bear all costs involved in the use and maintenance of the car, a land-line phone and mobile phone, subscription to two daily newspapers, medical check-ups customary for executive managers of the Company and reimbursement of expenses and per diem expenses. The Company included Gideon Tadmor in the insurance and indemnity arrangements customarily provided for its officers.

Furthermore, the agreement stipulates that the Company's board of directors will decide, at its sole discretion, Tadmor Ltd.'s eligibility to receive an annual bonus for its services in the year preceding the granting of the annual bonus, as well as the amount of the bonus. The agreement clarifies that the foregoing does not constitute any obligation to grant an annual bonus.

On December 3, 2014, subsequent to approval of the compensation committee and board of directors of the Company on September 16, 2014, the general meeting of the Company approved a bonus for Gideon Tadmor for 2013 in the amount of NIS 1,400 thousand. For further information see the immediate reports issued by the Company on October 26, 2014 and December 3, 2014 (Ref. Nos. 2014-01-181236 and 2014-01-213597, respectively) noted by way of reference.

The agreement also stipulates that Tadmor Ltd. will receive a bonus for any equity based transaction that will be signed during periods set in the agreement ("the Equity Bonus"). The Equity Bonus will be between 0.3% - 0.6% of the amount of the transaction value as defined in the agreement in accordance with the eligibility mechanism prescribed in the agreement. In addition, the agreement stipulates that in the event of several equity-based transactions, the amount of the proceeds that Tadmor Ltd. will be entitled to receive in lieu of the Equity Bonus and the amounts of other remunerations together, will not exceed 0.4% of the value of the transactions. The meaning of "Equity-based Transaction" in the agreement: (a) any sales transaction to a third party investor (individual or entity that is not part of the Delek Group companies) by any of the partnerships in the oil asset rights and/or (b) a private placement to a third party investor of participating units in the Partnerships or private placement to a third party investor of shares in Delek Energy and/or (c) sale of Delek Energy shares by the Company to a third party investor and/or (d) sale of participating units in the Partnerships by Delek Energy or the Company to a third party investor. Provided that, with regard to the foregoing transactions in alternatives (b), (c) and (d), all the following terms exist: (a) the said third party is a strategic investor, with regard to this matter a strategic investor is a value added investor in the professional and/or financial sector; and (b) at least 15% of the issued unites in each of the Partnerships are sold as part of the said transaction (and if the transaction is with Delek Energy shares, the rate of sold or allotted shares will represent (indirectly, by the multiples method) at least 15% of the issued units in each of the Partnerships). As at the reporting date, eligibility for an equity based bonus has not been established.

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[1] As at December 31, 2014

Subsequent to expiry of the agreement, on November 6, 2014 the Company's compensation committee approved paying Tadmor Ltd. a monthly amount equivalent to the maximum salary paid to an executive VP in the Company and that complies with the provisions set out in the Company's compensation policy, and this as an interim arrangement until the terms of employed are agreed upon by the parties and duly approved. Further to the foregoing, as of November 2014, Tadmor Ltd. is paid a monthly fee of NIS 100,000, that includes car and telephone expenses and Tadmor Ltd. is eligible for ancillary terms, including two daily newspapers, customary medical check-ups, and reimbursement of expenses and per diem expenses The Company included Gideon Tadmor in the insurance and indemnity arrangements customarily provided for its officers. When a new agreement is drawn up with Gideon Tadmor, the agreement will be broad to the certified organs in the Company for retroactive approval from the expiry date of the agreement.

Establishment of a gas partnership: The Company and Gideon Tadmor engaged in an agreement under which a new company would be established to deal in oil and gas exploration and export from the countries where they are produced; transporting and marketing of gas and oil; midstream and downstream gas and oil sectors and/or any other sector relating to gas and oil. During 2013, the joint company was established under the name, Navitas Petroleum Limited and pursuant to the agreement, voting rights in the joint company are divided equally between the Company and Tadmor Group, but share in profits will be 60% to the Company and 40% to Tadmor Group. The Company undertook to provide shareholders loans for the joint company, in a cumulative principal amount of up to USD 25,750,000 which will bear annual interest at Libor+5%. As at December 31, 2014, the Company has provided a loan in the amount of USD 9.5 million out of the total aforesaid undertaking. Under the agreement, Gideon Tadmor will act as Chair of the board of directors of the joint company and subject to certain preset exceptions, the parties will not compete with the Company in the operating segment. For further information regarding the establishment of the company see immediate report dated November 1, 2012 (Ref. No.: 2012-01-270015), whereby the information appearing in said reports are indicated herein by way of reference.

(8) Amir Lang - serves as VP Business Developments Mergers and Procurement since May 27, 2010. Pursuant to his employment agreement, his salary is linked to the CPI (his salary is updated once every three months). Amir Lang is also eligible for an annual bonus based on the mechanism prescribed in the Company's remuneration policy as set out in section 1.17.3 in the chapter on the description of the Company's business. Furthermore, Amir Lang is entitled convalescent pay, annual leave, sick leave, provisions for pension savings and study fund, mobile phone and company car as customary for an executive VP of the Company. The Company also carries car maintenance and operating costs and the value in use of the car, and the costs of maintaining the mobile phone. The employment agreement stipulated that either party may terminate the employee-employer relations with one month prior notice ("the Prior Notice"). If the Company give such prior notice, the Company may waive his working during the advance notice period, in whole or in part, and terminate the employment relationship on the date prior notice is given, provided that it will pay Amir Lang the amount due according to the monthly salary only. Amir Lang's employment agreement includes, inter alia, provisions regarding confidentiality and non-competition conditions. In 2014, Amir Lang received an annual bonus in the amount of NIS 300 thousand for 2013 in accordance with the Company's compensation policy, as set out in section (18) below. His bonus for 2014 has not yet been approved. On December 3, 2014, the general meeting of the Company approved a special bonus for Amir Lang in the amount of NIS 1,100 thousand for handling the deal for the sale of the Company's holdings (through a subsidiary) in Delek Europe BV. For further information, see the immediate reports issued by the Company on October 26, 2014 and December 3, 2014 (Ref No. 2014-01-181236 and 2014-01-213597, respectively), the information is indicated herein by way of reference.

Phantom options: On November 1, 2012, the Company resolved to allocate 1,362 phantom options to Amir Lang, under the 2012 phantom options plan for senior managers and officers. The financial value of the options allotted to Amir Lang as at December 31, 2014 is NIS 0.3 million. For further information pertaining to the phantom options plan and the allocations made under it, see subsection (17) below.

Further to the foregoing, in 2010 the board of directors of a subsidiary operating the the electricity sector awarded Amir Lang with options exercisable for shares in the subsidiary in the volume of 0.5% of the issued share capital of the subsidiary, with certain adjustments as set out in the resolution. In 2011, additional options were approved for another 0.5% of the issued share capital of the subsidiary, with the same adjustments.

(9) Mr. Gabriel Last – serves as Chairman of the board of directors of the Company in a full-time position under an employment agreement that was approved by the Company on August 30, 2001. Since September 4, 2003 Gabi Last has been employed as chairman of the Company's board of directors, under the agreement, after his appointment was approved by the shareholders' meeting. His monthly salary under the contract is revised from time to time and is linked to the CPI. Gabi Last is eligible for an annual bonus in accordance with the Company's remunerations policy, as set out in section 1.14.3.

Pursuant to the agreement, Gabi Last will not be eligible for managers' compensation for his position as director in the Company and/or in other companies in the Delek Group. Apart from the foregoing, Gabi Last is entitled to convalescent pay, annual vacation days, sick leave, provisions to an in-service study fund, reimbursement of job-related expenses, a mobile phone and costs incurred in connection therewith, reimbursement of expenses for a landline, and a company car provided by the Company, which will bear the maintenance and operating costs thereof. Under the contract, each party may terminate the agreement with three months' advance notice to the other party. The Company may waive employment during the advance notice period and pay a salary for this period. In the event of termination of employment by the Company, Gabi Last is entitled to an acclimation bonus in the amount of six monthly salaries. Under special circumstances, the Company is granted the option of terminating the agreement immediately, without giving an acclimation bonus. The employment contract sets out provisions pertaining to the avoidance of conflict of interest, maintaining confidentiality, employee obligations towards the Company, etc. In 2014, Gabi Last received a bonus in the amount of NIS 400 thousand for 2013, which was discussed and approved by the general meeting on July 31, 2013, in accordance with the Company's compensation policy as set out in section (18) below.

Allotments of securities: In January 2007, options were allotted to Gabi Last to purchase 28,000 ordinary shares of Delek USA, in which he served as a director until December 31, 2013, in return for an exercise price of USD 16 per share. The financial value of the option that was allotted to Gabi Last amounted to approximately NIS 650,000. In April 2014, Gabi Last exercised the options he held at a price of USD 31.69 per share.

(10) Moshe Amit – a director of the Company and serves as chair of the board of directors of Excellence, as of March 5, 2013. Under the terms of his employment, Moshe Amit performs this function as an independent contractor and there are no employer-employee relations whatsoever between Moshe Amit and Excellence, for all intents and purposes. As part of fulfilling of his duties Moshe Amit provides services equivalent to a 70% position. The monthly management fees that is paid to him amounts to NIS 66 thousand, with the addition of VAT. The management fees are updated once every month according to changes in the CPI, with the base index being the known CPI on the date of signing of the agreement. Apart from the foregoing amount, provisions for social benefits and other payments will not be made for Moshe Amit. Excellence provides Moshe Amit with a company car (class 7), mobile phone and subscription to a daily business newspaper and reimbursement, and all the costs involved in the use the car and all reasonable costs for use of the mobile phone. The value of the use of the car and the taxable value in use of the mobile phone will be paid by Excellence. Moshe Amit is eligible for an annual bonus in accordance with the compensation policies of Excellence. For 2014, Moshe Amit was paid an annual bonus of NIS 1,050.

In addition, Moshe Amit also serves as a director of the Company and is eligible to receive the maximum amounts prescribed in the Second Addendum and Third Addendum to the Companies Regulations (Regulations for Compensation and Expenses of an External Director) 2000 ("the Remunerations Regulations") as these are updated from time to time and based on the rank at which the Company will be classed as in each fiscal year. The total remuneration paid to Moshe Amit in 2014 for his service as a director of the Company, was NIS 183 thousand.

(11) Avi Harel - director of the Company. Avi Harel is a director with accounting and financial expertise and is eligible for the remuneration for an external director with accounting and financial expertise as provided in the Fourth Addendum to the Remunerations Regulations, as these may be updated from time to time, based on the classification of the Company for each fiscal year. Total remuneration paid to Avi Harel in 2014 amounts to NIS 319 thousand. In addition, Avi Harel also serves as a director of the subsidiaries, Phoenix Holdings and Phoenix Insurance. The total remunerations paid to Avi Harel in 2014 for his term of office at Phoenix Holdings was NIS 522 thousand and the total remunerations paid to him in 2014 for his term of office at Phoenix Insurance was NIS 111 thousand. In addition, until September 2014 Avi Harel served as director of Excellence and the total amount paid to Avi Harel in 2014 for his term of office at Excellence amounts to NIS 170 thousand.

(12) Mazal Bronstein - director of the Company. Mazal Bronstein is eligible to receive remuneration equivalent to the maximum amounts fixed in the Second Addendum and Third Addendum of the Remunerations Regulations, as these are updated from time to time and based on the rank at which the Company will be classed as in each fiscal year. Total remuneration paid to Mazal Bronstein in 2014 amounts to NIS 220 thousand.

In addition, until September 30, 2014 Mazal Bronstein also served as a director of the subsidiary, Delek Petroleum. The total remuneration paid to Mazal Bronstein in 2014 for her term of office at Delek Petroleum amounts to NIS 151 thousand.

(13) Carmit Elroi - director of the Company and daughter of the controlling shareholder of the Company. For information regarding remunerations paid to Carmit Elroi from the Company and its investees, see section 2 of Regulation 22, below.

(14) Idan Wells - a director of the Company also serves as a director of Delek Energy and provides consultancy services to the Company and its subsidiaries. It is noted that Idan Wells provides management services also to private companies owned by the controlling shareholder of the Company.

Since August 1, 2014 Idan Wells provides the Company with consultancy services through a management company wholly owned by him, in return for monthly payment of NIS 10,000 with the addition of VAT. For these services, in 2014 Idan Wells received from the Company an amount of NIS 50 thousand.

Furthermore, Idan Wells, through his wholly owned management company, engaged in an agreement to provide strategic consulting services to the CEOs of the general partners in the subsidiary Partnerships, Delek Drilling Limited Partnership and Avner Oil Exploration - Limited Partnership, and to the Chairman of their boards of directors, in the scope of a 50% position. In return for these services, Idan Wells is eligible to a monthly amount of NIS 32,500, linked to the CPI and Delek Energy provides him with a company car and bears the fixed and current expenses of the car and use of it. For the foregoing consultation services, in 2014 Idan Wells received an amount of NIS 504 thousand. It is hereby clarified that Idan Wells does not receive any fee from the Company or from Delek Energy for his service as a director of the Company.

(15) Dr. Moshe Bareket - a director of the Company. From April 10, 2011 through October 10, 2014 he served as the chair of the board of directors of The Phoenix Holdings Ltd. and The Phoenix Insurance Co. Ltd.

During his term of office in The Phoenix, Moshe Bareket was eligible (through his wholly owned company) to receive management fees in the amount of NIS 90 thousand with addition of VAT and linked to the CPI, for a 50% position (it is noted that during his term of office, the terms of the engagement were changed increasing the position from 40% to 50% and the monthly remuneration for his management services that his management company was eligible to receive increased from NIS 77 thousand to NIS 90 thousand with addition of VAT).

During the term of the agreement, Moshe Bareket was eligible for healthcare insurance at the terms applicable for The Phoenix employees, reimbursement of 100% of the expenses for a car and the use of it, mobile and land-line telephone, laptop, reimbursement of expenses, including per diem expenses, personal expenses and hosting expenses as customary for managers of his standing at The Phoenix. In addition, at the end of each calendar year, the management company was entitled to a bonus for the period of Moshe Bareket's actual service as Chair of the board of directors of Phoenix ("the Bonus") equivalent to 0.4% of the annual increase in the value of the Phoenix Holdings shares, based on a formula set for that purpose, provided that the bonus for any full calendar year will not exceed a total amount of NIS 4 million linked to the CPI for July 2011 ("Annual Bonus Ceiling"), and the bonus for each agreement period will not exceed a maximum amount of NIS 9 million, linked to the CPI for July 2011. Furthermore, subject to obtaining the approvals required under the law, the bonus that the management company was eligible to receive for any calendar year may be increased or decreased by an amount of up to NIS 800 thousand, linked to the July 2011 CPI, provided that in any case the amount of the bonus for any calendar year will not exceed the foregoing ceiling.

When the term of the agreement ended, Moshe Bareket ceased serving as chair of the board of directors of The Phoenix and The Phoenix Insurance, and in accordance with the agreement with him, Moshe Bareket is eligible (through the management company) to prior notice fees for a period of up to 6 months and to an additional payment for an acclimation/cooling-off period of 6 months from the date on which he actually ceased providing the services to the Company. As of October 10, 2014 Moshe Bareket's six month acclimation period began, as set forth in the agreement. For the foregoing acclimation period and until December 31, 2014 the Company paid Moshe Bareket management fees (including reimbursement of expenses) as set out in the agreement. The total annual management fees paid to Moshe Bareket for 2014 amounted to NIS 971 thousand. The management fees paid to Moshe Bareket in the acclimation period were not recorded in the foregoing table as the expense therefor were recorded by The Phoenix in preceding years.

In addition, Moshe Bareket also serves as a director of the Company with accounting and financial expertise and is eligible to receive remuneration equivalent to the amounts fixed in the Fourth Addendum of the Remunerations Regulations, as these are updated from time to time and based on the rank at which the Company will be classed as in each fiscal year, i.e. to participation remuneration of NIS 4,880 and annual remuneration of NIS 126,900. The total remuneration paid to Moshe Bareket by the Company for his service as a director in 2014 was NIS 262 thousand.

(16) Terms for service of external directors

On May 29, 2008 the Company's board of directors resolved that, pursuant to the provisions in the Remunerations Regulations, every external director serving in the Company will be eligible to the remuneration for an external expert director under the Remunerations Regulations. The remuneration paid to the directors is updated according to the CPI and updates in the Regulations.

The cost of the two external directors in the Company in 2014 (Prof. Ben Zion Zilberfarb and Yossi Dauber) amounted to NIS 706 thousand.

On December 31, 2014 Yossi Dauber ceased serving as an external director in the Company and on March 5, 2015 Aryeh Schiff was appointed as an external director in the Company.

(17) Phantom Options Plan

In November 2012 the Company's audit committee and board of directors decided to adopt a phantom options plan, under which phantom options were awarded to the Company's CEO, officers and other employees. According to the terms of the plan, the options were awarded on November 1, 2012 ("Allotment Date"), are free of charge and exercisable for a financial bonus and not for Company securities. The options vested in two equal annual tranches, whereby the first tranche vested one year after Allotment Date and the second tranche vested two years after Allotment Date. All the options will expire on October 31, 2016. The exercise price for the phantom options was set based on the closing price of the Company's shares on the TASE on November 1, 2012, which was NIS 735 per share. The exercise price for the second tranche will be NIS 735 with the addition of 5% per annum. The phantom options are subject to adjustment as set forth in the plan, in cases such as changes in the Company's equity, mergers and acquisitions, distribution of dividend and issuance of rights. The total number of phantom options allocated under the plan was 21,769. The financial value of the total number of phantom options awarded under the plan as at December 31, 2014 amounts to NIS 4 million. For further information pertaining to the options plan, see the Company's immediate report of November 1, 2012 (Ref. No. 2012-01-69985), the information contained therein is noted here by way of reference.

(18) Adjustments in the compensation policy

Pursuant to the requirements of Amendment 20 to the Companies Law, 1999 the Company established a compensation policy for its officers, according to which, inter alia, a variable cash component mechanism was set ("the Bonus"). The Bonus consists of thee financial indices that reflect the Company's long term objectives:

1. Change in adjusted net income - the rate arrived at by dividing the adjusted net income in the year for which the bonus is paid by the adjusted net income of the Company in the three years preceding the year for which the bonus is paid. A prerequisite for bonus eligibility regarding this parameter is achieving adjusted income that does not fall below NIS 300 million. The change in adjusted net income component awards a bonus of 90% to 130%. Eligibility is calculated on a linear basis.
2. Change regarding adjusted leverage - to be calculated by dividing the adjusted leverage ratio of the Company and its wholly owned subsidiaries in the year for which the bonus is paid by the average adjusted leverage ratio in the three years preceding the year for which the bonus is paid. A prerequisite for bonus eligibility regarding this parameter is that the leverage ratio that will not exceed 65%. The change in adjusted net income for awarding a bonus is between 95% - 110% (this is a reverse index, i.e. 95% awards the maximum bonus). Eligibility is calculated on a linear basis. The adjusted leverage ratio is calculated by dividing the net financial debt of the Company and its wholly-owned subsidiaries less the treasury shares item (net financial debt as appears in the chapter on financing sources and liquidity in the directors' report) by the Company's equity less treasury shares as appears in the financial statements, plus the net financial debt.
3. Scope of annual dividends - the annual dividend for awarding a bonus for this parameter is between NIS 250 million and NIS 500 million. Eligibility is calculated on a linear basis.

Calculation breakdown of the foregoing financial indices used for fixing bonuses for 2013:

Performance index 1 - adjusted net income:

Breakdown of adjusted net income in 2010 through 2013:

	2013	2012	2011	2010
	NIS millions			
Net earnings attributable to shareholders of the Company	740	446	2,610	1,701
Effect of restatement of The Phoenix (Ad 120)	-	18	24	12
Net earnings attributable to the shareholders of the Company as included in the updated financial statements	740	464	2,634	1,713
Plus (minus):				
Revaluation losses (revaluation gains) due to increase and/or decrease in means of control (net of tax) attributable to the Company's shareholders	(998)	-	(3,282)	(1,200)
Other amortization (other revaluation gains) for non-financial assets directly held by the Company and its wholly-owned subsidiaries, which do not involve cash flow input or output (net of tax), attributable to the Company's shareholders	30	(10)	483	58
Amortization of surplus costs (net of tax) attributable to the Company's shareholders due to foregoing revaluation and less the increase in value recognized as a result of such revaluation	87	43	20	-
Profit (loss) from disposal of non-financial assets directly held by the Company and its wholly owned subsidiaries, attributed to capital reserves (net of tax)	558	281	-	-
Adjustments made in the preceding periods for non-financial assets that were held directly by the Company and its wholly-owned subsidiaries and which were disposed of during the year, until date of disposal of the asset, based on the pro rata share of the disposed holding during the year	249	-	-	-
Adjusted net income (loss)	666	778	(145)	571

Criteria used to calculate the adjusted net income:

The adjusted net income is calculated in accordance with the definitions in Appendix A to the Company's officers' compensation policy dated August 6, 2013, taking the following into account:

1. The effect of restatement of the financial statements for the preceding periods (as specified in Note 2(IE) to the financial statements) included in the relevant periods.
2. The adjustment due to the tax effect regarding income from the decrease in means of control of Delek USA does not include deferred taxes for the Group's share in Delek USA's profits through to the date of the decrease in means of control, due to the intention of disposing of Delek USA shares. Namely, the adjusted income includes the tax expense for the profits recognized until the date of the decrease in means of control.
3. The adjusted income calculation included adjustments regarding investees. In this calculation, investments in investees are included as non-financial assets.
4. The adjusted income calculation does not take into account net tax benefits, if any, for the time difference and losses carried over for tax purposes, left after adjustments to income.

Changes in adjusted net income	
The adjusted net income of the Company in the year for which the bonus is to be paid (NIS millions)	666
Average adjusted net income of the Company in the three years preceding 2013	401
Changes in adjusted net income	166 %

Performance index 2 - adjusted leverage ratio:

Breakdown of the changes in the adjusted leverage ratio (NIS millions):

Changes in the adjusted leverage ratio Adjusted leverage ratio (as fixed in the compensation plan) = A	2013	2012	2011	2010
Net financial debt of wholly-owned subsidiaries as in Chapter 5 of the Company's directors' report	5,981	6,967	6,764	4,223
Dividend payable	(70)	-	-	-
Less value of treasury shares as in Chapter 5 of the Company's directors' report	(423)	(352)	(278)	(339)
Net financial debt less treasury shares	6,334	7,319	7,042	4,562
Equity less treasury shares = B				
Equity of the Company	5,357	4,867	4,546	2,652
Less treasury shares as in the separate financial information (Regulation 9C of the Securities Regulations)	161	152	131	124
Equity less treasury shares	5,518	5,019	4,677	2,776
Adjusted leverage ratio = A/(A+B)	53 %	59 %	60 %	62 %
Changes in the adjusted leverage ratio				
Adjusted leverage ratio in the year for which bonus is paid	53 %			
Average adjusted leverage ratio in the three years preceding the year for which bonus is paid	61 %			
Changes in the adjusted leverage ratio	88 %			

Criteria used to calculate the adjusted leverage ratio:

The adjusted leverage ratio is calculated in accordance with the definitions in Appendix A to the Company's officers' compensation policy dated August 6, 2013, taking into account that the financial liabilities do not include amounts paid for an announced dividend that was not yet paid at balance sheet date.

In addition, the board of directors confirm that the auditors provided an unqualified opinion without calling attention to any issues, according to which the adjusted net income figures for the year ended December 31, 2013 and the adjusted leverage ratio as at December 31, 2013 are adequately presented, from all material aspects.

Performance index 3 - scope of annual dividends

In 2013, dividends totaling NIS 531 million were distributed, thereby eligibility for dividend due to this index is as follows: The Chairperson of the Board of Directors is eligible for a bonus of up to NIS 200 thousand, the CEO is eligible for up to NIS 0.5 million and an executive officer is eligible for up to 3 salaries.

The Company complied with all three financial indices in 2013.

For further information regarding the Company's compensation policy see section 1.17.3 in the chapter on the description of the companies businesses.

(19) Waiver, indemnification and insurance of officers

For information regarding waiver, indemnification and officers' insurance see Regulation 29[A](4) below.

Regulation 21A: Control of the Company:

The controlling shareholder of the Company is Mr. Yitzhak Sharon (Teshuva), who holds 61.77 % of the equity rights and 62.88 % of the voting rights in the Company.

Regulation 22: Transactions with the controlling shareholder

The controlling shareholder who has a personal interest in all the engagements set forth under Regulation 22 below is Mr. Yitzhak Sharon (Teshuva). Mr. Yitzhak Sharon" (Teshuva) interest arises from the fact that these engagements are with companies under his control, or with his relatives or with companies under their control.

Transactions stipulated in section 270 (4) of the Companies Law.

1. Engagement with Shir Elroi:

Shir Elroi serves as a director of Cohen Development since December 2011. The remunerations committee, audit committee and board of directors of Cohen Development approved, in a resolution dated May 28, 2013, payment of a fee to Shir Elroi for his service as a director at Cohen Development, in the minimum amount set in the Remunerations Regulations. The total remuneration paid to Shir Elroi in 2014 for his term of office at Cohen Development amounts to NIS 36,000.

In addition, Shir Elroi also serves as a director of Avner Oil and Gas Ltd. since March 2013, and at reporting date he does not receive remuneration.

2. Engagement with Carmit Elroi

A. On November 28, 2012, the Company's audit committee and board of directors approved the remuneration for Carmit Elroi, daughter of the controlling shareholder, for her service as a director of the Company. Under the terms of the agreement with her, Carmit Elroi is eligible to receive annual remuneration and participation remuneration in amounts equivalent to the amount fixed in the Second Addendum and Third Addendum of the Remunerations Regulations, as updated from time to time as per the Company's classification for each fiscal year.

The Company's audit committee and board of directors confirmed compliance with the conditions of Regulation 1B(3) of the Companies Regulations (Relief for Transactions with Interested Parties), 2000 ("the Relief Regulations") and approved the transaction since the salary paid to Carmit Elroi does not exceed the maximum amount permitted under regulations 4, 5 and 7 of the Remunerations Regulations. Carmit Elroi has served as a director of the Company since November 28, 2012. The total amount paid to Carmit Elroi by the Company in 2014 is NIS 153 thousand. The Company's compensation committee and board of directors also approve engaging with The Phoenix in a collective officers liability insurance policy for Carmit Elroi, pursuant to the provisions of Regulation 1B(5) of the Relief Regulations.

B. On February 21, 2011 the general meeting of Delek The Israel Fuel Corporation Ltd. ("Delek Israel"), approved the agreement with Ms. Carmit Elroi concerning the terms of her employment, including exemption of indemnification and insurance for Carmit Elroi, in her position as a director of Delek Israel. Pursuant to the terms of the agreement, Carmit Elroi will be entitled to annual and participation remuneration in amounts equivalent to the amount fixed in the remuneration regulation, in accordance with the Company's classification for each fiscal year and as paid to the external directors and serving directors of Delek Israel. Moreover, on January 29, 2012 the general meeting of Delek Israel resolved to approve providing a letter of undertaking for indemnity Carmit Elroi. The total amount paid to Carmit Elroi by the Delek Israel in 2014 is NIS 123 thousand.

C. Carmit Elroi has served as a director of Delek Drilling Management (1993) Ltd., since November 12, 2012. On November 27, 2012, the audit committee and board of directors of Delek Energy resolved, pursuant to Regulation 1B of the Companies Regulations (Relief for Transactions with Interested Parties), 2000 concerning her office as a director of Delek Drilling. As part of the decision of Delek Energy's audit committee and board of directors, as aforesaid, Carmit Elroi is eligible for annual remuneration and participation remuneration in amounts equivalent to the minimum amount fixed in the Remunerations Regulation, according to the Company's classification for each fiscal year. The total amount paid to Carmit Elroi by the Delek Drilling in 2014 is NIS 161 thousand.

3. Scheduling of Delek Real Estate's debt to the Company:

On November 26, 2012 the general meeting of the Company approved, after approval by the Company's audit committee and board of directors in their meetings of September 5, 2012 and November 15, 2012, respectively, scheduling of the original debt of Delek Real Estate Ltd., a wholly controlled subsidiary of the Company, "Delek Real Estate") to the Company ("Debt Schedule") and subsequent to the approval of the creditors' settlement between Delek Real Estate, its controlling shareholder, stockholders and debenture holders ("the Settlement"). As of December 5, 2012 the Settlement for scheduling the debt between Delek Real Estate, its controlling shareholder and the Company is as following:

(a) The amount of Delek Real Estate's debt to the Company will amount to approximately 50% of the original debt, i.e. NIS 140 million ("the Outstanding Debt"). It should be noted that the carrying amount of the debt in the Company's books as at December 31, 2014, after amortization, amounts to NIS 83 million.

(b) The Outstanding Debt bears annual interest at a rate of 2%. The interest rate will be revised each year. The interest for the first year will be paid at the end of the fifth year, the interest for the second year will be paid at the end of the sixth year, and from the third year the interest will be paid annually.

(c) The Outstanding Debt will be repaid in full on June 30, 2022 ("the Repayment Date").

(d) The controlling shareholder of the Company provided personal guarantees, unlimited in time, to secure the repayment of the Outstanding Debt to the Company. Three years after the Settlement approval date, the controlling shareholder will take steps to replace the personal guarantees with other collateral, subject to the approval of the Company's general meeting ("Replacement of the Collateral"), provided the replacement is completed within six months following said three year period. It should be noted that in the event of his death (God forbid) the personal guarantee of the Company's controlling shareholder will go to his estate.

(e) After Replacement of the Collateral, the outstanding debt will be reduced to 45% of the original debt.

(f) If the Company's general meeting does not approve Replacement of the Collateral, the repayment date will be brought forward to December 31, 2017 or to the date of change of control in the Company. The term "change of control in the Company" means a situation in which the Company's controlling shareholder, Mr. Yitzhak Sharon (Teshuva) ceases to hold, together with members of his immediate family, directly or indirectly, more than 45% of the issued and paid up share capital of the Company (fully diluted) and of the voting rights (fully diluted)

(g) If the guarantee in favor of Bank Hapoalim in the amount of NIS 30 million is exercised, in whole or in part, the Company will be entitled to repayment of the exercised debt, in full from Delek Real Estate, and the debt will not be included in the settlement for rescheduling the debt as described in this report. It is noted that the bank was provided with additional collateral beyond this guarantee, which, to the best of Delek Real Estate's knowledge and estimate at the date of the proposed debt restructuring as described above, fully backs the debt. However, it is noted that it is uncertain whether the bank will be repaid using this collateral.

For further information concerning the Debt Schedule and its approval by the Company's general meeting see immediate reports dated September 19, 2012, November 15, 2012 and November 27, 2012 (Ref. No.: 2012-01-280437, 2012-01-280437 and 2012-01-290502, respectively), hereby the information appearing therein are presented here by way of reference.

Transactions not specified in section 270 (4) of the Companies Law.

4. Gas station operating agreement with Avi Lalewski:

On January 22, 2014, the general meeting of the Company approved Delek Israel's engagement with Avi Lalewski, the brother-in-law of the controlling shareholder of the Company, and Or-Li Energy Resources Ltd. (a company controlled by Avi Lalewski), in a new operating agreement for the gas station in Givat Olga belonging to the Delek Israel chain, for a period of three years commencing January 1, 2014. For further information pertaining to the engagement, see immediate reports issued by the Company on December 16, 2013 (Ref. No.: 2013-01-097657); January 14, 2014 (Ref. No.: 2014-01-014653); and January 22, 2014 (Ref. No.: 2014-01-021922), whereby the information appearing in said reports are indicated herein by way of reference.

5. Negligible transactions:

Apart from the transactions described above, there are additional agreements which are classified as negligible transactions as defined in section 9 of the Board of Directors report, as follows: Transactions for providing Delek Israel's Dalkan services; insurance policies provided by Phoenix; employment of an officer as an advisor of the Company and its subsidiaries, who is also employed by the controlling shareholder and private companies owned by him and for consultation services provided to Delek USA by the son-in-law of the controlling shareholder in return for USD 100,000 per annum.

6. Holdings in debentures of companies controlled by the controlling shareholder:

For the sake of caution, it is noted that, as of December 31, 2014, holdings in provident funds, pension funds, profit-sharing policies ("Peer Assets"), Phoenix trust and nostro funds, debentures of companies controlled by the controlling shareholder are as follows:

Insurance peer assets held NIS 59 million par value debentures of Elad Residences and Elad Canada, private companies owned by the Company's controlling shareholder ("the Private Companies").

Phoenix Insurance's nostro assets held NIS 24 million par value shares of the private companies.

Regulation 24: Shares and other securities of the Company, held by interested parties and senior officers in the Company, in the Company itself, in its subsidiaries and its related companies, as at February 28, 2015.

For information of the holdings of the Company's shares and debentures by its interested parties and executive officers, and the holdings of interested parties in other shares or securities of material investees of the Company, of see immediate report issued by the Company on March 08, 2015 (Ref. No.: 2015-01-046306).

Regulation 24 A:

For further information regarding the registered and issued capital as at December 31, 2014, see Note 33 to the Company's financial statements.

Regulation 24B: The Company's Shareholders Register:

For the registered shareholders of the Company see the Company's immediate report regarding the Company's equity and listed securities and changes therein dated February 22, 2015 (Ref. No. 2015-01-036004).

Regulation 25A: Registered address

Address: 7 Giborei Israel St., Netanya

Tel: 09-8638444

Fax: 09-8854955

Email: Leorapl@Delek-Group.com

Website: www.delek-group.com

Regulation 26: Directors of the company

	Gabriel Last	Yitzchak Sharon Teshuva	Ben-Zion Zilberfarb
Position in the Company:	Chair of the Board of Directors	Director	External director:
ID:	004787933	04340003	030134605
Date of birth:	Sept 9, 1946	July 7, 1948	Oct 9, 1949
Address for delivery of court documents:	7 Giborei Israel St., Netanya	7 Giborei Israel St., Netanya	10 Hatizmoret St., Kiryat Ono
Citizenship:	Israeli	Israeli	Israeli
Member of board of directors committees:	Member of the Investments Committee	-	Chair of the audit committee, chair of the investments committee, member of the remunerations committee and member of the committee for reviewing financial statements
Independent director:	No.	No.	Yes.
External director:	No.	No.	Yes.
If Yes, has accounting and financial expertise or professional qualifications:	-	-	Director with accounting and financial expertise
If Yes, is an expert external director[2]	-	-	Yes.
Is he an employee of the Company, its subsidiaries, affiliates or of an interested party:	Yes, employee of Delek Group Ltd.	Controlling shareholders of the Company	No.
Commencement of office:	Sept 4, 2003	Sept 18, 2014	May 29, 2012 (extended term of office, has served as external director since May 29, 2006)

[2] Negotiations are underway between Delek Israel and Delek Real Estate concerning the payment of rent for the gas station at Biranit, which as at reporting date is not operational.

	Gabriel Last	Yitzchak Sharon Teshuva	Ben-Zion Zilberfarb
Education:	LL.B from Tel Aviv University; MA in Social Sciences and Mathematics from Haifa University; AMP (Advanced Management Program for executive officers) at Harvard University.	-	BA and MA in Economics and Business Administration from Bar Ilan University, PhD in Economics from University of Pennsylvania
Occupation during past five years:	Chairman of the Company's board of directors	The controlling shareholder of public and private companies in the energy, real estate and finance sectors	Professor of Economics at Bar Ilan University, Dean of the School of Banking and Capital Markets at Netanya Academic College
Companies in which serves as a director (other than the Company):	Chairman of the boards of directors of: Delek Petroleum Ltd.; Delek Energy Systems Ltd.; Delek Foundation for Education, Culture and Science Ltd. (external director); IPP Delek Ashkelon Ltd.; permanent acting Chairman of Avner Oil and Gas Ltd.; and a director of: Delek – The Israel Fuel Corporation Ltd.; Delek Infrastructures Ltd.; Delek Drilling Management (1993) Ltd.; Gadot Biochemical Industries Ltd.; Delek Power Stations Ltd. and Delek Royalties (2012) Ltd.	Delek Energy Systems Ltd.	External director of Brimag Digital Age Ltd.
Related to another interested party in the Company:	No.	Controlling shareholder of the Company and father of Carmit Elroi, a director of the Company.	No.
Does the Company consider him as having accounting and financial expertise for compliance with the minimum number set for the board of directors under section 92(A)(12) of the Companies Law:	No.	No.	Yes.

	Yoseph Dauber[3]	Mazal Bronstein	Avraham Harel
Position in the Company:	Served as an external director until December 31, 2014	Director	Director
ID:	007447584	051245330	030108195
Date of birth:	Nov 20, 1935	Feb 13, 1952	Feb 26, 1948
Address for delivery of court documents:	8 Hakishon Street, Ramat Hasharon	8 Haharuv Street, Zichron Yaakov	4 Esther Hamalkah St., Bnei Brak
Citizenship:	Israeli	Israeli	Israeli
Member of board of directors committees:	Chair of the committee for reviewing the financial statements, chair of the remunerations committee and member of the audit committee	Member of the Remunerations Committee	Committee for examining financial statements and Audit Committee.
Independent director:	Yes.	No.	No.
External director:	Yes.	No.	No.
If Yes, has accounting and financial expertise or professional qualifications:	Director with accounting and financial expertise	-	-
If Yes, is an expert external director[4]	Yes.	-	-
Is he an employee of the Company, its subsidiaries, affiliates or of an interested party:	No.	No.	No.
Commencement of office:	Jan 1, 2012 (extended term of office, has served as external director since Jan 1, 2009)	Apr 1, 2003	May 29, 2006
Education:	BA in Economics and Statistics from Hebrew University Jerusalem; LL.M from Bar Ilan University; Business	BA in Political Science and Middle Eastern Studies from Haifa University; MA in Political Science	BA in Economics and Statistics from Tel Aviv University and MA in Economics - Performance Survey

[3] Term of office as director terminated on December 31, 2014

[4] As the term is defined in Regulation 1 of the Companies Regulations (Regulations for Compensation and Expenses of an External Director), 2000

	Yoseph Dauber[3]	Mazal Bronstein	Avraham Harel
	Administration Diploma from Hebrew University	from Haifa University; Graduate of Real Estate Entrepreneurship from Haifa University; Business Administration Diploma from Faculty of Administration Tel Aviv University.	from Tel Aviv University
Occupation during past five years:	Chair of the KCPS Manof Fund investments committee; served as director of Nice Systems Ltd. until 2013.	Consultant and Marketing at Papouchado Ltd.; Consultant, Marketing and Advertising at Almog Ltd.; Consultant, Marketing and Sales at Schechtman Ltd.; Partner (40%) and manager of Beit Shacham Retirement Home Ltd.	Chair of Delek Europe Holdings Ltd. board of directors (2009); member of board of directors of various companies.
Companies in which serves as a director (other than the Company):	External director of Magicjack Vocaltec Technologies Ltd. and Shlomo Holdings Ltd.	Beit Shacham Retirement Home Ltd.;	Phoenix Holdings Ltd.; Phoenix Insurance Co. Ltd.; Meteor Aerospace Ltd.; Exphone 018 Ltd; Yiddishpiel - Israel Yiddish Theater; Poalim Capital Markets Investments and Holdings Ltd.; Bank Hapoalim (Switzerland) Ltd. Bank Hapoalim (Luxemburg) S.A.; A. Harel Consulting Ltd.; Friends of Rabin Medical Center - Executive Committee.
Related to another interested party in the Company:	No.	No.	No.
Does the Company consider him as having accounting and financial expertise for compliance with the minimum number set for the board of directors under section 92(A)(12) of the Companies Law:	Yes.	No.	Yes.

	Moshe Amit	Moshe Bareket	Carmit Elroi
Position in the Company:	Director	Director	Director
ID:	01127885	059825539	22546832
Date of birth:	Apr 4, 1935	Dec 3, 1965	Nov 8, 1967
Address for delivery of court documents:	17 Hameurer, Givatayim	7 Giborei Israel St., Netanya	18 Hashomer Street, Moshav Avihail, 472910
Citizenship:	Israeli	Israeli	Israeli
Member of board of directors committees:	No.	Member of the Investments Committee	No.
Independent director:	No.	No.	No.
External director:	No.	No	No.
If Yes, has accounting and financial expertise or professional qualifications:	-	-	-
If Yes, is an expert external director[5]	-	-	-
Is he an employee of the Company, its subsidiaries, affiliates or of an interested party:			No.
Commencement of office:	Apr 1, 2004	Jan 5, 2011	Nov 28, 2012
Education:	BA in Social Sciences from Bar Ilan University	PhD in Business Management from Columbia University, (New York); MBA, Columbia University, (New York); MBA Tel Aviv University; BSc in Practical Accounting and Performance Survey, Tel Aviv University. CPA	B.A. Special Education and Humanities from Tel Aviv University

[5] Term of office as director terminated on March 29, 2015.

	Moshe Amit	Moshe Bareket	Carmit Elroi
Occupation during past five years:	Chair of Excellence Investments Ltd. board of directors and director of the Company, previously: Chairman of the board of directors of Delek - The Israel Fuel Corporation Ltd.; director of Kargal Ltd.; Isracard Ltd.; Saint Laurence Bank, Barbados Ltd.	Chairman of The Phoenix Holdings Ltd.; Head of Corporate Division at the Securities Authority (2006-2010); Lecturer in accounting and business management at universities and academic institutions (2001 to present); Chief Financial and Strategy Officers at Teshuva Group (2010 - 2012).	Owner and CEO of Pharmacin Ltd., and Baraka Or Holdings Ltd.
Companies in which serves as a director (other than the Company):	Chairman of the board of directors of the Excellence Investments Ltd.; Global Factoring Business Finance Ltd.; Mega Retailers Ltd.; AFI Development PLC; Allied Real-Estate Ltd.; Poalim Capital Markets Investments & Holdings Ltd.; I.T. Sharon Finances Ltd.;	Mazet Investments Ltd.; Carasso Motors Ltd.;	Delek Drilling Management (1993) Ltd., Delek Israel Fuel Corp. Ltd.
Related to another interested party in the Company:	No.	No.	Daughter of Yitzhak Sharon (Teshuva), the controlling shareholder and a director in the Company
Does the Company consider him as having accounting and financial expertise for compliance with the minimum number set for the board of directors under section 92(A)(12) of the Companies Law:	Yes.	Yes.	No.

	Aryeh Schiff	Idan Wells
Position in the Company:	External director:	Director
ID:	09792482	033658246
Date of birth:	Mar 3, 1946	Jan 8, 1977
Address for delivery of court documents:	22 Herzfeld St., Herzliya	7 Giborei Israel St., Netanya
Citizenship:	Israeli	Israeli
Member of board of directors committees:	Committee for reviewing the financial statements, chair of the remunerations committee and member of the audit committee	No.
Independent director:	No.	No.
External director:	Yes.	No.
If Yes, has accounting and financial expertise or professional qualifications:	Yes.	-
If Yes, is an expert external director[6]	No.	-
Is he an employee of the Company, its subsidiaries, affiliates or of an interested party:	No.	Advisor of the Group since August 2014
Commencement of office:	Mar 5, 2015	Feb 17, 2015
Education:	BA Agricultural Economics, Hebrew University in Jerusalem	LL.B, Tel Aviv University
Occupation during past five years:	CEO of Dubek Ltd.; director at Carmel Olefins Ltd.; director at Petrochemical Enterprises Ltd.; director at Koor Industries Ltd.; Vice President of the Chamber of Commerce; member of Bank of Israel advisory committee.	CEO and controlling shareholder representative in Teshuva Group companies (through El-Ad US Holdings and Tashluz Investments and Holdings Ltd.); strategic consultant to the CEOs and chairmen of the boards of Delek Drilling - Limited Partnership and Avner Oil Exploration - Limited Partnership.

[6] As the term is defined in Regulation 1 of the Companies Regulations (Regulations for Compensation and Expenses of an External Director), 2000

	Aryeh Schiff	Idan Wells
Companies in which serves as a director (other than the Company):	Israel Petrochemical Enterprises Ltd.; Michael Landau Lottery Foundation; board member of Israel Football Association; Ardelia Holdings Ltd.; Shlomo Holdings Ltd.	Delek Energy Systems Ltd.; Elad Israel Residences Ltd.; Keshet Broadcasting Ltd., the Israel News Company Ltd.; Sharon Teshuva Holdings (2011) Ltd.; ANH Aril Real Estate Holdings (2012) Ltd.; Delek Real Estate Ltd.; Orscan Technologies Ltd.; Wells Consulting Ltd.
Related to another interested party in the Company:	No.	No.
Does the Company consider him as having accounting and financial expertise for compliance with the minimum number set for the board of directors under section 92(A)(12) of the Companies Law:	Yes.	No.

Regulation 26A Senior officers in the Company

	Asaf Bartfeld	Leora Pratt Levin	Barak Mashraki
ID:	065474108	57906919	029714086
Date of birth:	Feb 24, 1952	Oct 12, 1962	Jan 28, 1973
Commencement of office:	Sept 4, 2003	Apr 1, 2007	Jan 1, 2008
Position in the Company, its subsidiaries, affiliates or the controlling shareholder:	CEO of the Company, CEO and director of Delek Energy Systems Ltd.; Cohen Development and Industrial Buildings Ltd., and a director in the following Group companies: IDE Technologies Ltd.; Delek – The Israel Fuel Corporation Ltd.; Delek Automotive Systems Ltd.; Delek Motors Ltd.; Delek Petroleum Ltd.; Avner Oil and Gas Ltd.; Delek Drilling Management (1993) Ltd.; Chairman of Phoenix Holdings Ltd.; The Phoenix Insurance Co. Ltd.; IPP Ashkelon Ltd.; Gadot Biochemical Industries Ltd.; Delek Sea Maagan 2011 Ltd.; Delek Royalties (2012) Ltd.; Israel Delek Holdings Group Ltd.	Executive VP, Chief Legal Counsel and company secretary Director of the following Delek Group subsidiaries: Gadot Biochemicals Ltd., Delek Energy Systems Ltd., Phoenix Holdings Ltd., The Phoenix Insurance Co. Ltd., IDE Technologies Ltd.	Executive VP and CFO of Delek Group Ltd. Director of Delek Petroleum Ltd.; Delek Sea Maagan 2011 Ltd.; Cohen Development and Industrial Buildings Ltd.; The Phoenix Insurance Ltd.; Delek - The Israel Fuel Corporation Ltd.; Delek Royalties (2012) Ltd.; Israel Delek Holdings Group Ltd.; Delek Infrastructures Ltd.; IPP Delek Soreq Ltd.; Delek Power Stations Ltd.; C.T. Maya Property and Investments Ltd.; Cohen Development (1979) Ltd.; Cohen Family Assets Ltd.; Cohen Development Six Ltd.
Is he/she an interested party in the Company	Yes.	No.	No.
Is he/she a family member of another senior officer or of an interested party in the Offeror:	No.	No.	No.
Education:	BA in Economics, Tel Aviv University,	BA Political Science, Tel Aviv University, LL.B, Reading University, UK	BA Economics and Accounting, Bar Ilan University
Business experience in the past 5 years	CEO of the Company since 2003	Executive VP of the Company; Chief Legal Counsel and Company Secretary since 2007	CFO of the Company since 2008

	Michael Grinberg	Dalia Black Dubov	Amir Lang
ID:	69108231	324335751	03640383
Date of birth:	Aug 5, 1955	July 25, 1977	July 19, 1979
Commencement of office:	Jan 1, 2002	May 27, 2010	May 27, 2010
Position in the Company, its subsidiaries, affiliates or the controlling shareholder:	Chief internal auditor of the Company and its subsidiaries: Cohen Development and Industrial Buildings Ltd.; Delek Energy Systems Ltd.; Delek Automotive Systems Ltd.; Delek Drilling Management (1993) Ltd. and Avner Oil and Gas Ltd.	VP for Investor Relations and Business Communications	VP for Business Developments, Mergers and Procurement of the Company, deputy CEO of Delek Power Stations - Limited Partnership; and as a director in: Delek Petroleum Ltd.; IPP Delek Soreq Ltd.
Is he/she an interested party in the Company	No.	No.	No.
Is he/she a family member of another senior officer or of an interested party in the Offeror:	No.	No.	No.
Education:	BA in Accounting and Economics, Tel Aviv University,	MA in Economics and Political Science, Leads University, England	LL.B from Tel Aviv University; MBA from Tel Aviv University;
Business experience in the past 5 years	Internal auditor of the Company and its abovementioned subsidiaries:	Head of investor relations and business communications at the Company since 2006.	Head of business development in the Company since 2008

	Tamar Rosenberg	Amit Kornhauzer	Gideon Tadmor
ID:	035894252	038705562	057995755
Date of birth:	Dec 9, 1978	Mar 26, 1976	Jan 9, 1963
Commencement of office:	Nov 19, 2006	Nov 1, 2008	Oct 19, 2011
Position in the Company, its subsidiaries, affiliates or the controlling shareholder:	Accountant	Accountant of the Company and Delek Petroleum; a director of Navitas Petroleum Ltd. and Navitas Petroleum Management Services Ltd.; CFP of Delek Energy Systems Ltd.	In charge of oil and gas exploration and transportation and export of natural gas; CEO and director of Avner Oil and Gas Ltd., Chair of board of directors of Delek Drilling Management (1993) Ltd.; Chairman of the board of directors of Navitas Petroleum Ltd.
Is he/she an interested party in the Company	No.	No.	No.
Is he/she a family member of another senior officer or of an interested party in the Offeror:	No.	No.	No.
Education:	BA in Business Administration and Accounting from the Academic College of Management and MBA specializing in financing from Tel Aviv University	BA in Economics and Accounting from Tel Aviv University and MBA specializing in financing from Tel Aviv University	LL.B from Tel Aviv University
Business experience in the past 5 years:	Delek Group accountant since 2006	Delek Group accountant since 2008	CEO of Delek Energy Systems Ltd. (until October 2011); CEO and director of Avner Oil and Gas Ltd.; Chairman of the board of Delek Drilling Management (1993) Ltd.; a director of Cohen Development and Industrial Buildings Ltd. and its subsidiaries (until December 2011); director of various private subsidiaries of the SPC's, Delek Drilling Limited Partnership and Avner Oil Exploration Limited Partners; owner of Navitas Petroleum Ltd.

Regulation 26A Senior Officers of Subsidiaries controlled by the Company, as defined in section 37 of the Securities Law:

	Shmuel Antzel	Eyal Lapidot	Yossi Abu
ID:	054913447	022030159	033840372
Date of birth:	Oct 6, 1957	Sept 8, 1965	Dec 7, 1977
Commencement of office:	Aug 17, 2014	June 1, 2009	Apr 1, 2011
Position in the Company, its subsidiaries, affiliates or the controlling shareholder:	CEO of Delek- The Israel Fuel Corporation Ltd.	Chairman of the board of The Phoenix Investments Ltd.; CEO of The Phoenix Holdings Ltd.; CEO of The Phoenix Insurance Co. Ltd.; Chairman of The Phoenix Investments and Finances Ltd.; and a director in The Phoenix Group companies, the main ones being: Gama Management and Clearing Ltd.; Phoeniclass Ltd.; Excellence Investments Ltd.; The Phoenix Capital Raising (2009) Ltd.; The Phoenix Insurance Agencies 1989 Ltd.; Agam Leaders Holdings (2001) Ltd.; Agam Leaders (Israel) Insurance Agency (2003) Ltd.; Shekel Insurance Agency (2008) Ltd.; Kela Insurance Agency (1987) Ltd.	CEO of Delek Drilling Management (1993) Ltd.
Is he/she an interested party in the Company	No.	No.	No.
Is he/she a family member of another senior officer or of an interested party in the Offeror:	No.	No.	No.
Education:	-	BA in Economics and Accounting and MBA (Finance and Banking), CPA from Hebrew University	LL.B, Hebrew University in Jerusalem and LL.M studies, Hebrew University in Jerusalem
Business experience in the past 5 years	CEO Rikushet Ltd.; CEO of Bee Group Retail Ltd.; CEO of Ten Petroleum Co. Ltd.;	CEO of Delek - The Israel Fuel Corporation Ltd. until 2009;	director of various private subsidiaries of the SPC's Delek Drilling Limited Partnership and Avner Oil Exploration Limited Partnership and private companies owned by him, Senior expert advisor to the Minister of Finance (2007-2009) and Director of Trade and Regulation of the Company (2009-2011).

Regulation 27 – The Company's Accountants Kost Forer Gabbay & Kasierer– 3 Aminadav St., Tel-Aviv 67067

Regulation 29 – Recommendations and resolutions of the board of directors

Regulation 29A (1) – The board of director's decision concerning distribution of a dividend

Decisions of the board of directors pertaining to the distribution of a cash dividend:

Date of resolution	Amount of Dividend in NIS	Amount of Cash Dividend per share	Effective date for payment	Payment date
Mar 30, 2014	160,000,000	NIS 13.6278	Apr 8, 2014	Apr 24, 2014
Aug 28, 2014	150,000,000	NIS 12.7761	Sept 15, 2014	Sept 29, 2014
Nov 26, 2014	150,000,000	NIS 12.7761	Dec 14, 2014	Dec 30, 2014

Regulation 29 C - Resolutions adopted at an extraordinary general meeting (EGM)

(1) On January 22, 2014, the general meeting approved Delek Israel's engagement with Or-Li Energy and Avi Lalewski in a new operating agreement for three years from January 1, 2014 through December 31, 2016, of the gas station in Givat Olga. For details see immediate reports issued by the Company on December 16, 2013 (Ref. No. 2013-01-097657); January 14, 2014 (Ref. No. 2014-01-014653) and on January 22, 2014 (Ref.No.: 2014-01-021922).

(2) On September 4, 2014, the general meeting of the Company adopted the following resolutions: (1) to reappoint the accounting firm Kost Forer Gabbay and Kasierer as the Company's auditors until the end of the Company's next annual general meeting and to authorize the Company's board of directors to fix their fee; (2) to approve the Company's engagement with The Phoenix Insurance Company, in a collective directors and officers liability insurance policy to insure the officers and directors of the Company and its subsidiaries, for a period of 18 months from July 1, 2014 through December 31, 2015 (inclusive), at the terms set out in section 1.3 of the notice of the convening of the general meeting dated July 29, 2014; (3) to approve the Company engaging, from time to time, without requiring further approval of the general meeting, in officers liability insurance policies with The Phoenix Insurance Company Ltd. or any other insurer, at the terms set out in section 1.4 of the notice of the convening of the general meeting dated July 29, 2014; (4) to amend the Officers' Compensation Policy of the Company in accordance with the text attached as Appendix A to the notice of convening of the general meeting dated July 29, 2014. For information pertaining to the foregoing resolutions, see the immediate reports issued by the Company on July 29, 2014 (Ref. No.: 2014-01-122961), and on September 4, 2014, (Ref. No.: 2014-01-151422), the information appearing therein is hereby noted by way of reference.

(3) On December 3, 2014 the Company's general meeting approved bonuses for the following officers: (1) to award to Gideon Tadmor, head of the oil and gas exploration segment in the Company, a bonus for 2013 in the amount of NIS 1,400 thousand; (2) to award to the VP Business Development of the Company, Amir Lang, a special bonus in the amount of NIS 1,100 thousand. For information regarding the foregoing resolutions, see the immediate reports issued by the Company on October 26, 2014 (Ref. No.: 2014-01-181236), and on December 3, 2014, (Ref. No.: 2014-01-213597).

(4) On March 5, 2015, the Company's general meeting approved the appointment of Mr. Aryeh Schiff as an external director in the Company for a term of three (3) years commencing from the date of approval by the general meeting. For further information, see immediate reports issued by the Company dated January 27, 2015 (Ref. No. 2015-01-019951); February 1, 2015 (Ref. No. 2015-01-022357) and March 5, 2015 (Ref.No.: 2015-01-044959).

Regulation 29A - Company Resolutions

Regulation 29A(4) Exemption from insurance and indemnity for officers – valid at the date of the report:

1. Pursuant to the previous resolutions of the Company, the Company decided to grant senior officers an exemption regarding their liability for damages as a result of a breach of their fiduciary duty towards the Company, as set forth in the third section of the sixth part of the Companies Law and to indemnify them (according to and subject to the amendment adopted at the Company's extraordinary general meeting prior to 2007). The letter of indemnification complies with Amendment 3 of the Companies Law 5759-1999 and the Company's articles of association. Pursuant to the letter of indemnification, as the Company's articles of association include a provision allowing it to undertake in advance to indemnify an officer, provided the undertaking is restricted to the types of events that the board of directors anticipate in view of the Company's actual actions at the time of undertaking to indemnify, in an amount or scope determined by the board of directors to be reasonable under the circumstances, all on account of any liability or expenditure that shall be authorized at that time according to the law at the time the resolution is adopted, the company also undertakes to indemnify the officer for reasonable litigation expenses, including attorneys' fees, such that may be incurred as a result of an investigation or proceedings that shall take place against the officer by any authority certified to launch an investigation or proceeding and that has ended without filing charges against the officer and without a fine being imposed in lieu of criminal proceedings or that has ended without an indictment being filed against the officer, while imposing a fine in lieu of criminal proceedings in a felony that does not warrant the proof of criminal intent.

2. **Insurance:** On September 4, 2014 the Company's general meeting adopted the following resolutions:

   A. The engagement with The Phoenix Insurance Co. Ltd. to insure the officers of the Company and its subsidiaries under a collective directors and officers liability insurance policy for the Company

and its subsidiaries, for a period of 18 months, from July 1, 2014 through December 31, 2015 (inclusive), with limit of liability of USD 100 million, at annual premium of USD 396 thousand, of which the Company's share amounts to USD 117 thousand per year.

B. To approve the Company engaging, from time to time, without requiring the further approval of the general meeting, in directors and officers liability insurance policies with The Phoenix Insurance Co. Ltd. or with any other insurer, at the terms set out in the resolution and provided that the limit of liability of the insurance (in the collective policy) will not fall below USD 75 million and will not exceed the amount of USD 150 million per case and per period, and the annual premium for the policy will not exceed the amount of USD 600 thousand per year, and this with the addition per year of 15% as of January 1, 2016. The Company's future engagements in such directors and officers liability insurance policies will be made for a number of insurance periods, provided that the aggregate of all insurance periods does not exceed three years from the date of expiry of the current policy (i.e. January 1, 2016).

C. It should be noted that the Company's compensation committee and board of directors approved the foregoing engagements with regard to Carmit Elroi, the daughter of the controlling shareholder Yitzhak Sharon (Teshuva), who serves as a director of the Company in accordance with Regulation 1B(5) of the Companies Regulations (Relief for Transactions with Interested Parties), 2000, subject to the approval of the general meeting with regard to all the officers.

Delek Group Ltd.

Date of Signature March 30, 2015

Names and positions of the signatories:

Gabriel Last – Chairman of the Board of Directors

Asi Bartfeld – CEO

CORPORATE GOVERNANCE QUESTIONNAIRE

In this Questionnaire please note that -

(1) **The format of the questionnaire is prepared in a way that the response "True" to any of the questions is an indication of proper corporate governance, and vice versa** A "True" response is marked √ in the appropriate box and a "False" response is marked X; to dispel any doubt, it is hereby clarified that the questionnaire does not cover all aspects of corporate governance relevant to the Company, rather it deals with only a few aspects; the Company's ongoing reports should be reviewed for further information regarding any issue (in accordance with the issue).

(2) The "reporting year" means from January 1, xx through December 31, xx. **of the year preceding the date of the Periodic Report**

(3) **Norms are indicated alongside each question. If the question is mandatory, it is explicitly indicated;**

(4) If a company wishes to add information relating to its response in the questionnaire that may be significant to a reasonable investor, it can do so under concluding notes in the questionnaire, with a reference to the relevant question.

Board of Directors Independence

False	True			
	✓	Did two or more external directors hold office in the Company during each reporting year? This question can be answered True, if the period during which two external directors did not hold office does not exceed 90 days, as provided in section 363a (B) (10) of the Companies Law, nonetheless for any (True/False) answer, the period (in days) during which two or more external directors did not hold office in any reporting year, should be indicated (including a term of office approved retrospectively, while differentiating between the various external directors): Director A: Ben-Zion Zilberfarb Director B: Yoseph Dauber The number of external directors who held office in the Company at the publication date of this questionnaire: 2.		1.
_____.	_____.	The number[7] of independent directors[8] who held office in the Company at publication date of this questionnaire: 2/ 10		2

[7] In this questionnaire the term "rate" - a certain number out of all the directors, for example 3/8.

[8] Including external directors as defined in the Companies Law.

Board of Directors Independence				
False	**True**			
		The rate/number of independent directors prescribed in the Articles of Association[9] of the Company[10]: _____. Not applicable (no provisions were provided in the Articles of Association)		
	✓	A survey conducted among the external directors (and the independent directors) during the reporting year found that they are in compliance of the provisions of sections 240 (b) and (f) of the Companies Law regarding the absence of relationship between the external directors (and independent directors) who held office in the Company and they are in compliance with the conditions required for holding office as an external director (or independent director).		3
	✓	None of the directors who held office in the Company during the reporting year are subordinate[11] to the CEO, directly or indirectly, (other than a director who represents the employees, if the Company has employee representation) If your answer is False (i.e. the director is subordinate to the CEO as aforesaid) - please indicate the number of directors who do not comply with the foregoing restriction: _____.		4
	✓	All the directors who gave notice of their personal interest in the approval of the transaction on the agenda of the meeting were not present for the discussion and did not participate in the foregoing vote (other than a discussion and/or vote under the circumstances pursuant to section 278(B) of the Companies Law): If your answer is False, please indicate - whether this was for the purpose of presenting a specific topic, pursuant to the provisions of Section 278(A): ☐ Yes ☐ No (mark an X in the appropriate box). Please indicate the number of meetings at which such directors as aforesaid participated in the discussion and/or in the vote, other than under the circumstances as set out in subsection A:		5
	✓	The controlling shareholder (including a relative and/or representative acting on his/her behalf), who is not a director or other executive officer in the Company, did not participate in the board meetings held during the reporting year.		6

[9] With regard to this question - "Articles" including pursuant to the provisions of any specific law applicable to the Company (e.g. for banks - the directives of the Supervisor of Banks)

[10] Debenture companies are not required to answer this section.

[11] With regard to this question - serving as a director of a company held by the Company will not be considered as "subordinate", on the other hand, an officer (other than a director) of the Company and/or employee of a company controlled by the Company, who serves as a director of the Company will be considered as "subordinate" with regard to this question

Board of Directors Independence				
False	**True**			
		If your answer is False (i.e. a controlling shareholder and/or his/her relative and/or representative who is not a board member and/or executive officer in the Company participated in board meetings, as aforesaid) - please note the following details concerning the participation of the additional person in the board meetings, as aforesaid: Identity: _____. Position in the Company (if at all): _____. Details of the relationship to the controlling shareholder (if the individual who participated is not the controlling shareholder): _____. Was this due to his presentation of a specific topic: ☐ Yes ☐ No (mark an X in the appropriate box). Rate of his participation[12] in the board meetings held in the reporting year, for the purpose of his presentation of a specific topic: _____, participation for other purposes: _____. ☐ Not applicable (the Company has no controlling shareholders).		

Directors' qualifications and skills					
False	**True**				
	✓	The Company's Articles of Association do not include a provision restricting the option of immediately terminating the office of all the Company's directors who are not external directors (in this matter - an ordinary majority decision is not considered a restriction)[13]. If your response is False (i.e., there is such restriction), please indicate -			7
		The term of office set in the Articles of Association for a director: _____.	a.		

[12] Separately for the controlling shareholder, his/her relative and/or representative acting on his/her behalf

[13] Debenture companies are not required to answer this section.

Directors' qualifications and skills					
False	**True**				
		The majority required as prescribed in the Articles of Association for terminating the terms of office of the directors: _____.	B.		
		The requisite quorum prescribed in the Articles of Association for a general meeting convened to terminate the term of office of directors: _____.	C.		
		The majority required to change these provisions in the Articles of Association: _____.	D.		
	✓	The Company drew up a training program for new directors, regarding the Company's area of business and the laws applicable to the Company and its directors, as well as a plan for further training of directors in office, which is adapted, inter alia, to the director's position in the Company. If your response is True - please indicate whether the program was implemented during the reporting year: ☒ Yes ☐ No (mark x in the appropriate box).			8
	✓	The company set a minimum number of directors for the board of directors who are required to have accounting and financial expertise. If your response is True - please indicate the minimum number set: 2.	A.		9
_____.	_____.	The number of directors who held office during the reporting year was: Directors with accounting and financial expertise[14]: 5 Directors with professional qualifications[15:] 5 If there were such changes in the number of directors during the reporting year, please provide information of the lowest number (other than during a period of 60 days from the change) of each class of directors who held office during the reporting year.	B.		

[14] Following the board's assessment, pursuant to the provisions of the Companies Regulations ((Conditions and Qualifications for a Director with Accounting and Financial Expertise and for a Director with Professional Qualifications) 2005

[15] Cf. footnote 19.

Directors' qualifications and skills					
False	**True**				
	✓	Throughout the reporting year the board of directors was composed of both men and women. If your answer is False - please indicate the period (in days) during which this did not occur: _____. You may answer True for this question if the period during which the board did not include both men and women did not exceed 60 days, nonetheless if your answer is (True/False), please indicate the period (in days) during which the board did not include both men and women: _____.	a.		10
_____.	_____.	The number of men and of women serving on the Company's board of directors at the date of publication of this questionnaire: Men: 8; Women; 2.	B.		

Meetings of the Board of Directors (and convening of General Meetings)									
False	**True**								
		The number of board meetings held during each quarter in the reporting year: First Quarter (2014): 2 Second Quarter: 6 Third Quarter: 9 Fourth Quarter: 5					A.		11
		Please indicate, alongside the names of the Company's directors who held office during the reporting year, their participation rate[16] in board meetings (in this subsection - including meetings of the board of directors committees to which they belong, as noted below) held during the reporting year (and with regard to their term of office): (Please insert additional lines according to the number of directors)					B.		
		Participation Meetings of: Investment Committee	**Participation in Meetings of: Compensations Committee[17]**	**Participation in Meetings of: Committee for Examining the**	**Participation in Meetings of: Audit Committee[19]**	**Participation Board meetings:**	**Director's Name:**		

[16] Cf. footnote 11.

[17] Regarding a director who is a member of this committee

Meetings of the Board of Directors (and convening of General Meetings)

False	True									
				Financial Statements[18]						
		1/1	-	-	-	19/22	Gabi Last			
		-	-	-	-	6/6	Yitzchak Sharon (Teshuva) (appointed as a director on September 18, 2014)			
		-	-	5/5	6/6	22/22	Avi Harel			
		1/1	8/8	5/5	6/6	22/22	Ben-Zion Zilberfarb			
		-	8/8	5/5	6/6	21/22	Yoseph Dauber			
		-	8/8	-	-	22/22	Mazal Bronstein			
		-	-	-	-	20/22	Moshe Amit			
		1/1	-	-	-	21/22	Moshe Bareket			
		-	-	-	-	22/22	Carmit Elroi			
	✓	During the reporting year, the board of directors held at least one discussion concerning the management of the Company's businesses by the CEO and his subordinate officers, at which they were not present, and they were given the opportunity of expressing their position.								12

Separation of the roles of the CEO and Board Chair

False	True			
	✓	Throughout the reporting year the board of directors of the Company was chaired by a chairperson. You may answer True for this question if the period during which the board was not chaired by a chairperson did not exceed 60		13

[19] Regarding a director who is a member of this committee

[18] Regarding a director who is a member of this committee

Separation of the roles of the CEO and Board Chair				
False	**True**			
		days (as set forth in section 363A(2) of the Companies Law) nonetheless if your answer is (True/False), please indicate the period (in days) during which the board was not chaired by a chairperson: _____.		
	✓	Throughout the reporting year the Company was managed by a CEO. You may answer True for this question if the period during which the Company was not managed by a CEO did not exceed 90 days (as set forth in section 363A(6) of the Companies Law) nonetheless if your answer is (True/False), please indicate the period (in days) during which the Company was not managed by a CEO: _____.		14
		In a company where the chairperson of the board of directors also acts as the CEO and/or exercises his/her authority, the CEO/Chair duality was approved in accordance with the provisions of section 121 (C) of the Companies Law[20]. ☒ Not applicable (since such duality does not exist in the Company)		15
	✓	The CEO is not a relative of the board chair If your response is False (i.e. the CEO is related to the board chair) -		16
		Please indicate the relationship between the parties: _____.	a.	
		The office was approved in accordance with section 121(C) of the Companies Law[21]: ☐ Yes ☐ No (Mark an X in the appropriate box).	B.	
	✓	Controlling shareholders or their relatives do not serve as CEO or as other senior officers in the Company (other than as directors).		17

[20] In debenture companies, approval pursuant to section 121(D) of the Companies Law

[21] In debenture companies, approval pursuant to section 121(D) of the Companies Law

Separation of the roles of the CEO and Board Chair				
False	**True**			
		☐ Not applicable (the Company has no controlling shareholders).		

Audit Committee				
False	**True**			
_____.	_____.	The following persons did not serve on the audit committee during the reporting year:		18
	✓	Controlling shareholders or their relatives ☐ Not applicable (the Company has no controlling shareholders).	a.	
	✓	Chair of the Board of Directors	B.	
	✓	A director employed by the Company or by the Company's controlling shareholders or by another company controlled by them.	C.	
	✓	A director who regularly provides services for the Company or the Company's controlling shareholders or a company controlled by them.	D.	
	✓	A director whose primary source of income is the controlling shareholder. ☐ Not applicable (the Company has no controlling shareholders).	E.	
	✓	Persons who are not eligible to be a member of the Audit Committee, including controlling shareholders or their relatives, did not participate in Audit Committee meetings during the reporting year, other than pursuant to the provisions of section 115(E) of the Companies Law.		19
	✓	The requisite quorum for discussion and taking decisions at all audit committee meetings held during the reporting year was a majority of the committee members, whereby the majority of the participants were independent directors and at least one was an external director. If your response is False - please indicate the number of meetings at which this requirement did not exist: _____.		20

Audit Committee				
False	**True**			
	✓	The audit committee held at least one meeting during the reporting year with the participation of the internal comptroller and its auditor, and in the absence of Company officers who are not members of the Audit Committee, concerning flaws in the management of the corporations business.		21
	✓	Every audit committee meeting with the participation of persons who are not eligible to serve as members of the committee, was with the approval of the committee chair and/or at the request of the committee (with respect to the company's legal counsel and secretary, who are not a controlling shareholder or relative of the controlling shareholder).		22
	✓	During the reporting year, arrangements were effective, as set by the audit committee, regarding the manner in which Company employees' complaints are treated with regard to flaws in the management of its businesses and with regard to protection that will be provided for whistleblowing.		23
	✓	The audit committee (and/or the financial statements review committee) was convinced that the scope of the auditor's work and fee with regard to the financial statements during the reporting year, are appropriate for carrying out a proper audit and review.		24

Duties of the financial statements review committee ("the Committee") prior to the approval of the financial statements					
False	**True**				
_____.	_____.	Please indicate the time (in days) set by the board of directors as reasonable time for receiving the Committee's recommendations prior to discussion in the board meeting at which the financial statements will be approved. At least 2 days	a.		25
_____.	_____.	The actual number of days that elapsed between the date on which the recommendations were sent to the board of directors and the date of the board of directors discussion for approving the financial statements: Q1 Report (2014): 2 days Q2 Report 3 days Q3 Report 3 days Annual Report: 3 days	B.		
_____.	_____.	The actual number of days that elapsed between the date on which the draft financial statements were sent to the board	C.		

Duties of the financial statements review committee ("the Committee") prior to the approval of the financial statements					
False	**True**				
		of directors and the date of the board of directors discussion for approving the financial statements: Q1 Report (2014): 1 Q2 Report 2 Q3 Report 2 Annual Report: 4 days			
	✓	The Company's auditors participated in all meetings of the committee and of the board of directors at which the Company's financial statements for the quarters of the reporting year were discussed. If your answer is False, please indicate rate of their participation: _____			26
_____	_____	The Committee was in compliance, throughout the reporting year, and until the annual report was published, with all the conditions as set forth below:			27
	✓	The number of Committee members was not less than three (during the Committee's discussion and approval of the said reports).	a.		
	✓	All the conditions prescribed in section 115 (b) and (c) of the Companies Law existed (with regard to the office of the members of the audit committee).	B.		
	✓	The audit committee chair is an external director.	C.		
	✓	All the Committee's members are directors and the majority are independent directors.	D.		
	✓	All the members of the Committee are able to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	E.		
	✓	The Committee members provided declarations prior to their appointment.	F.		
	✓	The requisite quorum for the Committee discussions and decisions was a majority of its members, provided that the majority of the participants were independent directors and at least one was an external director.	G.		
_____	_____	If your answer is False with regard to one or more of the subsections of this question, please indicate with regard to which report (periodic/quarterly) the foregoing conditions were not met and the conditions that were not met _____.			

Compensations Committee				
False	**True**			
	✓	The committee consisted of, in the reporting year, at least three members and the external directors were the majority (at the time of the discussion by the committee). ☐ Not applicable (no discussion was held).		28
	✓	The terms of service and employment of all the members of the compensation committee in the reporting year comply with the Companies Regulations (Regulations for Compensation and Expenses of an External Director), 2000.		29
———	———	The following persons did not serve on the compensation committee during the reporting year:		30
	✓	Controlling shareholders or their relatives ☐ Not applicable (the Company has no controlling shareholders).	a.	
	✓	Chair of the Board of Directors	B.	
	✓	A director employed by the Company or by the Company's controlling shareholders or by another company controlled by them.	C.	
	✓	A director who regularly provides services for the Company or the Company's controlling shareholders or a company controlled by them.	D.	
	✓	A director whose primary source of income is the controlling shareholder. ☐ Not applicable (the Company has no controlling shareholders).	E.	
	✓	The controlling shareholder or his/her relatives did not participate in the reporting year in the meetings of the compensation committee, other that if the chairperson of the committee decided that any of them are required for the purpose of presenting a specific topic.		31
	✓	The compensation committee and the board of directors did not use their powers under sections 267(A)(c), 272(C)(3) and 272(C1)(1)(c) to approve a transaction or compensation policy, despite the opposition of the general meeting. If your answer is False, please indicate -		32

Compensations Committee				
False	**True**			
		Type of transaction approved as aforesaid: _____ Number of times these powers were used in the reporting year: _____		

Internal Auditor				
False	**True**			
	✓	The internal auditor reports directly to the chairperson of the board of directors or to the Company CEO.		33
	✓	The chairman of the board of directors or of the audit committee approved the work plan for the reporting year. In addition, please list the audit issues that the internal auditor dealt with in the reporting year: Execution of the decisions of the board of directors, audit committee and the general meeting; management of funds and integrity of the bookkeeping system; engagements with interested party companies; internal auditing of investees; internal enforcement plan.		34
_____	_____	Scope of the internal auditor's employment in the company in the reporting year (in hours[22]): 500		35.
	✓	In the reporting year discussions were held (by the audit committee and the board of directors) on the findings of the internal auditor.		
	✓	The internal auditor is not an interested party in the company, nor a relative, auditor or representative and does not have material business ties with the company, its controlling shareholder, his/her relatives or companies under their control.		36

[22] Including working hours invested in investees and audits carried out abroad, respectively.

Transactions with Interested Parties				
False	**True**			
	✓	The controlling shareholder or a relative (including a company under their control) are not employed by the Company and do not provide it with management services. If your response is False (i.e. the controlling shareholder or a relative are employed by the Company or do provide it with management services) please indicate - the number of relatives (including the controlling shareholder) employed by the company (including by companies under their control and/or through management companies): _____. Where their employment contracts and/or management service agreements duly approved by the organs prescribed by law: ☐ Yes ☐ No (Mark an X in the appropriate box). ☐ Not applicable (the Company has no controlling shareholders). _____.		37
	✓	To the best of the Company's knowledge, the controlling shareholder does not have other businesses in the Company's area of operations (in one or more area). If your response is False, please indicate whether and arrangement has been made between the Company and its controlling shareholder for the area of operations:		38

Concluding Notes to the Questionnaire:

- **Notes to Question 37** The controlling shareholder and his relatives serve as directors of the Company and its subsidiaries

Gabi Last, Chairman of the Board Ben Zion Zilberfarb, Chairman of the Audit Committee Aryeh Schiff, Chairman of Financial Statements Review Committee Date of Signature: **March 30, 2015**

Chapter E

Report on the Effectiveness of Internal Controls for Financial Reporting and Disclosure

Delek Group

Delek Group Ltd

Annual report for the year 2014 on the effectiveness of internal control for financial reporting and disclosure, pursuant to Ordinance 9B(a) of the Securities Ordinances (Periodic and Immediate Reports), 1970

Management, under the supervision of the Board of Directors of Delek Group Ltd. ("the Corporation"), is responsible for setting and maintaining an appropriate internal control for financial reporting and disclosure in the Corporation.

For this matter, the members of Management are:

1. Asi Bartfeld, CEO
2. Barak Mashraki, CFO
3. Leora Pratt Levin, Chief General Counsel
4. Tamar Rosenberg, Controller
5. Amit Kornhauser, Controller

Internal control of financial reporting and disclosure includes controls and procedures existing in the Corporation, which were planned or overseen by the CEO and the most senior financial officer or under their supervision, or by whoever fulfills those functions in practice, under the supervision of the Board of Directors of the Corporation, and were designed to provide a reasonable measure of assurance as to the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Corporation is required to disclose in the reports it publishes in accordance with the provisions of the law is collected, processed, summarized and reported on the date and in the format laid down in law.

Internal control includes, inter alia, controls and procedures planned to ensure that the information that the Corporation is required to disclose as aforesaid, is accumulated and forwarded to the Management of the Corporation, including to the CEO and the most senior financial officer or to whoever fulfills those functions in practice, in order to enable decisions to be made at the appropriate time in relation to the disclosure requirement.

Due to its structural limitations, the internal control of financial reporting and disclosure is not intended to provide absolute assurance that misstatement in or omission of information from the reports will be prevented or will be discovered.

Management, under the supervision of the Board of Directors, has carried out checks and an assessment of the internal controls on financial reporting and disclosures within the Corporation and their effectiveness. The evaluation of the effectiveness of internal controls on the financial reporting and disclosure that management carried out under the supervision of the Board of Directors included an assessment of the risks associated with reporting and disclosure and a determination of which processes are particularly material for the financial reporting and disclosure and which are the the applicable business units for assessment of the effectiveness of the internal controls, mapping and documenting existing controls within the Corporation, assessment of the effectiveness of the planning of the controls, an analysis of existing control differences, an assessment of the effectiveness of carrying out the controls, an overall assessment of the effectiveness of the internal controls. The assessment model for the effectiveness of the internal controls carried out by the company is based upon four components as follows: Entity Level Controls, the process of preparing and closing the financial statements, general controls of the IT systems (ITGC), and processes that have been identified by management as particularly material procedures for financial reporting and disclosure: Procedure for management of Company's cash and securities portfolio, and procedure for managing the Company's borrowings. The procedures that are particularly material in the consolidated financial statements that are prepared by some of the important consolidated companies, are: revenues cycle, investment in oil and gas exploration and production, insurance reserves and pending claims and financial investments of insurance companies.

The Phoenix Insurance Company Ltd. (Phoenix Insurance), a subsidiary of the Corporation, is an institutional body, which is subject to the rulings of the Commissioner for the Capital Market, Insurance and Savings at the Treasury, in respect of an assessment of the effectiveness of the internal controls on financial reporting.

In respect of Phoenix Insurance, the management of Phoenix Investments, under the supervision of the Board, carried out a check and assessment of the internal controls on the financial reporting and its effectiveness, based upon the provisions of Institutional Bodies Circular 2009-9-10, "Management's Responsibility for Internal Controls of the Financial Statements", Institutional Bodies Circular 2010-9-6, "Responsibility of Management for Internal Controls on Financial Reporting - Modified", and 2010-9-7, "Responsibility of Management for Internal Controls on Financial Reporting, Financial Reporting and Disclosures".

Based upon this assessment, the Board of Directors and management of Phoenix Investments reached the conclusion that the internal controls on financial reporting, in respect of Internal Controls in an Institutional Body as of Wednesday, December 31, 2014, was effective.

Based upon the assessment of effectiveness carried out by management under the supervision of the Board as detailed above, the Corporation's Board of Directors and management reached the conclusion that the internal controls on financial reporting and disclosures of the Corporation as of Wednesday, December 31, 2014 were effective.

Declaration of Executives:

(A) Declaration of the CEO in accordance with Ordinance 9B(d)(1)

Declaration of Executives
Declaration of the CEO

I, Asi Bartfeld, declare that:

1. I have reviewed the periodic report of Delek Group Ltd. ("the Corporation") for the year 2014 ("the Reports").

2. To the best of my knowledge, the reports do not include any representations that is not correct and do not lack any representation of any vital, material fact, so that was has been presented, within the context in which they have been provided, shall not be misleading in respect of the period covered by the reports.

3. To the best of my knowledge, the financial statements and other financial information in the Reports reflect fairly, from all material aspects, the financial condition, the results of operations and the cash flows of the Corporation at the dates and for the periods to which the Reports relate.

4. I disclosed to the auditor of the Corporation, to the Board of Directors, to the Audit and the Financial Statements Committees of the Board of Directors of the Corporation, based on my latest assessment of the internal control of the financial reporting and disclosure:

   A. all the significant flaws and material weaknesses in the determination or operation of the internal control of the financial reporting and disclosure that could reasonably have an adverse effect on the ability of the Corporation to collect, process, summarize or report on financial information in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and -

   B. any deception, whether material or not material, in which the CEO or anyone directly subordinate to him is involved, or in which other employees are involved who fulfill an important function in the internal control of the financial reporting and disclosure;

5. I, alone or together with others in the Corporation:

   A. I set controls and procedures or ascertained the setting and upholding of controls and procedures under my supervision, designed to ensure the material information related to the Corporation, including its consolidated companies in their meaning in the Securities (Annual Financial Statements) Ordinances, 2010. was brought to my attention by others within the Corporation or the consolidated companies, in particular during the period in which the reports were prepared; and -

   B. I set controls and procedures or ascertained the setting and upholding of controls and procedures under my supervision, designed to reasonably ensure the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles;

   C. I have assessed the effectiveness of the internal controls of the financial reporting and disclosures, and in this report have presented the conclusions of the Board of Directors and Management in respect of the effectiveness of the said internal controls as as the reporting date.

Nothing in the foregoing shall derogate from my responsibility or that of anyone else in law.

March 30, 2015

Asi Bartfeld
Chief Executive Officer

(B) Declaration of the most senior financial officer pursuant to Ordinance 9B(d)(2)

Declaration of Executives
Declaration of the most senior financial office

I, Barak Mashraki, declare that:

1. I have reviewed the financial statements and other financial information of Delek Group Ltd. ("the Corporation") for the year 2014 ("the Reports").

2. To the best of my knowledge, the financial statements and other financial information do not include any representations that is not correct and do not lack any representation of any vital, material fact, so that was has been presented, within the context in which they have been provided, shall not be misleading in respect of the period covered by the reports.

3. To the best of my knowledge, the financial statements and other financial information in the Reports reflect fairly, from all material aspects, the financial condition, the results of operations and the cash flows of the Corporation at the dates and for the periods to which the Reports relate.

4. I disclosed to the auditor of the Corporation, to the Board of Directors, to the Audit and the Financial Statements Committees of the Board of Directors of the Corporation, based on my latest assessment of the internal control of the financial reporting and disclosure:

   A. all the significant flaws and material weaknesses in the determination or operation of the internal control of the financial reporting and disclosure insofar as they refer to the financial statements and other financial information that could reasonably have an adverse effect on the ability of the Corporation to collect, process, summarize or report on financial information in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and -

   B. any deception, whether material or not material, in which the CEO or anyone directly subordinate to him is involved, or in which other employees are involved who fulfill an important function in the internal control of the financial reporting and disclosure;

5. I, alone or together with others in the Corporation:

   A. set controls and procedures or ascertained the setting and upholding of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities (Annual Financial Statements) Ordinances, 2010, insofar as they are relevant to the financial statements and other financial information included in the reports, is brought to my knowledge by others in the Corporation and in the subsidiaries, particularly during the period of preparation of the Reports; and

   B. I set controls and procedures or ascertained the setting and upholding of controls and procedures under our supervision, designed to reasonably ensure the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles;

   C. I have assessed the effectiveness of the internal controls of the financial reporting and disclosures, insofar as it is applicable to the financial statements and other financial information included in the reports as of the reporting date. My conclusions concerning my assessment have been brought to the attention of the Board of Directors and management and have been included in this report.

Nothing in the foregoing shall derogate from my responsibility or that of anyone else in law.

March 30, 2015

Barak Mashraki
CFO