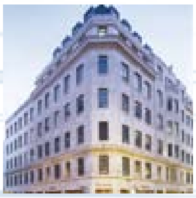
Delek Group

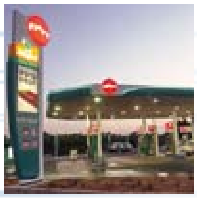
FINANCIAL STATEMENTS

UNAUDITED

AS OF MARCH 31, 2008





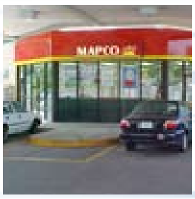


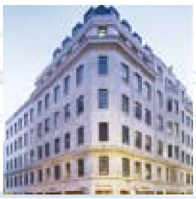
Delek Group

FINANCIAL STATEMENTS

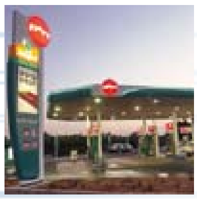
UNAUDITED

AS OF JUNE 30, 2008







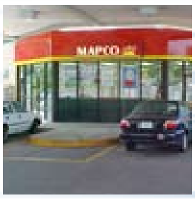


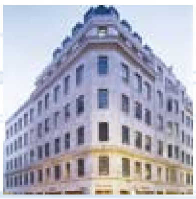
Delek Group

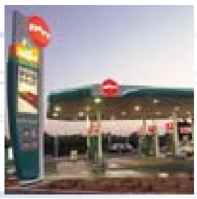
FINANCIAL STATEMENTS

UNAUDITED

AS OF SEPTEMBER 30, 2008







IMPORTANT

This document is an unofficial translation for convenience only of the Hebrew original of March 31, 2008 annual report of Delek Group Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on May 30, 2008.

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

Delek Group

Table of Contents:

Update of Chapter 1 (Description of the Corporation's Business)[1] Of the Periodic Report of the Delek Ltd Group (hereinafter: "The Company") for the Year 2007

1. **The Company's Operations and a Description of its Business Development**
The date is in accordance with the International Financial Reporting Standards (IFRS)

In the quarterly financial statements as at March 31, 2008, the Company adopted the International Financial Reporting Standards (IFRS) for the first time. These financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), which were published by the International Accounting Standards Board (IASB). Before switching to the International Financial Reporting Standards (IFRS), the Company prepared its statements in accordance with the accepted accounting standards in Israel.

The main quantitative effect of the IFRS Standards on the financial data for 2007 that were included in Part One of the Periodic Report are in the insurance sector (see Part 6G of the Board of Directors Report). In the remaining sectors the data on the basis of the IFRS Standards did not change materially in comparison with the corresponding data on the basis of the accepted accounting standards in Israel.

For additional details see Note 11 to the Financial Statements as at March 31, 2008.

2. **Distribution of Dividends**

With regard to Section 1.4 -
On May 29, 2008, the Company's Board of Directors resolved to distribute a cash dividend in the sum of NIS 75,000,000.

3. **The Real Estate Sector**

Section 1.12.1 -
On March 2, 2008, based on the Shelf Prospectus that was published by the Delek Real Estate on August 29, 2007, the Delek Real Estate performed a public offering of NIS 550,615 thousand in nonconvertible Debentures (Series Y), in return for their par value. Maalot gave the Debentures (Series Y) an A+ rating. The aforementioned rating was made contingent on financial standards being maintained. For further details see the Delek Real Estate's immediate report from February 28, 2008 (Reference Number 2008-01-058398) and the supplementary report to the aforementioned report from March 2, 2008 (Reference Number 2008-01-058590). The information appearing in the said reports is hereby presented by way of reference.

Section 1.12.10 -
As of January 2008, Delek Real Estate has been operated in accordance with the foregoing in the Amendment to the Management Agreement that was signed by MSA, a foreign subsidiary of Delek Real Estate (hereinafter in this Section: "MSA", which holds all the rights in RoadChef.
The Agreement stipulated, inter alia, that:

A. A third party (hereinafter: "the Management Company") would be responsible for the management and operation of the roadside service activities.

B. In return for the management and operations services, the Management Company would be entitled to the annual sum of £400,000 to cover its expenses. In addition, the Management Company received the right to 7.5% of the increase in value of RoadChef relative to a base sum that was stipulated in the Agreement, net the investments that were made by MSA in RoadChef, all in accordance with the terms that were stipulated in the Agreement (hereinafter: "the Exit Payment").

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[1] The update includes material innovations or changes that occurred in the Company's business during Q1 and until shortly before the date of this Report in any matter that must be described in the Periodic Report, and which was not updated in the framework of the Company's Periodic Report for the year 2007. The update pertains to the numbers of the Sections in Chapter 1 (Description of the Corporation's Business) in the Periodic Report for the Year 2007.

C. The Management Company committed itself vis-à-vis MSA with regard to a fixed annual yield based on RoadChef's EBITDA.

D. The Management Company was granted full authority to make decisions regarding the management and operation of the activities. To this end, the Management Company received all the authority to perform its work from the Board of Directors and from the shareholders in MSA.

E. The Agreement is valid for a period of five years, from January 2008 and until January 4, 2013, but can be terminated at an earlier date, in accordance with the terms that were stipulated in the Agreement.

In accordance with the foregoing in the Agreement, as of January 1, 2008, Delek Real Estate perceives its investment in RoadChef as activity in the Real Estate for Investment Abroad sector.

Section 1.12.10 A. -

On January 24, 2008, Delek Real Estate published an immediate report on the increase of its holdings in DGRE to 3.24% of the issued and paid-up share capital (Reference Number 2008-01-024681). And on January 27, 2008, Delek Real Estate published an additional immediate report on the increase of its holdings in DGRE to 3.53% of the issued and paid-up share capital (Reference Number 2008-01-025989), the information appearing in the said reports is hereby presented by way of reference.

Section 1.12.16 -

On March 25, 2008, Delek Real Estate announced in an immediate report that it had signed two agreements with Kardan Real Estate Enterprise and Development Ltd (hereinafter: "Kardan Real Estate") and Kardan Israel Ltd (hereinafter: "Kardan Israel"), as follows: According to the sales and investment agreement that was signed between Delek Real Estate, Kardan Real Estate and Kardan Israel, the Company will transfer to Kardan Real Estate all its shares in Dankner Investments Ltd (hereinafter: "Dankner Investments"), a wholly owned subsidiary of Delek Real Estate, and this against the allocation of 40% of the shares in Kardan Real Estate to Delek Real Estate, so that after the allocation Kardan Israel and Delek Real Estate will hold 60% and 40% of the shares of Kardan Real Estate, respectively, and Kardan Real Estate will hold all the issued and paid-up share capital of Dankner Investments. The second agreement that was signed between Delek Real Estate and Kardan Israel regulates the relations between the parties thereto, as shareholders in Kardan Real Estate, after the completion of the sales deal. For further details see the Delek Real Estate's immediate report from March 25, 2008 (Reference Number 2008-01-083097). The information appearing in the said report is hereby presented by way of reference.

Section 1.12.26 -

On January 31, 2008, Delek Real Estate completed the purchase of the holdings of all the shareholders of Carmel Beach Resort 89 Ltd and Carmel Beach Resort 88 Ltd (these two companies shall be referred to jointly hereunder as: "the Carmel Beach Companies"), so that after the purchase, Delek Real Estate will hold 100% of the shares of the Carmel Beach Companies (previously Delek Real Estate held 17.34% of the shares of the Carmel Beach Companies).

In return for the purchase of the shares as stated, Delek Real Estate paid the total sum of around NIS 32 million. In the framework of the purchase of the shares, Delek Real Estate signed an agreement with Bank Leumi Le-Israel Ltd, as party of the first part, and with the Carmel Beach Companies, as party of the second part. For further details see the Delek Real Estate's immediate report from February 3, 2008 (Reference Number 2008-01-032634). The information appearing in the said report is hereby presented by way of reference.

Section 1.12.32 -

On May 20, 2008, Delek Real Estate announced the Jelmoli had announced that it had gone back on its intention to file suit in the framework of the arbitration over the enforcement of the agreement. Jelmoli announced that it now intends to sue only for damages due to the breach of the agreement (a breach that is alleged by Jelmoli and denied by the defendants).

As reported by Delek Real Estate, on May 25, 2008, the sum of the damages claimed by Jelmoli was presented solely on an initial basis at this stage, as part of the discussions in order to determine the arbitration framework, since at this stage of the arbitration, preliminary proceedings are involved before the filing of the statement of claim and the statement of counterclaim, proceedings during which the specifics of the dispute between the parties, the scope of the arbitration and the remedies that are demanded therein are determined, inter alia.

There is a lack of clarify with regard to the magnitude of the sum that is claimed by Jelmoli as damages in the framework of the arbitration, and it is liable to exceed CHF 275 million with the addition of interest, as Delek Real Estate originally believed.

The magnitude of the sum of the damages has no effect on Delek Real Estate's position with regard to the lawsuit as this position was expressed in its financial statements for the year 2007 and for this quarter.

Shortly after the sum of the claimed damages is clarified and the sum of the counterclaim is clarified, Delek Real Estate will issue an additional report.

4. The Energy Sector

Section 1.13.3 A -
On May 15, 2008, the Delek Energy published updates with regard to the dates, costs and estimates regarding the presence of hydrocarbons in the Tamar Drilling, see Delek Energy's immediate report from May 15, 2008 (Reference Number 2008-01-133710). The details included in the said immediate report are hereby presented by way of reference.

Section 1.13.4 and 3(B) -
On May 20, 2008, Delek Energy published updates with regard to the results of the success of the verification drilling that was drilled in the Chim Sao North Drilling in Vietnam and the continuation of the predeveloopment work and drilling plans for the project, see Delek Energy's immediate report from May 20, 2008 (Reference Number 2008-01-139422). The details included in the said immediate report are hereby presented by way of reference.

5. The Insurance and Finance Sector in Israel

Section 1.14.1 A. -
In the quarterly financial statements as at March 31, 2008, the Phoenix adopted the International Financial Reporting Standards (IFRS) for the first time. The main quantitative effect of the IFRS Standards on the Company's financial data for 2007 that were included in Part One of the Company's Periodic Report are in the insurance sector (see Part 6G of the Company Board of Directors Report).

Section 1.14.2 -
On May 28, 2008, the Phoenix published the Embedded Value of the long term insurance business of the subsidiary, the Phoenix Insurance Company Ltd, as at December 31, 2007, which is NIS 3,692 million, and the Embedded Value of new business from sales in 2007, which is NIS 103 million.

Section 1.14.14 -
On May 20, 2008, the Phoenix Insurance Company, on behalf of a company under establishment that will be wholly owned and controlled (by means of the Phoenix Insurance Agencies Ltd, formerly Salit Investments and Holdings Ltd) and will be established by the date of completion of the agreement (hereinafter: "the Purchaser"), signed an agreement with Mr. Meir Uzan and companies under his control (hereinafter: "Uzan"), for the acquisition of the operation of the Shekel Group – Insurance and Finance Management (hereinafter: "Shekel" or "the Shekel Group" and "the Agreement"). Shekel is Israel's biggest privately owned pension arrangement managers. In the framework of of the management of the pension arrangements, Shekel is engaged, inter alia, in directors insurance, pension funds, provident funds, in-service training funds, savings plans and investment in the capital market. All in return for around NIS 125 million. For further details see the Company's immediate report from May 21, 2008 (Reference Number 2008-01-140739). The information appearing in the said report is hereby presented by way of reference.

Section 1.14.14 B -
On April 29, 2008, a share purchase deal between Phoenix Investments and the shareholders of Gamma Management and Clearing Ltd, in accordance with the purchase agreement that was signed on March 9, 2008, whereby on the date of completion, Phoenix Investments purchased 49% of the

share capital of Gamma in return for the sum of NIS 64 million, and also extended an owners loan to Gamma in the sum of NIS 50 million, which will be subordinated vis-א-vis Gamma's financing banks. Additionally, in accordance with the purchase agreement, Phoenix Investments will be granted an option to purchase an additional 2% from Gamma, in accordance with the same purchase value. The option exercise period is three years from the date of completion of the deal. After this option is exercised and throughout a period of one year, the shareholders in Gamma will have the option to sell their holdings in Gamma to the Company, on the terms that were stipulated in the purchase agreement.

The Delek Group Ltd

Date: May 29, 2008

Names and positions of the signatories:

Gabi Last, Chairman of the Board of Directors

Assi Bartfeld, CEO

May 29, 2008

Delek Group Ltd.

Board of Directors' Report on the State of the Company Affairs

For the period of January – March 2008

The board of directors of the Delek Group Ltd. (hereinafter: the "Group" or the "Company"), is hereby honored to present the Company's Board of Directors' Report for the three months ended March 31, 2008.

1. Description of the Company and its Business Environment

The Group is a holding and management company which controls a large number of corporations which have an investment mechanism in Israel and overseas in the fields of energy, infrastructure and water desalination, real estate, finance and insurance, automobiles, biochemicals and telecommunications.

The Company's financial data and results of operations are affected by the financial data and operating results of its investee companies as well as by its realization or acquisition of holdings. The Company's cash flow is affected, inter alia, by dividends and management fees distributed by its investee companies, by receipts originating from the realization of its holdings, its ability to raise foreign financing depends, inter alia, on the value of its holdings and by investments made by the Group and the dividends it distributes to its shareholders.

2. Adoption of international financial reporting standards

As of January 1, 2008, the Group adopted international financial reporting standards (IFRS) for the first time, and therefore the interim consolidated financial statements for March 31, 2008 are the first interim consolidated financial statements of the Group under these standards. Therefore, the date of transition to reporting under IFRS is January 1, 2007. The Group has drafted an opening balance for the transition date, after which reporting under IFRS standards will commence. Prior to adoption of IFRS, the Group drafted its financial statements in accordance with the accountancy rules applicable in Israel. The first annual financial statements under IFRS standards will be for December 31, 2008, and for the year ending on that date.

The net profit ascribed to shareholders of the Group for the corresponding quarter last year amounted to approximately NIS 196 million compared with profits in the sum of approximately NIS 325 million in accordance with acceptable accounting rules in Israel. The principal change stems from cancellation of a capital gain in the sum of approximately NIS 130 million which was accredited, in the corresponding quarter last year, for sale of the shares of Menorah and which, under IFRS, was accredited directly to surplus balances on the date of transition.

The net profit ascribed to shareholders of the Group in 2007 amounted to approximately NIS 1,277 million compared with profits in the sum of approximately NIS 1,275 million in accordance with acceptable accounting rules in Israel.

For further information regarding the affects of the transition to IFRS on the Group's reports, see Note 10 to the financial statements.

3. Principal Operations

During the report period the Group's revenues amounted to some NIS 12.5 billion compared with NIS 8 billion in the corresponding period last year, representing an increase of about 55%. The increase in revenues stems mainly from an increase in revenues from the sale of fuels in Israel, the USA and Europe, from an increase in refinery revenues in the USA, from an increase in revenues of Delek Automotive and from the revenues of Delek Real Estate from property leases consolidated for the first time in the second quarter of 2007.

During the report period, profit from normal operations amounted to some NIS 0.9 billion compared with some NIS 0.6 billion in the corresponding period last year, an increase of about 53%. The increase in profits from operations stems mainly from an increase in the operating profits of Delek Automotive and from the operating profits of property leases by Delek Real Estate.

During the report period, the Group's net profit amounted to some NIS 174 million compared with some NIS 196 million in the corresponding period last year.

Main areas of operations during the report period:

In February 2008, a transaction was completed for the acquisition of all of the share capital of Elk Resources LLC ("Elk"), which deals in the production and sale of oil and gas. The share acquisition was effected by Delek Energy Systems (Rockies) (the "subsidiary"), a wholly owned subsidiary (down the line) of Delek Energy, a subsidiary of the Group. In consideration for the acquisition of Elk, the subsidiary paid the total sum of approximately USD 95.5 million, of which approximately USD 17 million was for the shares, the balance being for the repayment of a loan taken by Elk from a hedge fund in the USA. The deal was financed in full by a loan from a foreign bank.

During the report period, Delek Energy recorded a one-time loss of approximately NIS 26 million for the abandonment of an exploratory drill in the North Sea which was discovered to be not commercial.

In March 2008, an agreement was signed between the partners in the Yam Tethys Project and a subsidiary of Israel Chemicals Ltd. ("ICL") which also guaranteed the agreement, for the supply of natural gas to plants in the ICL Group. The total quantity of gas that ICL undertook to purchase from the partners in Yam Tethys is approximately 2 BCM (two billion cubic meters), and the total financial scope of the agreement (for each of the partners in Yam Tethys) is estimated at between USD 260 and 330 million. The supply of natural gas will commence upon completion of the laying of the gas transmission pipeline to the south of the country (apparently towards the end of 2008).

In March 2008, IPP Delek Ashkelon Ltd., a wholly owned (indirect) subsidiary of the Company ("Delek Ashkelon") gave notice that all of the statutory permits had been obtained for the purpose of the commercial operation of an electricity production facility (power station) set up to produce electricity in a quantity of approximately 87 MW. Most of the power station's production is intended for the purposes of the desalination plant at Ashkelon, with the balance being sold, as of the date of grant of the permits to private customers and the Israel Electric Corp.

On January 28, 2008, a subsidiary of Delek Industries entered into a memorandum of understanding with Nilit Ltd. (hereinafter: "Nilit") with respect to the construction of a private power station on Nilit's premises at Migdal Ha-emeq. A cogeneration power station (producing electricity using steam), is expected to operate at a capacity of 48 MW and will supply Nilit's entire electricity and steam consumption of 22 MW. The rest of the electricity will be sold to other private consumers. The cost of construction of the power station is approximately USD 46 million and is conditional upon entry into a financial loan facility agreement for the project.

After the balance sheet date, on April 8, 2008, Delek Ashkelon entered into an agreement for the supply of electricity to Nilit Ltd., at up to 22.5 MW worth around NIS 70 million per year. The agreement is for a term of up to December 31, 2011, with an option to extend for a further six years. The agreement is conditional upon receipt of the consent of the Israel Water Desalination Authority and Bank Leumi Le-Israel.

After the balance sheet date, in May 2008, IDE won a tender to supply three water desalination plants in a total of 72,000 cubic meters of desalinated water a day to a customer in Asia, at a total cost of approximately USD 80 million. Completion of the project is planned for the end of 2009.

In March 2008, an agreement was signed between Delek Real Estate and Kardan Real Estate Israel (which holds approximately 60% of the shares of Kardan Real Estate) for the transfer of the residential operations of Delek Real Estate to Kardan Real Estate, in consideration for the allocation of 40% of the share capital of Kardan Real Estate (the joint company).

The board of directors of the Company resolved, on May 29, 2008, to pay a dividend in the sum of approximately NIS 75 million for the profits of the first quarter of 2008. This sum should be added to the sum of approximately NIS 64 million that was paid in April 2008.

For further details regarding the operations of the companies in the Group, see Chapter 6 of the periodic report for 2007 and Chapter 7 of this report below.

4. Results of Operations

Contribution of Principal Operations to Net income (NIS millions)

	1-3/08	1-3/07	2007
Fuel operations in the US	1	57	353
Fuel operations in Israel	23	1	138
Capital gains from realization of Amisragas	-	-	86
Fuel operations in Europe(1)	11	-	31
Oil and gas exploration operations and gas production	33	18	90
Oil exploration expenses(2)	(26)	(43)	(58)
Automotive operations	85	56	245
Real estate operation according to Israeli standards(3)(4)	30	35	210
Insurance and finance operations(5)	17	83	151
Capital gains and others(6)	-	(11)	31
Net profit	**174**	**196**	**1,277**

(1) The fuel operation in Europe reflects the contribution made by Delek Benelux to the Group which, in 2007, included five months of operations commencing in August.
(2) For abandonment of drills – see also Chapter 7D below.
(3) In 2007, capital gains of some NIS 101 million resulting from the Delek US IPO in the third quarter of 2007 and some NIS 70 million from the IPO of Delek Israel in the third quarter of 2007 were included. Furthermore, this item includes unattributed financing expenses, tax results and other operating results in respect of infrastructures and investments.

The table below contains data regarding the Company's consolidated statements of income, in NIS millions:

	1-3/08	1-3/07	2007
Revenues	12,457	8,035	42,299
Cost of revenues	10,478	6,598	35,206
Gross profit	**1,979**	**1,437**	**7,093**
Increase in value of investment real estate, net	9	-	755
Sales, marketing and gas station operation expenses	750	474	2,228
General & administrative expenses	351	369	1,513
Other income (expenses), net	32	6	(80)
Operating Income	**919**	**600**	**4,027**
Net Financing Income	160	89	262
Financial expenses, net	842	315	2,126
Profit after financing	**237**	**374**	**2,163**
Profits from realization of investments in investee and other companies, net	-	-	311
Group's share of profits of affiliates and partnerships, net	54	160	348
Income before taxes on income	**291**	**534**	**2,822**
Income tax (tax benefit)	(65)	177	637
Net profit	**356**	**357**	**2,185**
Ascribed to:			
Shareholders of the Company	174	196	1,277
Minority shareholders	182	161	908
	356	357	2,185

Revenues from operating activities

During the report period, the Group's revenues amounted to NIS 12.5 billion compared with NIS 8 billion in the corresponding quarter of last year, an increase of NIS 4.5 billion (representing an increase of 55%). The increase in revenues stems mainly from an increase in revenues from the sale of fuels in Israel, the USA and Europe, from an increase in refinery revenues in the USA, from an increase in revenues of Delek Automotive and from the revenues of Delek Real Estate from property leases consolidated for the first time in the second quarter of 2007. For an analysis of the Company's revenues based on principal areas of operations see Note 9 to the financial statements.

Gross Profit

During the report period, gross profit amounted to NIS 1,979 million compared with NIS 1,437 million in the corresponding period of last year. The increase in gross profits stems mainly from the improvement in gross profits of Delek Automotive, the contribution to gross profits of the property leasing operations of Delek Real Estate which was consolidated for the first time in the first quarter of 2007, and from the contribution to gross profits of fuel operations in Europe which began in August 2007.

Operating income

Operating income during the report period amounted to NIS 919 million, compared with NIS 600 million in the corresponding period last year. The increase in profits from operations stems mainly from an increase in the operating profit of Delek Automotive and from the operating profits of property leasing at Delek Real Estate. For an analysis of the changes in operating income according to areas of operation see Note 9 to the Financial Statements and Chapter 7 below.

Financing Expenses, net

During the report period, the Group's financing expenses were affected mainly by the rise in the average debt balance of the Group resulting from expansion of operations and acquisition of new companies such as the RoadChef operation and the European Fuel Operation. Consolidation of the Property Companies in Delek Real Estate after the DGRE offering also caused a significant increase in the debt balance which affected the financial result (see below). In addition, the rise in the Known CPI in the report period of 0.4% compared with a decline of 0.4% in the corresponding period last year also caused an increase in the financing expenses.

The Group's net financing expenses amounted during the report period to NIS 682 million compared with NIS 226 million in the corresponding period last year, an increase of NIS 456 million most of which (NIS 328 million) derived from an increase in the financing expenses of Delek Real Estate resulting from the above-mentioned expansion of operations and acquisition of RoadChef.

The Group's average debt balances during the first quarter of 2008 amounted to NIS 32 billion compared with average debt balances of NIS 15 billion in the corresponding quarter last year and average debt balances of approximately NIS 23 billion throughout 2007. These facts alone led to the relative increase in financing expenses in said periods.

Gains from realization of investments in investees and other companies

In 2007, this item also includes NIS 35 million in capital gains created at Delek Real Estate in the second quarter of 2007, as a result of the DGRE offering. In addition, in the third quarter of 2007 this item included capital gains from the issue of shares of Delek US in the Lion transaction (for further details, see Chapter 7A) and the first time IPO of Delek Israel (for further details see Chapter 7B) in the amounts of NIS 101 million and NIS 70 million, respectively. Also included are capital gains from the realization of holdings in investee company, Amisragas, in the amount of NIS 124 million (before the effects of tax). There were realizations and/or issues during the first quarter of 2008 and the corresponding quarter last year.

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

During the report period, the Group's share in the profits of affiliates and partnerships amounted to NIS 54 million compared with NIS 160 million in the corresponding period last year.

The decrease in the first quarter of 2008 was mainly expressed in the fact that a foreign subsidiary of Delek Real Estate acquired control over affiliated companies and consequently the results of these companies have been consolidated as of the second quarter of 2007.

Taxes on income (tax benefits)

This item will be affected during the report period by recording of a tax benefit to Delek Real Estate in the sum of NIS 160 million, due to a reduction in undertakings for deferred taxes as a result of Delek Real Estate's intention of realizing a number of asset companies in respect of which exercise, the tax payable is expected to drop – see also Note 8 to the financial statements.

5. Financial Position

Cash and cash equivalents and short-term investments

The Group has cash and short-term investment balances in the sum of approximately NIS 4.5 billion, comprised of balances in the sum of approximately NIS 0.8 billion in the Delek Group, NIS 1.7 billion in Delek Real Estate, NIS 0.5 billion in Delek US, NIS 0.4 billion in Delek Benelux and approximately NIS 0.6 billion in Phoenix.

Total current assets

The Group's total current assets amounted, as at March 31, 2008, to approximately NIS 17 billion compared with the sum of approximately NIS 15.5 billion as at December 31, 2007.

Investment real estate and plant an equipment

The changes in these items compared with the balance as at December 31, 2007 stem mainly from the classification of the plant & equipment of RoadChef under investment real estate, due to an agreement for the transfer of risk and yield operations in the operation of road centers to a third party in consideration for a fixed minimum annual yield, as a result of which the plant & equipment of RoadChef is treated as investment real estate – see Note 3A(2) to the financial statements.

Balance of short-term financial liabilities

Total financial liabilities (to debenture-holding banking corporations and others) amounted, as at March 31, 2008 to approximately NIS 33.7 billion compared with the sum of approximately NIS 33 billion as at December 31, 2007.

Pending claims

The Company's auditors, in their review report, draw attention to the lawsuits against investee companies, for details see Note 6 to the financial statements.

6. Sources of Finance and Liquidity

A. It should be noted that Maalot, The Israel Securities Rating Company Ltd. an affiliate of Standard & Poor's, has awarded all the Company's debentures an (AA) rating.

B. In the reporting period, option warrants were exercised in the sum of approximately NIS 6 million into Company shares. For details see Note 7A to the financial statements.

C. For additional details regarding the raising of capital in affiliates, see Note 5 to the financial statements.

D. Surplus financial liabilities of the Company (in non-consolidated statements) as at March 31, 2008 totaled approximately NIS 451 million (including a total of approximately NIS 3,387 million in net loans to Group companies).

Surplus financial liabilities of Delek Investments (in the non-consolidated financial statements of Delek Investments) as at March 31, 2008, totaled approximately NIS 908 million (including a total of approximately NIS 443 million in net loans from Group companies). It should be emphasized that the investments of Delek Investments in the shares of Menorah Holdings Ltd. and Oil Refineries Ltd. were not included as financial assets in the calculation of the net surplus financial investments of Delek Investments.

Surplus financial liabilities (in the non-consolidated statements) of Delek Capital Ltd. and Delek Finance US Inc. (the direct parent company of Republic), as at March 31, 2008, amounted to approximately NIS 1,980 million.

Surplus financial liabilities of Delek Petroleum (in the non-consolidated statements of Delek Petroleum) as at March 31, 2008 amounted to NIS 251 million.

Surplus financial liabilities (in the non-consolidated statements) of Delek Europe Israel Ltd. (a wholly-owned subsidiary of the Group) as at March 31, 2008 amounted to NIS 619 million.

Surplus financial liabilities (in the non-consolidated statements) of Delek Hungary (a wholly-owned subsidiary of Delek US) as at March 31, 2008 amounted to NIS 65 million.

Surplus financial liabilities include liabilities to banks and other credit providers (including companies in the Group), less cash, cash equivalents, marketable securities and balances in banking institutions.

7. Analysis by Segment of Operation

A Fuel operations in the US

The following table contains the results of Delek US as included in the Group's consolidated financial statements:

	1-3/08			1-3/07			2007		
	Refinery and marketing operations	Convenience Stores and gas stations	Total	Refinery and marketing operations	Convenience Stores and gas stations	Total	Refining and marketing operations (1)	Convenience Stores and gas stations	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	2,723	1,777	4,500	2,000	1,396	3,396	9,534	7,261	16,794
Gross profit	**80**	**168**	**248**	**155**	**168**	**323**	**824**	**806**	**1,630**
Selling and Station Operation Expenses		153	153	-	135	135	-	645	645
General & administrative expenses			51			60			241
Operating Income			**44**			**128**			**744**
Financial expenses, net			18			24			96
Share of losses of affiliates			19						3
Net profit			**2**			74			456

Delek US operates a refinery with a maximum daily production capacity of 60,000 barrels, a crude oil pipeline and a chain of terminals for marketing fuels in Texas, as well as gas stations and convenience stores in eight neighboring states in the Southeast USA. In addition, Delek US holds 35% of Lion Oil, which operates a refinery producing approximately 75,000 barrels of oil a day, at El Dorado, Arkansas. As at the balance sheet date the Group holds 73.4% of Delek US. Delek US is a listed company in the USA.

Following is an analysis of the results of fuel operations in the USA

It should be noted that the profit and loss statements of Delek US are translated into NIS in accordance with the average exchange rates for each period. The average exchange rate for the first quarter of 2008 was significantly lower than the average exchange rate in the first quarter of 2007, and this affected the results of profit and loss items (the average exchange rate of the USD in the first quarter of 2008 is NIS 3.62. The average exchange rate in the first quarter of 2007 is NIS 4.2, constituting a decline of approximately 14%. The average exchange rate in 2007 was NIS 4.1).

Refining and marketing operations

Revenues from the refining and marketing field in the first quarter of 2008 amounted to approximately NIS 2,723 million compared with the sum of approximately NIS 2,000 million in the corresponding quarter last year.

The contribution of the results of the refining and marketing sector to gross profit amounted to approximately NIS 80 million, as compared with approximately NIS 155 million in the corresponding period last year. Note that gross profit for the first quarter of 2008 includes profits flowing from an increase in the value of inventory of Delek Refining in the sum of approximately NIS 17 million net after tax.

The refining margin in the first quarter of 2008 amounted to approximately USD6.31 per barrel whilst in the corresponding quarter, the margin per barrel amounted to approximately USD11.47. The decline in the refining margin in the first quarter stemmed mainly from a sharp increase in the prices of crude oil and incomplete compatibility of some of the distillates produced, and from an increase in energy prices (mainly natural gas). On the other hand, this decline was partly offset by the first use of an ethanol mix and increased use of sour crude.

Gas station and convenience store operations

Revenues from the gas station and convenience store sector in the first quarter of 2008 amounted to approximately NIS 1,777 million compared with the sum of approximately NIS 1,396 in the corresponding quarter last year. The increased profits are mainly due to an increase in the number of convenience stores and an increase in sales of fuels as a result of the acquisition of convenience stores from Calfee last year and an increase in fuel prices.

The contribution of the results of the gas station and convenience store sector to gross profit amounted to approximately NIS 168 million during the report period.

Delek US's share of the profits of the affiliate Lion Oil

In 2007, Delek US purchased 34.6% of Lion Oil's shares in consideration for the sum of USD 139.5 million in cash.

Privately held, Lion Oil operates a 75,000-barrel-per-day oil refinery. In addition, Lion Oil owns three pipelines for the transmission of crude oil and two terminals for marketing fuels. Changes in crude oil prices affect the profits of products produced by Lion Oil such as asphalt, propane and others because the prices of these do not correlate to the fluctuations in crude oil prices.

Delek US includes its share of the financial statements of Lion Oil for periods ending two months earlier than the reporting date. The Notes to the financial statements of Delek US state that in its view, this time gap does not have a substantial negative effect on its financial statements.

During the report period, equity losses for Delek US's share in the results of an affiliate – Lion Oil – were included in the sum of approximately NIS 19 million.

Additional Information

It should be noted that there are a number of differences between the financial results of Delek US based on the published US accounting rules and the financial results as included in the financial statements based on IFRS. The principal difference stems from a different accounting policy for inventory handling – in US financial statements the LIFO method is used to determine the cost of inventory, as opposed to the average method employed in IFRS.

For further details regarding Delek US's operations, see Note 3E to the financial statements.

B Fuel Operations in Israel

Below are data from the financial statements of Delek Israel:

	1-3/08	1-3/07	2007
	NIS millions	NIS millions	NIS millions
Revenues	1,397	1,000	4,837
Gross profit	188	142	667
Operating income	82	15	256
EBITDA	105	60	353
Financial expenses, net	45	19	112
Capital gain from realization of Amisragas, net of tax	-	-	91
Net profit before share in results of Delek US	-	1	250
Delek Israel's share in results of Delek US	-	2	15
Net profit	**28**	**4**	**265**
Ascribed to:			
Shareholders of the Company	**26**	**3**	**258**
Minority rights	**2**	**1**	**7**

Delek Israel operates in the Israeli fuel market and deals in the marketing and distribution of fuel, gasoline and oil products, as well as in the development, construction and operation of gasoline stations and convenience stores and in the field of storage and production of fuels. Delek Israel markets its products in some 230 public gas stations in Israel.

<u>Following is an analysis of Delek Israel's operations in the reporting periods</u>:

<u>Revenues</u>

Fuel sales in Israel amounted to NIS 1,397 million during the reported period, as compared with NIS 1,000 million during the corresponding quarter last year. (an increase of some 40%). Most of the increase in sales stems from a rise in fuel prices, a quantitative rise in sales, mainly in the direct marketing sector, a growth in sales of Delek Israel's convenience store chain, and growth as a result of the acquisition of production and storage operations.

<u>Gross profit</u>

Gross profit in the reported period amounted to NIS 188 million, as compared with NIS 142 million in the corresponding quarter last year (an increase of approximately 32%). Comparing the periods, the increase in gross profit stems mainly from an improvement in trade conditions with suppliers, an improvement in marketing margins, an increase in the sales of Delek Israel's convenience store chain, an increase in sale quantities and from Pi Glilot operations.

<u>Operating income</u>

Operating income in the reported period amounted to NIS 82 million, as compared with NIS 15 million in the corresponding period last year. The increase in operating income stems from an improvement in gross profits as set out above, and from a reduction in sales and general and administrative expenses as a result of a reduction in expenses for share-based payments and a reduction in station maintenance expenses, as opposed to an increase in station operating expenses in light of transfer of the stations to operation by Delek Israel.

<u>Financing expenses</u>

Financing expenses amounted to approximately NIS 45 million during the reported period, as compared with approximately NIS 19 million during the corresponding quarter last year. The increase stemmed mainly from an increase in net financial liabilities in the sum of approximately NIS 250 million. Likewise, during the report period, the CPI increased by 0.4% compared with a decrease of 0.4% in the corresponding quarter last year.

C Fuel Operations in Europe

In August 2007 Delek Petroleum completed the acquisition of Chevron's marketing operation in the Benelux countries (Belgium, Netherlands, Luxembourg) consisting of 803 Texaco-branded gas stations and 66 privately-branded stations (hereinafter: "Benelux Marketing Operation") in consideration for the sum of approximately € 400 million. The Benelux Marketing Operation also includes convenience stores, food chain stores and carwash facilities.

The acquisition of the European Fuel Operation was carried out by a wholly-owned company of the Group – Delek Benelux BV (hereinafter: "Delek Benelux"). The Group consolidated the assets of Delek Benelux in the financial statements for 2007 for the first time as at December 31, 2007.

In January 2008, Delek Benelux purchased a further 55% of the share capital of a joint venture by the name of Schreurs Oilemaatschappij BV (hereinafter: "Schreurs"). After this acquisition, Delek Benelux holds all of the shares of Schreurs. The cost of the acquisition amounted to EUR 12 million.

In February 2008, Delek Benelux purchased an additional 50% of the share capital of another joint venture by the name of De Groot Verschuur Holding BV (hereinafter – DGV). After this acquisition, Delek Benelux holds all of the shares of DGV. The cost of this additional acquisition amounted to EUR 22 million.

The above ventures operation approximately 140 gas stations (including gas stations purchased from Chevron) and are held entirely by Delek Benelux as of the report period.

Below is a summary of the balance sheet of Delek Benelux as at March 31, 2008 and December 31, 2007 (in NIS millions):

	As at March 31, 2008 (NIS millions)	**As at December 31, 2007 (NIS millions)**
Cash	396	197
Current assets (except for cash)	1,205	1,102
Investments in investee companies and long-term debit balances	221	355
Fixed assets, net	1,176	928
Other assets, net	1,215	993
Current liabilities	(1,585)	(1,252)
Long-term loans	(1,751)	(1,403)
Other liabilities	(111)	(153)
Equity capital	(766)	(767)

<u>Below are data from the statement of profit and loss of Delek Benelux:</u>

	1-3/08	**8-12/07**
	NIS millions	**NIS millions**
Revenues	3,639	3,715
Gross profit	312	458
Operating income	42	69
EBITDA	68	124
Financial expenses, net	34	49
Equity in affiliates	4	12
Net profit	**11**	**31**

For additional details of operations in the field of fuels in Europe, see Note 3B to the financial statements.

D Oil and Gas Exploration and Gas Production

Operations in Israel are carried out by the Delek Drilling Limited Partnership (hereinafter: "Delek Drilling") and the Avner Oil and Gas Exploration Limited Partnership (hereinafter: "Avner") (hereinafter: jointly the "Partnerships"), which are partners in the Yam Tethys project.

Overseas operations are carried out by subsidiaries of Delek Energy Systems Ltd. (hereinafter: "Delek Energy" or "DES") which concentrate mainly on the following spheres of operations:

1) Delek Energy (Vietnam) LLC (hereinafter: "Delek Vietnam" operates in oil and gas exploration in Vietnam. Delek Vietnam owns 25% of the rights to a project in Vietnam.

2) Delek Energy International Ltd. (hereinafter: "Delek International"), has holdings in companies and projects in the USA. During the report period, Delek International purchased all of the share capital of Elk Resources LLC (hereinafter: "Elk"), which deals in the production and sale of oil and gas in the USA.

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

	1-3/08	1-3/07	2007
	NIS millions	**NIS millions**	**NIS millions**
Revenues	115	81	352
Operating income	44	3	135
EBITDA	67	22	217
Financing expenses	22	19	93
The Group's share in the results of Avner and other affiliates	7	12	43
Net income	**7**	**(25)**	**34**
Gas sales in BCM(*)	0.9	0.6	2.8

(*) The data relate to sales of gas by the entire Yam Tethys group rounded to one tenth BCM:

Substantial events during the report period:

(1) In February 2008, a transaction was completed for the acquisition of all of the share capital of Elk Resources LLC ("Elk"), which deals in the production and sale of oil and gas. The share acquisition was effected by Delek Energy Systems (Rockies) (the "subsidiary"), a wholly owned subsidiary (down the line) of Delek Energy, a subsidiary of the Group. In consideration for the acquisition of Elk, the subsidiary paid the total sum of approximately USD 95.5 million, of which approximately USD 17 million was for the shares, the balance being for the repayment of a loan taken by Elk from a hedge fund in the USA. The deal was financed in full by a loan from a foreign bank.

(2) In March 2008, an agreement was signed between the partners in the Yam Tethys Project and a subsidiary of Israel Chemicals Ltd. ("ICL") which also guaranteed the agreement, for the supply of natural gas to plants in the ICL Group. The total quantity of gas that ICL undertook to purchase from the partners in Yam Tethys is approximately 2 BCM (two billion cubic meters), and the total financial scope of the agreement (for each of the partners in Yam Tethys) is estimated at between USD 260 and 330 million. The supply of natural gas will commence upon completion of the laying of the gas transmission pipeline to the south of the country (apparently towards the end of 2008).

Following is an analysis of the results of operations in the gas sector.

Revenues

In the report period, revenues accrued from the sale of gas and oil, net of royalties amounted to NIS 115 million (of which approximately NIS 96 million were in Israel and NIS 19 million were overseas) compared with NIS 81 million (of which approximately NIS 71 million were in Israel and approximately NIS 10 million were overseas) in the corresponding period of the previous year, representing an increase of some 42%. This increase is net of the effect of the decline in the USD exchange rate on USD revenues.

The increase in revenues in Israel during the report period, compared with the corresponding period last year, stems mainly from an increase in the sale of gas to Israel Electric Corp., including an increase in the quantity and price of gas supplied during peak hours to Israel Electric Corp. and sold at spot prices. In addition, revenues from the sale of gas to Hadera Paper Mills and to the Delek Power Station at Ashkelon (IPP) also contributed to the increase.

The increase in overseas revenues during the report period, compared with the corresponding period last year, stems mainly from the first time consolidation of the results of operations of ELK as of February 11, 2008. Total revenues from the sale of oil and gas at ELK amounted to the sum of approximately NIS 6.4 million.

Operating income

The operating income for the sector in the reporting period amounted to NIS 44 million compared with operating income of NIS 3 million in the corresponding period of the previous year.

During the report period, oil and gas exploration expenses for the drilling abandoned in the North Sea amounted to the sum of approximately NIS 25.5 million, compared with oil and gas exploration expenses of approximately NIS 43 million for the abandonment of two drills in Guinea Bissau during the corresponding period last year.

Financing expenses

Financing expenses, net in the reporting period amounted to NIS 22 million, compared with NIS 19 million in the corresponding period last year, i.e. an increase of about NIS 3 million.

Share in the results of Avner and other affiliates

During the report period, the energy sector included revenues for the holdings in the Avner affiliated partnership of some NIS 18 million compared with revenues of NIS 12 million in the corresponding period in the previous year, representing an increase of NIS 6 million. It should be noted that the operating results in Avner also reflect the results of the Yam Tethys project which were affected mainly by the above-mentioned factors.

On the other hand, Delek Energy recorded losses for its share in the results of Matra and Vogil amounting to NIS 2 million and NIS 9 million respectively.

Additional information

For further details, see Notes 3C and 4 to the financial statements and the update to Chapter A (Description of Company's Business) of the periodic report, section 1.13.

E Automotive Operations

The Group's vehicle sector is performed by Delek Automotive Systems Ltd. via other companies and corporations that it owns (hereinafter jointly: "Delek Automotive"). Delek Automotive has dealt in the importation and distribution of automobiles and spare parts manufactured by Mazda in Israel since 1994, and since 1999 has also dealt in the importation and distribution of automobiles and spare parts manufactured by Ford in Israel.

Delek Automotive is, as of the date of the balance sheet, held by the Group at a rate of approximately 55.3% (Delek Automotive is a public company with published financial statements).

Following are the results of the operation of Delek Automotive:

	1-3/08	**1-3/07**	**2007**
	NIS millions	**NIS millions**	**NIS millions**
Revenues	1,562	1,175	4,630
Gross profit	289	170	748
Sales, marketing and general and administrative expenses	20	15	80
Operating income	270	155	668
EBITDA	273	157	680
Financing revenues	-	2	9
Financing expenses	(57)	(14)	(73)
Net income	**150**	**100**	**425**

Following is an analysis of the results of the operations of Delek Automotive in the reported periods:

Following is a distribution of vehicle sales by unit:

	1-3/08	**1-3/07**	**2007**
Mazda vehicles	11,108	6,464	28,191
Ford vehicles	3,335	4,321	14,345
Total vehicle sales	**14,443**	**10,785**	**42,536**
Delek Automotive's market share out of total vehicle sales in Israel (Ministry of Transport Licensing Bureau figures)	24%	24%	22%

Revenues

During the report period, sales amounted to NIS 1,562 million compared with 1,175 million in the corresponding quarter in the previous year, an increase of 33% which stemmed primarily from a rise in number of cars sold during the report period. In the first quarter of 2008, 14,443 cars were sold, compared with 10,785 in the corresponding quarter last year. .

Sales, marketing and general and administrative expenses

In the report period, sales, marketing and general and administrative expenses increased by NIS 5 million which stemmed primarily from an increase in advertising expenses and quantities compared with the corresponding period last year.

Financing income

In the reporting period, financing expenses of NIS 57 million were created for Delek Automotive compared with approximately NIS 12 million in the corresponding period last year. The increase in financing expenses stemmed from a revaluation of foreign currency liabilities to trade payables in the sum of approximately NIS 15 million, from financing expenses for bank credit in the sum of approximately NIS 7 million, the recording of the fair value and results of derivative transactions amounting to NIS 23 million and the recording of a decline in value of an investment in marketable shares amounting to NIS 12 million.

F Real Estate Operations

Delek Real Estate (hereinafter: "Delek Real Estate"), is a public company whose shares are traded on the Tel Aviv Stock Exchange. As at the balance sheet date, the Group holds 64% of the Delek Real Estate shares.

Following are the results of the operations of Delek Real Estate:

	1-3/08	1-3/07	2007
	NIS millions	NIS millions	NIS millions
Revenues from apartment rentals, and sales, service sales and provision	390	99	3,273
Cost of revenues	57	37	2,912
Sales, general and administrative expenses	37	27	175
Financing expenses	386	68	1,026
Gains from offerings and other income	23	11	719
Share in earnings of affiliates	21	101	136
Net profit	100	59	609
Net profit ascribed to shareholders of the Company	**27**	**59**	**308**

Substantial events during the report period:

1. In 2007, Delek Real Estate purchased a company that holds rights in 29 roadside service stations in England (hereinafter: "RoadChef"). As of January 2008, the parties are operating in accordance with an amendment of RoadChef's management and operation agreement. Under the provisions of the amended management agreement, the foreign subsidiary, which holds RoadChef, received a promise of a fixed EBITDA each year in RoadChef, without exposure to risks or yields from management and operations as of 2008. The amendment of the management agreement meant that the service stations are treated, for accounting purposes, as investment real estate. In addition, following the amendment, Delek Real Estate records the revenues that it is entitled to receive from the management company on a net basis under real estate leases.

2. As at March 31, 2008, the subsidiary DGRE included reserves for deferred taxes in the sum of approximately GBP 195 million, compared with the sum of approximately GBP 216 million in the annual financial statements of DGRE for 2007. The main reason for the reduction in tax reserves is DGRE's intention, as expressed in the 2008 work plan, to realize five real estate properties and four asset companies. Following the above update, revenues in the sum of approximately GBP 23 million (approximately NIS 162 million) were included for the first quarter of 2008.

3. On March 2, 2008, Delek Real Estate made a public offering of NIS 551 million par value non-convertible debentures. The series is in shekels and bears interest of 7.3%.
4. In January 2008, Delek Real Estate completed the purchase of all of the holdings of the shareholders in Hof Carmel Vacation and Tourism 89 Ltd. and Hof Carmel 88 Ltd. such that after the acquisitions, Delek Real Estate holds 100% of those companies.

Results of Operations

The contribution of the real estate sector to the Group's net income in the first quarter of 2008 amounted to approximately NIS 30 million, as compared with approximately NIS 20 million in the corresponding quarter of last year. Note that the Group's profits from the real estate sector were affected, inter alia, by ascription of surplus negative cost generated upon the acquisition of shares of real estate companies in the sum of approximately NIS 20 million as income to the statement of profit and loss – see also Note 3A(3).

Following is an analysis of the operating results of Delek Real Estate in the reported periods:

Revenues from rentals

Revenues from rental during the reported period amounted to NIS 370 million, as compared with approximately NIS 95 million in the corresponding period last year. The increase stems mainly from an increase in rates of holdings of affiliates consolidated for the first time, from new acquisitions made during the course of 2008, and from classification of the revenues from RoadChef as revenues from rental, as a result of the new management agreement set out above.

Gross profit from rentals

Gross profit from rentals during the report period amounted to the sum of approximately NIS 330 million compared with a sum of approximately NIS 65 million during the corresponding period last year, an increase in gross profits in the sum of approximately NIS 265 million which flows mainly from the completion of purchase of control of companies during the second quarter of 2007, and from the inclusion of the results of RoadChef this quarter.

General and administrative expenses

During the report period, general and administrative expenses amounted to NIS 37 million compared with NIS 27 million in the corresponding period last year, an increase of NIS 10 million. The increase in general and administrative expenses stems primarily from general and administrative expenses for companies consolidated as a result of completion of acquisition of control in the second quarter of 2007 and from an increase in expenses for professional consultation of DGRE.

Financing expenses

Financing expenses for the period of the report amounted to approximately NIS 386 million compared with approximately NIS 68 million in the corresponding period of the previous year.

The main factors that affected the financing item during the report period compared with previous periods are:

1. Entry into consolidation of affiliates and acquisition of the roadside service station sector.
2. In Linchfield (which was consolidated for the first time in the second quarter of 2007), there are financial instruments used mainly to set the interest rates on non-recourse loans, but which are not considered as hedging instruments for accounting purposes (under the IAS 39 definition, hedging is not effective because the term of the loans does not overlap the hedging period), and therefore, changes in values are recognized under financing expenses. During the report period, a loss of approximately NIS 58 million was generated with respect to these instruments.

Delek Real Estate's share of the profits of affiliates

Delek Real Estate's share of the profits of affiliates during the report period amounted to NIS 21 million compared with NIS 101 million in the corresponding period last year. The decrease in the profits of affiliates derives mainly from completion of acquisition of control in investees in the second quarter of 2007. Income in the corresponding period last year also included profits from revaluation of affiliates in the sum of approximately NIS 43 million.

Additional information

For further details regarding the arbitration in the Jelmoli matter, see Note 6I to the financial statements.

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

G Insurance and Finance Operations

Most of the Group's holdings in the insurance and finance sector are concentrated under Delek Capital Ltd., in which the Delek Group holds 94%, aside from the 29.8% direct holding of Delek Investments in Phoenix Holdings Ltd.

1) <u>The Phoenix Holdings Ltd. (hereinafter: "The Phoenix")</u>

According to publications of the Association of Israeli Insurance Companies, based on the December 2007 data, the subsidiary The Phoenix Insurance has an 12.2% share of the general insurance market in Israel and 15.4% of the life insurance market.

Following are the principal data from the consolidated Financial Statements of The Phoenix, in which the Group has a 52% holding (in NIS millions).

	1-3/08	1-3/07	1-12/2007
Profit (loss) from life insurance and long-term savings	(11.7)	113.4	175.6
Profit (loss) from general insurance sectors	0.4	65.4	134.6
Profit from health insurance sectors	5.7	21.0	127.8
Total profit (loss) from sectors of operation	**(5.6)**	**199.8**	**438.0**
Income less expenses not ascribed to sectors of operations	8.0	(7.9)	14.2
Company's share of net results of affiliates	25.0	42.3	86.2
Profit (loss) before taxes on income	**27.4**	**234.2**	**538.4**
Tax benefit (taxes on income)	4.8	(82.1)	(175.3)
Net profit for the period	**32.2**	**152.1**	**363.1**
Net profit for the period ascribed to shareholders of the Company	**29.5**	**151.4**	**354.6**

In the sectors of operation of The Phoenix the results of the sectors of operation during in the reporting period amounted to a loss of approximately NIS 5.6 million compared with a profit of approximately NIS 199.8 in the corresponding period of the previous year. The main factor in the transition from profit in the corresponding period last year to a loss in the current period in the sectors of operations is the affect of the depreciation of rates of securities on the capital markets in Israel and around the world, which were not ascribed to capital funds.

In the first quarter of 2007 included net profits of approximately NIS 14 million as a result of the sale of all of the rights of Phoenix Insurance in a project known as Omni in Edinburgh, Scotland.

The net profit in the report period amounted to NIS 32.2 million compared with NIS 152.1 million in the corresponding period of the previous year, a reduction of approximately 78.8%. The reduction in net profit stems mainly from losses recorded in the sectors of operation during the report period, as set out above.

<u>**Substantial events during the report period:**</u>

1) In February 2008, a subsidiary of Phoenix Insurance which is a company under the (indirect) control of the Group ("Phoenix Insurance") signed a memorandum of principles to purchase the operations of the Shekel Insurance and Finance Management Group controlled by Meir Uzan. The Shekel Group is the largest private pension manager in Israel and deals in executive insurance, pension funds, provident funds, etc. In consideration for the operations, Phoenix Insurance will pay the sum of approximately NIS 125 million. The purchase agreement was signed in May 2008.

2) On May 28, 2008, Phoenix published a report regarding the embedded value of the long-term insurance business of the subsidiary Phoenix Insurance Company Ltd. as at December 31, 2007, which was NIS 3,692 million and the embedded value of new businesses from sales in 2007 which was NIS 103 million.

Analysis of life insurance and long-term savings sector

Life insurance sector

During the report period, the results of the life insurance sector amounted to a loss of approximately NIS 16 million compared with a profit in the sum of approximately NIS 112.8 million in the corresponding period last year, due to a loss recorded under income from investments in the current quarter, following negative yields recorded in values of negotiable securities in the report period held mainly in profit-sharing policies and as a result, non-collection of variable management fees in such policies.

The premiums collected during the report period amounted to approximately NIS 638.7 million, as compared with NIS 601.9 million in the corresponding period last year, an increase of approximately 6.11%.

The premium sums during the report period amounted to approximately NIS 166.7 million, as compared with NIS 182.5 million in the corresponding period last year, a decrease of approximately 8.7%. The rate of redemptions compared with gross average life insurance reserves as at March 31, 2008 and March 31, 2007 amounted to approximately 0.71% and 0.86% respectively.

Following are details concerning an assessment of net investment earnings attributed to profit-sharing policy holders and the management fees calculated in accordance with the directives issued by the Supervisor of Insurance, based on the yield and balances of the insurance reserves:

	1-3/08	1-3/07
	NIS millions	NIS millions
Investment earnings (losses) charged to policyholders after management fees	(1,045)	335.5
Management fees	27.3	88.6

Pension and provident funds

As at the reporting date, the volume of assets in Phoenix Pension and Provident Fund Management Ltd. (Hereinafter: "Phoenix Pension") amounted to NIS 1,336 million compared with assets of NIS 1,009 million as at March 31, 2007. In the reporting period Phoenix Pension recorded a pre-tax loss of NIS 0.3 million compared with a pre-tax loss of NIS 0.8 million in the corresponding period of the previous year.

As at the reporting date, the volume of assets in The Phoenix Provident Ltd. (hereinafter: "Phoenix Provident") amounted to NIS 645 million compared with NIS 563 million as at March 31, 2007. In the reporting year Phoenix Provident recorded a loss of NIS 0.3 million and in the corresponding period of the previous year it recorded a loss of NIS 0.5 million.

Analysis of general insurance

Total profits from general insurance in the report period amounted to approximately NIS 0.4 million compared with NIS 65.4 million in the corresponding period last year, mainly due to the effect of depreciation of the rates of securities on the capital market not ascribed to capital funds.

Income from premiums collected during the report period amounted to approximately NIS 406.5 million, as compared with NIS 400.3 million in the corresponding period last year, an increase of approximately 1.5%.

Revenues from investments during the report period amounted to approximately NIS 4.7 million, as compared with NIS 54.1 million in the corresponding period last year, a decrease of approximately 91.3%. Revenues from investments in the corresponding period last year include, inter alia, profits of NIS 23 million gross from the sale of all of Phoenix Insurance's rights in the project known as Omni, in Edinburgh, Scotland.

Health insurance

Income from premiums collected in the area of operations of health insurance during the report period amounted to approximately NIS 203.8 million, as compared with NIS 174.5 million in the corresponding period last year, an increase of approximately 16.8%. The gross profit in the reported period amounted to NIS 5.7 million, as compared with NIS 21 million in the corresponding period last year, a decrease of approximately 72.9%. The decrease in profits stems mainly from a transition from profit to loss under income from investments, and from a decrease in profits on private and collective businesses and on sickness and hospitalization businesses.

2) Delek Finance US ("Delek Finance")

Delek Finance is a holding company which holds 99.97% of the share capital of Republic Companies Inc. (hereinafter: "Republic"), a company which holds insurance companies and agencies and deals primarily in property and other general insurance, chiefly in the states of Texas, Louisiana, Oklahoma, Mississippi, Arkansas and New Mexico.

Following are the results of the operations of Delek Finance (in USD millions):

	1-3 /08	1-3/07	2007
Retention premiums collected	94	70	320
Revenue from investments and others, net	11	9	38
Total Revenues	**105**	**79**	**358**
Increase in insurance liabilities less reinsurers	48	42	202
Fees and other purchase expenses	28	15	67
General & administrative expenses	10	8	37
Financing expenses	7	6	26
Total expenses	**94**	**71**	**332**
Pre-tax profit	**11**	**8**	**26**
Net profit	**7**	**7**	**20**

Following is an analysis of the results of Republic's operations:

Revenues from gross premiums in the first quarter of 2008 totaled USD183 million compared with USD168 million in the previous year, an increase of some 9%. The increase in revenues from premiums flows from an improvement in all areas of Republic's operations including an increase in premiums in the areas of private and commercial insurance, accelerated increase in program management activities at insurance agencies (MGA) and a continued increase in the insurance services sector (provision of insurance services to other insurance companies).

The insurance premiums collected (retention) in the first quarter of 2008 amounted to approximately 94 million USD compared with the sum of 70 million USD in the corresponding period last year, an increase of approximately 34%.

Republic's shareholders' equity as at March 31, 2008 amounted to 301 million USD (as at December 31, 2007 – 291 million USD) and net profits in the report period amounted to 9.8 million USD.

Following is a breakdown of the premiums and fees for the period of three months ended on March 31, 2008, in general insurance by the various distribution sectors:

	Gross %	Self retention %
Private insurance	24	45
Commercial insurance	17	25
Insurance agencies (MGA)	31	30
Insurance services	28	0
	100	100

Additional Information

In February 2008, Republic purchased Four Corners Co., located in Arizona, in consideration for approximately 3 million USD. This consideration might increase by another 3 million USD depending on the future results of the agency over several years.

For additional information about insurance and financial operations, see Note 3D to the financial statements.

H Additional Activities

1) Infrastructures

(A) Water desalination

The Group's operations in the field of water desalination are implemented by IDE Technologies Ltd. (hereinafter: "IDE") in which Delek Infrastructures Ltd. (hereinafter: "Delek Infrastructure") holds 49.8%. (Delek Infrastructure is 100% owned by Delek Investments).

IDE deals in the production and sale of water desalination facilities, industrial (evaporator) centers and heat pumps, and in the operation and maintenance of desalination facilities.

On November 15, 2007 IDE announced that it was planning a public offering to list its shares for trading on the London Stock Exchange (LSE) by means of global depositary shares (GDS). The offering has been deferred at this stage due to the conditions generated in the capital markets at the end of 2007, however, Desalination Engineering will continue examining the appropriate timing to effect the aforesaid offering.

In 2007, IDE set up a company called H2ID (hereinafter: "H2ID") in which it holds 50%. H2ID won a tender published by the Government of Israel for the design, financing, construction, operation and maintenance, under the BOT method, of a seawater desalination plant in the Hadera area, with an annual capacity of some 100 million m^3. Under the franchise agreement that is the subject of the tender,H2ID undertook to construct the plant, operate and maintain it for a franchise period of 25 years (2.5 years of construction and 22.5 years of operation and maintenance). Upon the termination of the franchise period, the plant will be transferred to the State free of charge. H2ID has entered into an agreement to receive bank financing from a consortium of international banks for construction of the project.

After the balance sheet date, in May 2008, IDE won a tender for the supply of three water desalination facilities with a total capacity of 72,000 cubic meters of desalinated water per day in Asia, at a total cost of USD 80 million. The project is planned to be completed at the end of 2009.

(B) Electricity Generation Plants

A company named IPP Delek Ashkelon (hereinafter: "Delek Ashkelon") is wholly owned (indirectly) by the Group. Delek Ashkelon has constructed a power generating plant (hereinafter: the "Power Plant") which supplies power to the desalination plant in Ashkelon (under the BOT agreements between VID and the State, as described above) and to other entities.

The Power Plant, produces some 87MW of electricity, With most of the Power Plant's capacity being earmarked for the desalination plant, and the rest will be sold to private customers and/or to Israel Electric Corporation. Upon termination of the operation of the desalination plant, the Power Plant will become State property.

On January 10, 2008 the construction contractor delivered the plant to Delek Ashkelon and the plant operator and Delek Ashkelon began to supply power to VID in quantities enabled by the plant. At the same time, Delek Ashkelon, by means of the operator, is engaged in additional operation of the plant in order to improve its reliability and stability.

On February 28, 2008 the Electricity Authority approved the granting of a temporary production and supply license (for a six-month period) to the plant. These licenses were signed by the Minister of Infrastructure on March 12, 2008. This approval enables the plant to produce commercial quantities and supply power to private consumers.

On March 27, 2008, Delek Ashkelon received a business license pursuant to the Business Licensing Law, 5728-1968, and on March 30, 2008 the Company announced that it has received all the statutory licenses for the commercial operation of the Power Plant.

After the balance sheet date, on April 8, 2008, Delek Ashkelon entered into an agreement for the supply of electricity to Nilit Ltd., at up to 22.5 MW worth around NIS 70 million per year. The agreement is for a term of up to December 31, 2011, with an option to extend for a further six years. The agreement is conditional upon receipt of the consent of the Israel Water Desalination Authority and Bank Leumi Le-Israel.

On January 28, 2008, a subsidiary of Delek Infrastructures entered into a memorandum of understanding with Nilit Ltd. (hereinafter: "Nilit") regarding the construction of a private power plant on Nilit's premises at Migdal Ha-emeq. The cogeneration power station (which produces electricity using steam) is expected to operate at an output of 48 MW, and to supply the entire electricity and steam consumption of Nilit, at 22 MW. The rest of the electricity will be sold to other private consumers. The cost of construction of the power station is approximately USD 46 million, and is conditional upon entry into a financial loan facility for the project.

(C) Power plants in Brazil

Delek Infrastructure holds 51% of a US company known as Delek Brazil LLC (hereinafter: "Delek Brazil"). Delek Brazil was set up for the purpose of effecting joint investments with the other shareholders in Brazil.

In addition, in July 2007 Delek Infrastructures holds 51% of a Brazilian company called Genrent Participation Ltd. (hereinafter: "Genrent P"). In March 2008, Genrent P signed an amendment to an agreement for the purchase of 70% of the rights in the project to set up a power plant in Guyana, Brazil, to produce approximately 140 MW, the estimated cost of which is some USD 50 million. Shares in the Guyana project were transferred to Genrent P. by third parties but as at the balance sheet date, the consideration for the transaction has not yet been paid. The shareholders in Genrent P. have undertaken to provide securities for the guarantee that it gave with respect to the Guyana project, Delek Infrastructures' share of these guarantees is approximately 8 million Brazilian Reals.

After the balance sheet date, in May 2008, an agreement was signed between Genrent P. and its shareholders for the provision of shareholders' loans at the holding ratio. The shareholders loans are in shekels and bear interest at 8% per annum, and will be converted into capital in installments.

2) Biochemicals

Gadot is a manufacturer of food additives and chemicals for the food, health supplement, detergent and toiletry industries. Gadot is a public company that is 64.11% held by the Group, as at the balance sheet date.

Gadot manufactures crystalline fructose, citric acid, citric acid salts, phosphate acid salts, and special citric-acid-based salts. Most of Gadot's sales are to the European and North American markets, and its customers include the world's leading international companies in the food and detergent industries.

During the report period, the contribution of the biochemical industry to the Group's clear profit amounted to a loss of approximately NIS 4 million compared with a profit of approximately NIS 5 million during the corresponding period of the previous year.

3) Communications

The Group holds approximately 15.97% of the shares of Hot-Cable Communications Systems Ltd. (hereinafter: "Hot"), which is a public company, traded on the Tel Aviv Stock Exchange .

The investment in Hot is presented in the Group's statements on the basis of the equity method. The contribution made by telecommunications operations to the clear profit of the Group amounted during the report period to some NIS 10 million compared with the sum of approximately NIS 2 million in the corresponding period of the previous year.

The balance of the investment in Hot as at March 31, 2008 amounted to some NIS 287 million.

8. Market Risk Exposure and Management

A. 1) The Company focuses its operations mainly on holding and managing the shares of its subsidiaries. Since these are long-term investments, no hedging transactions are performed on them.

Risk management in the subsidiaries and investee companies is carried out directly by the companies themselves. Some of the companies are public and traded on the stock exchange and therefore due disclosure of this matter is included in their financial reports

2) Mr. Ido Adar, MBA, is responsible for managing currency risks for the Company and for some of the investee companies. For the past four years, Mr. Adar has served as Company treasurer, and prior to that, he served as director of the treasury and insurance department of Delek Israel.

B. Description of market risks

1) As stated above, the Group is mainly a holding and management company and its principal exposure results from the market risks of its subsidiaries and affiliates (hereinafter: "Subsidiaries".

2) During the report period, there were no substantial changes in the Company's policy regarding management of exposure to market risks and the methods of management of such, including the effect of sensitivity tests and the Group's balance of linkage with respect to the Group's reports in this regard for the year ended December 31, 2007, except for the following.

(1) Delek US entered into a number of swap transactions at the end of 2007 and during the first quarter of 2008 for the purpose of hedging the margin of its gasoline distillates produced by ethanol blending. The transactions are for a period of up to two years. Under these transactions, Delek US is entitled to receive a distillate margin in a predetermined sum derived from its entitlement to receive the cash value of a defined quantity of raw materials and from its obligation to pay the cash value of a defined quantity of distillate product. As at March 31, 2008, these transactions relate to the scope of 460,000 barrels and the fair value of these contracts as at March 31, 2008 amounted to approximately USD 3 million. The transactions were not recognized as hedging transactions for accounting purposes and the change in fair value during the first quarter, which amounted to approximately USD 2 million net of tax (approximately NIS 8 million) was ascribed to the statements of profit and loss.

(2) Delek US entered, during the first quarter of 2008, into a number of swap transactions in order to hedge its diesel distillate margin in a scope (as at March 31, 2008) of approximately 2,700,000 barrels. The fair value of these contracts as at March 31, 2008 reflects a liability of approximately USD 5.6 million (USD 3.6 million net of tax). The transactions were recognized as hedging transactions for accounting purposes and a net loss from tax was ascribed directly to equity.

Note that in light of the fluctuations in distilling margins and ethanol and gasoline prices, the fair value of these transactions might substantially change and as a result of such, materially affect the financial statements of Delek US and the Company.

C. Sensitivity tests for changes in prices of oil and oil products (NIS millions)

1. Sensitivity tests for changes in the margin between the price of crude oil and the price of diesel (NIS millions)

Sensitive instrument	Profit (loss) from the changes			Fair value	Profit (loss) from the changes		
	20%*	10%	5%		-5%	-10%	-20%*
Derivatives of margin between crude oil price and diesel price	(48)	(24)	(12)	(20)	12	24	48

(*) presuming that the maximum daily change in the margin over the past 10 years was 20%.

2. Sensitivity tests for changes in the price of ethanol and the price of gasoline (NIS millions)

Sensitive instrument	Profit (loss) from the changes			Fair value	Profit (loss) from the changes		
	20%*	10%	5%		-5%	-10%	-20%*
Derivatives on ethanol price	32	16	8	25	(8)	(16)	(32)
Derivatives on gasoline price	(35)	(17)	(9)	(14)	9	17	35

(*) presuming that the maximum daily change in the prices of ethanol and gasoline over the past 10 years was 20%.

9. Philanthropy

There were no substantial changes during the report period compared with the periodic report for 2007.

10. Directors with Accounting and Financial Expertise

There were no substantial changes during the report period compared with the periodic report for 2007.

11. Dividend

A) On March 30, 2008, the board of directors resolved to pay a dividend out of the profits of the fourth quarter of 2007, in a rate of 547.9% of the paid-up share capital. The dividend amounts to approximately NIS 64 million, and was paid on April 29, 2008.

B) After the balance sheet date, on May 29, 2008, the board of directors of the Company resolved to pay a dividend out of the profits of the first quarter of 2008, amounting to approximately NIS 75 million.

12. Critical Accounting Estimates

There were no substantial changes during the report period compared with the periodic report for 2007.

13. Approval of the financial statements

There were no substantial changes during the report period compared with the periodic report for 2007.

Sincerely,

Asi Bartfeld	**Gabriel Last**
CEO	Chairman of the Board of Directors

DELEK GROUP LTD.

Interim Consolidated Financial Statements as of 31 March, 2008

Unaudited

Contents

- - - - - - - - - - - - - - - -

The Board of Directors
DELEK GROUP LTD.

Dear Sir/Madam,

Re: Review of the unaudited consolidated interim financial statements
for the three month period ended 31 March, 2008

At your request we have reviewed the accompanying interim consolidated balance sheets of Delek Group Ltd. (hereinafter: the Group) as of March 31, 2008 as well as the interim consolidated statement of income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the three-month period then ended. Our review was carried out in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included, inter alia, reading the abovementioned financial statements, reading minutes of the shareholders' meetings and the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We were furnished with reports of other auditors regarding the review of the interim financial statements of companies whose assets constitute 10% of total consolidated assets as of March 31, 2008 and whose revenues constitute 6% of total consolidated revenues for the three month period then ended. In addition, we were furnished with reports of other auditors regarding the review of the interim financial statements of companies presented in accordance with the equity accounting method, in which investments amounted to NIS 637 million on March 31, 2008 and the Company's share in their profits amounted to NIS 14 million for the three month period then ended.

Since the review is limited in scope and does not constitute an audit in accordance with generally accepted accounting principles, we do not express an opinion on the interim consolidated financial statements.

During our review, including reading review reports of other auditors as stated above, nothing came to our attention that would necessitate any material modifications to the abovementioned financial statements in order for them to be in conformity with International Accounting Standard (IAS) 34, Interim Financial Reporting, and in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

We wish to draw your attention to Note 6 to the Financial Statements with respect to lawsuits filed against an investee company.

Kost Forer Gabbay & Kasierer — Tel Aviv ,
Certified Public Accountants — May 29, 2008

Consolidated Balance Sheets

	At March 31,		At December 31,
	2008	2007	2007
	Unaudited	Unaudited	Audited
		NIS millions	
Current Assets			
Cash and cash equivalents	3,404	3,001	3,082
Short term investments	1,094	918	1,021
Short term investments in insurance companies	2,531	1,691	1,890
Trade receivables	3,682	2,586	3,371
Amounts receivable – insurance operations	983	1,059	890
Other receivables	1,212	986	1,148
Reinsurance assets	1,504	1,504	1,497
Inventory	2,206	1,293	2,241
Deferred acquisition expenses in insurance companies	360	209	348
	16,976	13,247	15,488
Non-current assets			
Investment in securities in insurance companies	25,501	24,616	26,995
Investments – insurance operations	1,178	760	1,114
Investments in financial assets	1,054	2,051	1,171
Investments in investees	3,918	2,784	4,248
Investment property	21,207	4,398	18,476
Land held for construction	534	495	451
Investment in oil and gas exploration and production	1,171	942	883
Reinsurance assets	1,058	1,308	1,327
Property, plant and equipment, net	5,775	6,029	9,086
Deferred acquisition expenses in insurance companies	725	741	716
Deferred expenses, net (primarily for operating lease)	339	74	374
Goodwill	3,252	2,445	3,042
Other intangible assets and deferred expenses, net	1,456	947	1,492
Deferred taxes	305	113	327
	67,473	47,703	69,702
Total assets	84,449	60,950	85,190

The notes to the consolidated financial statements are an integral part thereof.

Consolidated Balance Sheets

	At March 31,		At December 31,
	2008	2007	2007
	Unaudited	Unaudited	Audited
		NIS millions	
Current liabilities			
Credit from banks and others	5,190	3,653	5,335
Trade payables	3,158	1,577	2,969
Other payables	3,580	2,026	2,883
Dividend declared	64	100	160
Insurance reserves and contingent claims	4,930	4,504	4,768
	16,922	11,860	16,115
Long-term liabilities			
Loans from banks and others	17,542	7,221	17,358
Debentures convertible into company shares	1	6	1
Debentures convertible into shares of subsidiaries	205	327	208
Other debentures and deferred deeds of undertaking	10,797	8,146	10,085
Option warrants and the convertible component of debentures	10	50	49
Financial derivatives	834	163	769
Liabilities for employee benefits, net	169	120	180
Insurance reserves and contingent claims	24,996	24,469	26,036
Other liabilities	1,549	982	1,923
Deferred taxes	2,853	794	3,217
	58,956	42,278	59,826
Shareholders' equity			
Share capital	13	13	13
Premium on shares	1,583	1,557	1,574
Capital funds	(503)	184	(5)
Treasury shares	(5)	(87)	-
Retained earnings	3,117	2,416	3,007
	4,205	4,083	4,589
Non-controlling interest	4,366	2,729	4,660
Total shareholders' equity	8,571	6,812	9,249
	84,449	60,950	85,190

May 29, 2008			
Date of approval of the financial statements	Gabriel Last Chairman of the Board of Directors	Asi Bartfeld CEO	Barak Mashraki CFO

The notes to the consolidated financial statements are an integral part thereof.

Consolidated Statements of Income

	For the three-month period ended March 31,		The year ended December 31,
	2008	2007	2007
	Unaudited	Unaudited	Audited
	NIS millions reported (excluding net earnings per share)		
Revenues	12,457	8,035	42,299
Cost of revenues	10,478	6,598	35,206
Gross earnings	1,979	1,437	7,093
Appreciation of investment property, net	9	-	755
Selling, marketing and gas station operating expenses	750	474	2,228
General & administrative expenses	351	369	1,513
Other income (expenses), net	32	6	(80)
Operating income	919	600	4,027
Financing income	160	89	262
Financing expenses	842	315	2,126
Earnings after financing	237	374	2,163
Gains from the sale of investments in investee companies, net	-	-	311
Group's share in earnings of affiliates and partnerships, net	54	160	348
Earnings before taxes on income	291	534	2,822
Taxes on income (tax benefits)	(65)	177	637
Net profit	356	357	2,185
Attributable to:			
Company shareholders	174	196	1,277
Minority interest	182	161	908
	356	357	2,185
Net earnings per share attributable to Company shareholders (NIS)			
Basic net earnings	14.91	17.01	110.63
Diluted net earnings	13.54	15.68	108.87

The notes to the consolidated financial statements are an integral part thereof

Consolidated Statement of Changes in Equity

	Attributed to the Company's shareholders								
	Share capital	Premium on shares	Adjustments for translation of financial statements of foreign operations	Other capital funds	Treasury shares	Retained earnings	Total	Non-controlling interest	Total shareholders' equity
	Unaudited								
	NIS millions								
Balance as at January 1, 2008 (audited)	13	1,574	(291)	286	-	3,007	4,589	4,660	9,249
Loss in respect of available-for-sale financial assets, net	-	-	-	(76)	-	-	(76)	(13)	(89)
Loss in respect of cash flow hedges, net	-	-	-	(35)	-	-	(35)	(22)	(57)
Adjustments for translation of financial statements of foreign operations	-	-	(387)	-	-	-	(387)	(354)	(741)
Total expenses charged directly to shareholders' equity	-	-	(387)	(111)	-	-	(498)	(389)	(887)
Net earnings	-	-	-	-	-	174	174	182	356
Total revenue (expenses)	-	-	(387)	(111)	-	174	(324)	(207)	(531)
Cost of share-based payment	-	-	-	-	-	-	-	4	4
Acquisition of minority interest	-	-	-	-	-	-	-	(29)	(29)
Capital issue to a minority in a consolidated company	-	-	-	-	-	-	-	1	1
Dividend paid to a minority	-	-	-	-	-	-	-	(63)	(63)
Exercise of options to Company shares	-	9	-	-	-	-	9	-	9
Dividend declared	-	-	-	-	-	(64)	(64)	-	(64)
Share buyback	-	-	-	-	(5)	-	(5)	-	(5)
Balance as at March 31, 2008	13	1,583	(678)	175	(5)	3,117	4,205	4,366	8,571

The notes to the consolidated financial statements are an integral part thereof.

Consolidated Statement of Changes in Equity

	Attributed to the Company's shareholders								
	Share capital	Premium on shares	Adjustments for translation of financial statements of foreign operations	Other capital funds	Treasury shares	Retained earnings	Total	Non-controlling interest	Total shareholders' equity
	Unaudited								
	NIS millions								
Balance as at January 1, 2007 (audited)	13	1,543	-	225	(87)	2,320	4,014	2,573	6,587
Earnings (losses) in respect of financial assets available for-sale, net	-	-	-	(37)	-	-	(37)	25	(12)
Earnings in respect of cash flow hedges, net	-	-	-	12	-	-	12	1	13
Adjustments for translation of financial statements of foreign operations	-	-	(16)	-	-	-	(16)	76	60
Total revenues (expenses) charged directly to shareholders' equity	-	-	(16)	(25)	-	-	(41)	102	61
Net earnings	-	-	-	-	-	196	196	161	357
Total revenue (expenses)	-	-	(16)	(25)	-	196	155	263	418
Cost of share-based payment	-	-	-	-	-	-	-	16	16
Dividend to a minority	-	-	-	-	-	-	-	(123)	(123)
Conversion of debentures to Company shares	-	4	-	-	-	-	4	-	4
Exercise of options to Company shares	-	10	-	-	-	-	10	-	10
Dividend	-	-	-	-	-	(100)	(100)	-	(100)
Balance as at March 31, 2007	13	1,557	(16)	200	(87)	2,416	4,083	2,729	6,812

The notes to the consolidated financial statements are an integral part thereof.

Consolidated Statement of Changes in Equity

	Share capital	Premium on shares	Adjustments for translation of financial statements of foreign operations	Other capital funds	Treasury shares	Retained earnings	Total	Non-controlling interest	Total shareholders' equity
	Attributed to the Company's shareholders								
	Audited								
	NIS millions								
Balance as at January 1, 2007	13	1,543	-	225	(87)	2,320	4,014	2,573	6,587
Earnings in respect of financial assets available for sale, net	-	-	-	70	-	-	70	5	75
Earnings in respect of cash flow hedges, net	-	-	-	7	-	-	7	4	11
Adjustments for translation of financial statements of foreign operations	-	-	(290)	-	-	-	(290)	(120)	(410)
Total revenues (expenses) charged directly to shareholders' equity	-	-	(290)	77	-	-	(213)	(111)	(324)
Net earnings	-	-	-	-	-	1,277	1,277	908	2,185
Total revenue (expenses)	-	-	(290)	77	-	1,277	1,064	797	1,861
Conversion of debentures to Company shares	-	8	-	-	-	-	8	-	8
Exercise of options to Company shares	-	10	-	-	-	-	10	-	10
Sale of treasure shares	-	13	-	-	87	-	100	12	112
Dividend	-	-	-	-	-	(590)	(590)	-	(590)
Decrease in the rate of holding in consolidated companies	-	-	-	(17)	-	-	(17)	487	470
Cost of share-based payment, net	-	-	-	-	-	-	-	101	101
Acquisition of minority interest	-	-	-	-	-	-	-	848	848
Acquisition of a consolidated company consolidated for the first time	-	-	-	-	-	-	-	309	309
Dividend to a minority	-	-	-	-	-	-	-	(467)	(467)
Balance as at December 31, 2007	13	1,574	(290)	285	-	3,007	4,589	4,660	9,249

The notes to the consolidated financial statements are an integral part thereof.

Consolidated Statement of Cash Flow

	For the three-month period ended March31,		The year ended December 31,
	2008	2007	2007
	Unaudited	Unaudited	Audited
		NIS millions	
Cash flows from operating activities			
Net profit	356	357	2,185
Adjustments required to present cash flows from operating activities (A)	(68)	(133)	(657)
Cash, net, from operating activities	288	224	1,528
Cash flows from investing activities			
Acquisition of property, plant and equipment and other assets	(244)	(99)	(952)
Acquisition of real estate for investing	(228)	(151)	(2,660)
Proceeds from the sale of property, plant and equipment and real estate for investing	6	67	156
Proceeds from the exercise of financial assets, net	(187)	383	(7)
Collection (extension) of long-term loans to associates, net	20	18	(72)
Short-term deposits, net	96	(65)	135
Increase in joint ventures for oil and gas exploration	(25)	(38)	(114)
Proceeds from the sale of investments in investees	-	2	403
Investments in investees and other companies	(16)	(417)	(1,166)
Acquisition of operations and newly-consolidated subsidiaries (B)	(516)	(1,261)	(5,195)
Acquisition of minority interest in consolidated companies	(11)	-	(210)
Collection (granting) of loans to others	30	(13)	39
Tax paid	(44)	-	-
Net cash used in investing activities	(1,119)	(1,574)	(9,643)
Cash flows from financing activities			
Short-term credit from banks and others, net	(73)	13	(427)
Long-term loans received	1,470	1,549	7,175
Long-term loans repaid	(376)	(301)	(841)
Issue of shares to non-controlling interest in consolidated subsidiaries		-	1,204
Dividend distributed	(160)	(86)	(516)
Dividend distributed to non-controlling interest in subsidiaries	(63)	(74)	(676)
Exercise of option warrants into company shares	6	6	6
Sale (acquisition) of treasury shares	(5)	-	112
Issue of debentures and debentures convertible into shares, net	545	1,388	3,700
Redemption of debentures and debentures convertible into shares	(77)	(60)	(373)
Net cash provided by financing activities	1,267	2,435	9,364
Translation differences in respect of cash balances of foreign operations	(114)	(12)	(95)
Increase in cash and cash equivalents	322	1,073	1,154
Balance of cash and cash equivalents at beginning of period	3,082	1,928	1,928
Balance of cash and cash equivalents at end of period	3,404	3,001	3,082

The notes to the consolidated financial statements are an integral part thereof.

Consolidated Statement of Cash Flow

	The three-month period ended March 31,		The year ended December 31,
	2008	2007	2007
	Unaudited	Unaudited	Audited
		NIS millions	
(A) Adjustments required to reflect cash flows from operating activities			
Income and expenses not involving cash flows:			
Appreciation of value of real estate for investing, net	(9)	-	(755)
Depreciation, depletion, amortization and impairment of assets	120	93	677
Deferred taxes, net	(253)	29	(128)
Increase (decrease) in employee benefit liabilities, net	(10)	4	19
Rise in value of loans granted, net	(68)	(10)	108
Gains (losses) from realization of property, plant and equipment, real estate and investments, net	(3)	18	(315)
Group's share in non-distributed earnings of affiliates and partnerships, net (1))	(54)	(140)	(286)
Change in fair value of financial assets and derivatives	74	(20)	64
Increase (decrease) in value of long-term liabilities, net	31	(28)	392
Increase in deferred acquisition expenses	(41)	(52)	(150)
Cost of share-based payment	30	60	100
Change in financial investments of insurance companies	576	(803)	(2,458)
Investments, less revenues from the sale of financial assets available for sale in insurance companies	102	(397)	(1,558)
Increase in reserves and pending claims	(850)	1,062	3,485
Increase in reinsurance assets	100	(60)	(263)
Changes in asset and liability items:			
Increase in trade receivables	(245)	(164)	(322)
Increase in other receivables	(333)	(264)	(428)
Decrease (increase) in inventories	19	373	(319)
Increase in trade payables	93	111	877
Increase in other payables	656	103	655
Increase in other assets, net	(3)	(40)	(52)
	(68)	(133)	(657)
(1) Net of dividends received	-	20	62
(B) Acquisition of companies consolidated for the first time			
Deficit in working capital (working capital), net (excluding cash)	474	282	496
Property, plant and equipment, real estate, investments and other property	(1,162)	(3,476)	(19,417)
Long-term liabilities	42	1,930	12,526
Minority interest		3	434
Decrease in investments in investees	130	-	766
	(516)	(1,261)	(5,195)

The notes and appendix to the financial statements are an integral part thereof.

Consolidated Statements of Cash Flows

		The three-month period ended March 31,		The year ended December 31,
		2008	2007	2007
		Unaudited	Unaudited	Audited
			NIS millions	
(C)	**Significant non-cash operations**			
	Acquisition of property, plant and equipment on credit	3	1	8
	Liability in respect of divestiture of investments	10	-	-
	Dividend and earnings to pay to non-controlling interest in consolidated companies	6	56	41
	Dividend declared	64	100	160
	Dividend and profits to receive form consolidated companies	-	-	22
	Exercise of options to shares	3	4	4
	Conversion of debentures to company shares	-	4	8
	Conversion of debentures into shares of consolidated subsidiary	-	-	63
	Acquisition of an investee by issuing shares of the subsidiary ion the USA	-	-	213
	Investment in an investee against the repayment of a loan	-	-	75
	Receivables in respect of the issue of debentures	-	318	-
(D)	**Further information on cash flows**			
	Cash paid during the period for:			
	Interest	336	86	1,165
	Taxes on income	94	80	190
	Cash received during the period for:			
	Interest	74	106	93
	Dividend	7	17	123

The notes and appendix to the financial statements are an integral part thereof.

NOTE 1 – GENERAL

First-time adoption of IFRS

The interim consolidated financial statements were prepared for the first time in accordance with International Financial Reporting Standards (IFRS), in condensed format, as of March 31, 2008 for the three-month period then ended on said date (consolidated interim financial statements). Regarding some of the notes, such as information about agreements, liabilities and contingent claims, these financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2007 and the year then ended, (the last financial statements) prepared according to generally accepted auditing practices in Israel (Israeli GAAP).

The international financial reporting standards used to prepare the interim consolidated financial statements are the standards that will be valid or for which early adoption is permitted in the first annual financial statements prepared according to IFRS as of December 31, 2008 and the year then ended, and therefore they are subject to the changes occurring therein and their implementation in these annual financial statements. Therefore, the accounting principles implemented in the preparation of the annual statements that are relevant to these interim financial statements, will only be determined finally when preparing these annual financial statements.

The Company first adopted IFRS in 2008, therefore the transition date to IFRS is January 1, 2007. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Israeli GAAP. The Company's last financial statements prepared according to Israeli GAAP were those as of December 31, 2007 and the year then ended.

See Note 10 for further details of reconciliation of accounting in accordance with Israeli GAAP and IFRS.

Format for the preparation of the interim consolidated financial statements

These interim financial statements were prepared in accordance with accepted accounting principles as required for the preparation of interim financial statements as prescribed by International Accounting Standard 34, Interim Financial Reporting, and by Section D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, insofar as these regulations are applicable to consolidated insurance companies.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies described below were implemented by the Company in the preparation of these financial statements on first-time adoption of IFRS. The accounting policies were applied consistently in all periods presented in these consolidated financial statements.

A. Basis for presentation of the financial statements

The Company prepared its financial statements based on cost, with the exception of investment property, financial derivatives and instruments, liabilities for share-based payments, liabilities for the removal of sites, liabilities for employee benefits, and assets presented at cost under IFRS 1.

Consolidated financial statements

The consolidated financial statements include the statements of companies over which the Company exercises control (subsidiaries). Control is exercised when the Company is able, directly or indirectly, to establish the financial and operational policy of the controlled company. When assessing control, the effect of potential voting rights on the date of the balance sheet is taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control is acquired until the date that control ceases.

Material mutual balances and transactions and profits and losses resulting from transactions between the companies in the Group were removed from the consolidated financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

A. Basis for presentation of the financial statements (contd.)

The non-controlling interests represent the share in the profit or loss and in the net assets (according to fair value at the acquisition date of the subsidiaries) that are not held by the Group. These are presented as shareholders' equity in a separate amount.

Acquisition of non-controlling interests is entered against goodwill, which is calculated as the difference between the consideration paid and the amount of the acquired share of the non-controlling interest at the acquisition date. Negative goodwill generated with said acquisition will be charged to the statement of income upon the sale or issue of shares with the exception of the difference between the sale consideration and the exercised asset value in the statement of income.

The non-controlling interest in a subsidiary with a deficit in shareholders' equity shares the losses of the subsidiary up to the level of the loans and liabilities (including accrued interest on these loans) and the liabilities for granting the loans. Therefore the non-controlling share in the losses presented by the Company is entered as a separate item in the balance sheet under shareholders' equity.

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.

The pension fund and indemnity fund financial statements were not consolidated with the Group's reports since their companies managing them do not own their assets and their liabilities.

B. Functional currency and foreign currency

1. Functional currency and reporting currency

The financial statements are denominated in new Israeli shekels (NIS), the functional currency of the Company.

The functional currency, which is the currency that most effectively reflects the financial environment in which the Company operates, is determined separately for each company in the Group, including investees and jointly-owned companies accounted for by the equity method, and this is the currency used to assess the company's financial situation and results of its operations. When the functional currency of a company in the Group is not the same as the reporting currency, this company constitutes a foreign operation and the information in its financial reports is translated before inclusion in the consolidated financial statements, as follows:

(a) The assets and liabilities as of every balance sheet date (including comparative information) are translated according to the closing rate at every balance sheet date. Goodwill and all adjustments of fair value to the book value of the assets and liabilities on the acquisition date of a foreign operation are accounted for as assets and liabilities of the foreign operation and are translated at the closing rate, at every balance sheet date.

(b) The income and expenses for all periods reported in the statement of income (including comparative information) are translated according to the average currency exchange rates in all the reported periods. However, when there are material fluctuations in exchange rates, the income and expenses are translated according to the exchange rate on the date of the actual transactions.

(c) Shareholders' equity, capital reserves and other capital movements are translated according to the exchange rate as incurred.

(d) The profit balance is translated on the basis of the opening balance, which was translated according to the exchange rate on that date and other relevant movements in the period which were translated as described in subsections (b) and (c) above.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

B. Functional currency and foreign currency (contd.)

1. Functional currency and reporting currency (contd.)

(e) All translation differences are charged in a separate item under shareholders' equity, in capital reserve - adjustments resulting from translation of the financial statements of foreign operations.

Loans between companies in the Group, which are not intended for repayment and are not expected to mature in the foreseeable future, and therefore constitute a part of the investment in a foreign operation, are accounted for as part of the investment. The exchange rate differences deriving from these loans appear in the same item as the shareholders' equity, as described in subsection (e) above.

Exchange rate differentials relating to foreign currency loans which comprise hedging of net investment in foreign operations are attributed, with the deduction of the tax effect to the same equity section, as stipulated in Section E above. On the exercise date of the net investment, these differential translations are charged to the statement of income.

2. Foreign currency transactions

Transactions denominated in foreign currency are initially recognized according to the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate on the balance sheet date. Exchange rate differences are charged to the statement of income. Non-monetary assets and liabilities are translated to the functional currency at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

3. Monetary items linked to the Consumer Price Index (CPI)

Balances of monetary items (assets and liabilities) which are linked, in accordance with the terms of the agreement, to the consumer price index (hereinafter: The Index) are adjusted on each balance sheet date per the appropriate index. The linkage differentials deriving from said adjustment are charged to the statement of income on the date on which they were created.

C. Cash equivalents

Cash equivalents are considered as highly liquid investments that include short-term bank deposits that can be withdrawn within three months from the date of their deposit and which are not restricted by attachments.

D. Short-term deposits

Short-term bank deposits can be withdrawn after three months from the date of their deposit. The deposits are recognized according to the terms of their deposit.

E. Provision for doubtful debts

1. The provision for doubtful debts is calculated specifically for debts which, in the opinion of the Company's management, are unlikely to be collected. In addition, the Group enters a provision for groups of customers that are estimated collectively for impairment based on the characteristics of their credit risk. Impaired receivables will be derecognized when it is determined that these debts are uncollectible.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

E. Provision for doubtful debts (contd.)

2. (a) Provisions in respect of premiums receivable in general insurance are calculated, inter alia, according to the extent of the arrears In respect of loans that are secured by mortgage over real estate assets and other loans, the provision was calculated 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 debts in respect of reinsurers' debts whose collection is doubtful on the basis of individual risk estimates.

   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 according to the actuary's recommendation, 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 preparing the provisions, the reinsurers' willingness to make cut off agreements.

F. Inventory

Inventory is stated at the lower of cost or net realizable value. The cost of inventory includes all the costs of purchase, conversion and other costs incurred in bringing items to their present location and condition. Net realizable value is the estimated selling price during the regular course of business less the estimated completion costs and costs required to affect the sale.

Inventory cost is primarily determined as follows:

Fuels and consumer goods:	Cost of fuels in the operating inventory is based on the quarterly weighted average. Cost of consumer goods in the inventory is based on the retail method
Inventory in refineries:	Cost of crude oil is based on the quarterly weighted average. The cost of distillates includes production expenses.
Vehicles:	According to specific cost
Others:	Based mainly on moving average

The Company periodically assesses the state and age of its inventory and makes provisions for slow moving stock accordingly.

When production output is irregular, the inventory cost does not include additional fixed overhead costs beyond those required for regular production. Such costs will be charged as an expense in the statement of income for the period in which they were incurred. In addition, the cost of inventory will not include irregular amounts for cost of materials, labor and other costs stemming from inefficiency.

G. Buildings and land held for sale

Buildings and land held for sale are stated at the lower of cost or net realizable value. The cost includes direct recognized building costs, indirect costs and capitalized credit costs. Net realizable value is the estimated selling price during the regular course of business less the estimated completion costs and costs required to affect the sale.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

H. Financial instruments

According to IAS 39, financial instruments are recognized at the date of initial recognition at fair value with directly attributable transaction costs, with the exception of investments recorded at fair value with changes in the statement of income.

Subsequent to initial recognition, accounting of investments in financial assets is based on their classification into one of the four categories below:

- Financial assets at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets

1. Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit and loss include financial assets that are held for trading and any financial asset that is designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss.

Financial assets are classified as held for trading if they were acquired principally for the purpose of selling in the short term, constitute part of the portfolio of identified financial instruments managed together to achieve profits in the short term, or they are a derivative that is not designated as a hedging instrument. Profits or losses from held-for-trading investments are charged to the statement of income as incurred.

Derivatives, including embedded derivatives that were separated, are classified as held for trading, unless they are designated as hedging transactions. If a financial instrument contains one or more embedded derivatives, the full hybrid instrument could be designated at the date of initial recognition as a financial asset measured at fair value through the statement of income.

The Group is assessing the existence of an embedded derivative and the need to separate it on the date it first becomes a party to the contract. An embedded derivative is only reassessed when there is a change in the contract that has a significant effect on the cash flows from the contract.

2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost by the effective interest method, taking into account transaction costs and less impairment provisions. Profit and loss are carried to the statement of income when the loans and receivables are derecognized or if impairment is recognized, or as a result of systematic amortization.

3. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets designated on initial recognition as available for sale or are not classified into one of the three categories described above. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Profit or loss as a result of fair value changes, with the exception of exchange rate differences attributed to financial debt instruments recognized in profit and loss under financing, are charged directly in equity under capital reserve for unrealized profits, net. At the date of derecognition of the investment or in the event of impairment losses, the cumulative gain or loss that was recognized in equity is charged to the statement of income. Interest income or expenses on investments are recognized in the statement of income according to the effective interest method. Dividends received for investments are recognized in the statement of income at the date of payment.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

H. Financial instruments (contd.)

4. Fair value

The fair value of the investments traded actively in organized financial markets is determined by the market prices at the date of the balance sheet. For investments that do not have an active market, the fair value is determined by using the evaluation method. These methods are based on transactions recently made in market conditions, reference to the present market value of another similar instrument, discounted cash flows or other evaluation methods.

5. Interest-bearing loans and credit

Interest-bearing debentures, loans and credit are first recognized at fair value less directly attributable transaction costs (for example, costs of raising loans). After initial recognition, interest-bearing loans and credit are recognized at amortized cost, using the effective interest rate, which takes into account the directly attributable transaction costs. Profit and loss are recognized in the statement of income when the loan is derecognized and as a result of systematic amortization.

6. Financial liabilities measured at fair value through profit and loss

Financial liabilities measured at fair value through profit and loss include financial liabilities that are held for trading and any financial liability that is designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss.

Derivatives, including embedded derivatives that were separated, are classified as held for trading unless they are intended for use as instruments for effective hedging. If a contract has one or more embedded derivative, the hybrid contract could be designated as a financial liability measured at fair value through profit and loss, with the exception of an embedded derivative that does not cause material change in cash flows or when it is clear that separation of the embedded derivative is not permitted.

7. Compound financial instruments

Convertible debentures issued in currency other than the Company's functional currency (or convertible CPI-linked debentures) contain two components: the convertible component and the debt component. The debenture is split into two liability components. The conversion component is first calculated at the recognition date as a financial derivative at fair value and the difference between the consideration received for the convertible debentures and the fair value of the conversion component is recognized as the debt component. Direct transaction costs are allocated between the liability conversion component and the liability debt component, based on the allocation of the consideration for each component, as described above.

Subsequent to initial recognition, the conversion component is accounted for as a financial derivative and is recorded at its fair value at every balance sheet date. Changes in fair value are charged to the statement of income under financing. Subsequent to initial recognition, the debt component is accounted for as described above for interest-bearing loans and credit.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

H. Financial instruments (contd.)

8. Issue of a block of securities

When issuing a block of securities, the proceeds (before issuance expenses) are charged to the components of the securities issued in the block as follows: Fair value is first determined for financial derivatives (such as option warrants with exercise supplements in currency other than the Company's functional currency) and other financial instruments recorded at fair value every period. Subsequently, fair value is determined for the financial liabilities and compound instruments (such as convertible debentures) that are not recorded at present value instead of fair value every period. The allocated proceeds for equity instruments are determined at residual value according to the difference between the total proceeds and the relevant proceeds allocated as described above. Issuance costs are allocated for every component according to the proportional amounts determined for each component as described above, net of the tax effect, if any, for equity instruments. The consideration is allocated to the block components of the same rating per the fair value ratio.

9. Derecognition of financial instruments

Financial assets

A financial asset (such as customers in the sale of trade receivables) is derecognized when:

- The validity of the contractual rights to receive cash flows from the financial asset expires.
- The Company reserves the right to receive cash flows from the asset, however the Company has an obligation for full payment to a third party, without material delays, according to the contract.
- The Company assigned its rights to receive cash flows from the asset and transferred most of the risks and benefits involved in the asset, or did not transfer and did not retain most of the risks and assets involved in the asset, however control of the asset was transferred.

When the Company assigned its rights to the cash flows from an asset and did not transfer and did not retain most of the risks and benefits involved in the asset, and did not transfer the control of the asset either, the asset is recognized according to the extent of the Company's continuing involvement in the asset. Continuing involvement in the form of a guarantee for the transferred asset is measured according to the lower of the original book value of the asset and the maximum amount of the consideration that the Group could be required to pay.

Financial liabilities

A financial liability is derecognized when the liability is removed, cancelled or expired. When a financial liability is replaced by another liability towards the same party under terms that are materially different, or when material change is made in the existing liability terms, the replacement or change are accounted for as derecognition of the original liability and recognition of the new liability. The difference in the book value of both these liabilities is charged to the statement of income. If the replacement or change is not material, they are accounted for as a change of the original liability terms and are not recognized as profit or loss from the change.

10. Treasury shares

The Company's shares held by a subsidiary were recorded at the cost offset from the Company's equity. The profit or loss from acquisition, sale, issue or cancellation of treasury shares is charged directly in shareholders' equity.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

H. Financial instruments (contd.)

11. Put options granted to non-controlling shareholders

The Group sometimes grants put options to the non-controlling shareholders for part or all of their holdings in subsidiaries. The Group recognizes the financial liabilities in respect of these options, measured at the fair value of the liabilities. In addition, the Group accounts for the non-controlling interests as if they were acquired on the said grant date of the option, when the difference is charged to goodwill. Changes in subsequent periods, with the exception of time value, are charged to goodwill if the options expire in the subsequent periods (also see 2(a) above).

12. The insurance subsidiaries resolved to designate the assets as follows:

(a) Assets included in investment portfolios of policies participating in investment profits
These assets, which include marketable financial instruments and non-marketable financial instruments, are recognized in the fair value group through profit and loss, for the following reasons: These are portfolios under management, separate and identified, whose statement at fair value significantly reduces an accounting distortion of financial asset-financial liability mismatch. Furthermore, the management is conducted according to fair value and the portfolio's performance is measured according to fair value, in accordance with a documented risk management strategy, and the information about the financial instruments is reported to the management (the relevant investments committee) internally on the basis of fair value

(b) Marketable assets which are not included in investment portfolios against profit-sharing policies (nostro) that do not include embedded derivatives or do not constitute derivatives (including investment funds)

These assets, which include designated debentures (Hetz agreements), other non-marketable debentures, commercial certifications, and loans and debit balances payable, are classified as other payables and stated in the balance sheet as non-marketable debt assets.
Non-marketable shares are classified as available-for-sale financial assets.
See section 4 below for derivatives or embedded derivatives.

(c) Marketable assets which are not included in investment portfolios against profit-sharing policies (nostro) and do not include embedded derivatives or do not constitute derivatives (including investment funds).

These assets are classified as available for sale financial instruments.

(d) Derivatives and financial instruments that include embedded derivatives requiring separation
These assets will be assigned to the group of fair value through profit and loss commencing on the transition date (excluding derivatives designated as effective hedging derivatives).

(e) Financial assets and liabilities of certain liability certificates
Marketable and non-marketable financial assets and liabilities of liability certificates included in a portfolio measured as a whole by the Company at fair value are stated at fair value.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

I. Impairment of financial assets

The Group assesses whether there is impairment of financial assets or a group of financial assets at every balance sheet date.

1. Assets recorded at amortized cost

When there is objective evidence of impairment on loans and receivables recorded at amortized cost, the amount of the loss recorded in the statement of income is measured as the difference between the asset's book value and the present value of its projected future cash flows (excluding future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset (the effective interest rate calculated on initial recognition). The book value of the asset is decreased by recording a provision. The amount of the loss is charged to the statement of income

2. Assets available-for-sale

When there is objective evidence of impairment, the amount of the loss is measured as the difference between the cost (less payment of principle and amortization) and the fair value, less the impairment charged in the past to the statement of income. This loss is transferred from equity to the statement of income. Cancellation of the loss from impairment is not charged to the statement of income. Reversal of the impairment for liability instruments is charged to the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was charged to the statement of income.

J. Derivative financial instruments

The Group carries out contracts with derivative financial instruments such as forward exchange contracts and interest rate swap transactions (IRS) and transactions to fix gas prices and inventory prices to hedge against exposure to fluctuations in interest rates, currency exchange rates and changes in the prices of gas and inventory sales or purchases.. These financial derivatives are recognized initially at fair value. Attributable transaction costs are charged to the statement of income as incurred. Subsequent to initial recognition, the financial derivatives are measured at fair value.

Profits or losses deriving from changes in the fair value of derivatives that are not used for hedging are immediately charged to the statement of income.

The fair value of forward currency 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.

Embedded derivatives are separated from the host contract and accounted separately if: (a) the economic characteristics and risks of the host contract are not closely related to those of the embedded contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; (c) the hybrid instrument is not measured at fair value through profit and loss.

Hedging transactions that meet the criteria are accounted for as follows:

Cash flow hedge

The effective portion of the profit or loss from the hedged instrument is recognized directly in shareholders' equity while the non-effective portion is immediately recognized in the statement of income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

J. Derivative financial instruments (contd.)

Amounts charged to shareholders' equity are transferred to the statement of income while the results of the hedging transactions are carried to the statement of income, for example, when the hedged income or expense is recognized in the statement of income or when the projected transaction occurs. When the hedged item is the cost of a non-monetary asset or liability, this cost also includes the attributed amounts that are charged directly to shareholders' equity.

When a forecast transaction or firm commitment is not likely to occur, the amounts recognized in shareholders' equity are transferred to the statement of income. When the hedging instrument expires or is sold, discharged or exercised, or if its designation as a hedging instrument is cancelled, the amounts recognized in shareholders' equity remain in shareholders' equity until the forecast transaction or firm commitment occurs.

K. Leasing

Classification of a lease as a finance lease or an operating lease is based on the substance of the transaction. Classification is made at the inception of the lease according to IAS 17.

1. Finance lease

   A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. At commencement of the lease term, the asset is measured at the lower of the fair value of the asset or the present value of the minimum lease payments . Lease payments are allocated between the finance expense and the repayment of the liability for the lease using the effective interest method.

   After the initial lease, the asset is accounted for according to the accounting policy relevant to this asset.

2. Operating lease

   A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incident to ownership. Initial direct costs are added to the book value of the leased asset and are recognized over the lease term.

   Land that is not part of the investment property that is stated in fair value is accounted for a operating lease when the amount attributed to the discounted leased land is stated in the balance sheet as "an advance operating lease fees" and is recognized as an expense in the statement of income according to the straight line method over the leasing period, including the optional period of 49 years in some of the cases.

L. Business combinations and goodwill

Business combinations are accounted for by the acquisition method under IFRS 3. Under this method, the assets and liabilities of the acquired business are measured at their acquisition-date fair value and all non-controlling interests in the acquired entity are reported according to the share of the non-controlling interest in the net fair value of these items.

When acquiring companies, the acquisition cost is sometimes temporarily attributed to assets and liabilities acquired as part of a business combination. The value of the acquired assets and liabilities is adjustable up to twelve months from the acquisition date.

If the business combinations are carried out in stages, each acquisition is accounted for separately. Changes in the fair value of the net identified assets are classified on the business combination date to the capital fund.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

L. <u>Business combinations and goodwill</u> (contd.)

Goodwill acquired as part of a business combination is first measured as the difference between the acquisition cost and the Group's share in the net fair value of the identified assets, identified liabilities and the contingent liabilities of the acquired business. Subsequent to initial recognition, goodwill is measured at cost less cumulative losses from impairment. Goodwill is not amortized systematically. To assess impairment, goodwill is allocated to each of the cash generating units of the Group. For assessment of impairment of goodwill, see section I.

Profit or loss from divesting part of the cash generating unit includes the share of goodwill measured according to the partial attribution divested from the cash generating unit. When divesting subsidiaries, the difference between the consideration and the net assets with the cumulative translation differences and unamortized goodwill balances are charged to the statement of income.

<u>Acquisition of subsidiaries that are not business combinations</u>

Under IFRS 3, when acquiring subsidiaries and operations that do not constitute a business as defined in IFRS 3, the consideration for the acquisition is only allocated between the recognized assets and liabilities of the acquiring company, according to the proportion of their fair value at the acquisition date and without attributing any amount to goodwill or deferred taxes, with the participation of the minority, if any, according to its share in the net fair value of these recognized assets at the acquisition date.

M. <u>Investment in investees</u>

Investees are companies in which the Group has significant influence over their financial and operating policy, but not control.

The equity method of accounting is used to record investment in an investee. Jointly-controlled entities are also accounted for by the equity method (investments in investees). Under the equity method of accounting, the investment in investees is recorded at cost and is subsequently adjusted to reflect the Group’s share in the net assets, including the capital reserves of the investee.

Goodwill for acquisition of an investee is first measured as the difference between the acquisition cost and the Group's share in the net fair value of the identified assets, identified liabilities and contingent liabilities of the investee. Subsequent to initial recognition, goodwill is measured at cost and is not amortized systematically. Goodwill is assessed to assess impairment as part of investment in an investee.

The statement of income reflects the share in the results of the investee’s operation. Profit and loss from transactions between the Group and the investee are cancelled according to the rate of holding in the investee.

The financial statements of the Company and its investees are prepared at the same dates and for the same periods or with a time difference that does not exceed three months if the statements of the investees are not available. The accounting policy used to prepare the financial statements of investees is applied uniformly and consistently with the accounting policy in the Group’s financial statements

N. <u>Investment property</u>

Investment property is property (land or buildings, or both) held by the owner (by a lessor in operational leasing) or by a tenant in finance leasing to generate revenues from rent or for increase of capital value or both, and not for the production or supply of goods or services or for administrative purposes, or for sale in the course of regular business.

Land rights held by the Group in operating lease from the Israel Land Administration are classified as investment property at fair value.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

N. Investment property (contd.)

Investment property is initially measured at cost, including directly attributed purchase costs. After the initial lease, the investment property is measured at fair value that reflects the market conditions at the balance sheet date. Gains or losses from fluctuations in the fair value of the investment property are charged to the statement of income as incurred under the "increased investment property value" item. Investment property is not depreciated systematically.

The asset is transferred from property, plant and equipment to investment property when there is a change in use, such as the use of the asset by the owners, an operating lease with a third party or completion of the development of the property designated for use as investment property.

The asset is transferred from investment property to property, plant and equipment when there is a change in use, such as the start of use by the owners or the start of development with a plan to sell the asset.

The cost of the asset transferred from investment property to property, plant and equipment or to inventory is the fair value and the transfer date.

The difference between the fair value and the cost of the asset transferred from inventory to investment property is charged to the statement of income on the transfer date, while the difference between the fair value and the cost of the asset transferred from property, plant and equipment to investment property is accounted for as revaluation according to IAS 16 and is charged to the capital reserve from revaluation.

To determine the fair value of investment property, the Group uses the value estimated by independent external assessors who are experts in estimating the value of property and have the required knowledge and experience.

O. Property, plant and equipment

Property, plant and equipment are recorded at cost with the addition of direct purchase costs, less cumulative depreciation and impairment losses and investment grants received, and do not include expenses for ongoing maintenance The cost includes spare parts and accessories that can only be used in the context of machines and equipment.

The cost of self-constructed assets includes the cost of materials, direct labor and financing costs as well as additional cost that can attributed directly to bringing the asset to the position and situation whereby it can operated according to the management's intentions, and the costs of dismantling and removing the items and restoring the site on which they are located (see below)

Depreciation is calculated in equal annual rates based on the straight line method for the duration of the useful life of the asset, as follows:

	%	Mainly %
Buildings	2-10	2.5
Machines, facilities and equipment	2.5-15	10
Vehicles	15-20	
Furniture and office equipment	6-33	
Improvements to the rented property	Throughout the lease terms, including the option periods as regards agreements whereby it is expected that the option will be exercised, or throughout the life of the improvements, the shorter	

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

O. Property, plant and equipment (contd.)

The cost of property, plant and equipment (primarily for gas exploration and oil refineries) includes the initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located, for which the Company was made liable when the item was purchased or as a result of the use of the item during a particular period, which is not for the purpose of producing inventory in that period. The liability is first measured at fair value and changes in the liabilities deriving from time are charged to the statement of income. The asset is amortized over the period of the statement of income according to the amortization method determined for that asset

The residual value and useful life of each asset are reassessed at least at the end of every year and changes are accounted for as change in accounting estimate from now onwards. See section (S) below for further details of impairment of property, plant and equipment.

The Group recognizes the costs of periodic maintenance on a fixed asset item (particularly refinery facilities) as part of the book value of a fixed asset item, as incurred, when it is expected that there will be an inflow of financial benefits to the Group, and the cost of the items can be measured reliably. These costs are amortized over the period until the next service (approximately four years). Ongoing maintenance costs are charged to profit and loss as incurred.

Depreciation of property, plant and equipment ends at the date the asset is classified and held for sale and the date the asset is derecognized, whichever is earlier. An asset is derecognized at the date of sale or when no further financial benefits from the use of the asset are expected. Profit or loss from derecognition of the asset (calculated as the difference between the net consideration from the derecognition and the impaired cost in the books) is included in the income statement when the asset is derecognized.

P. Property for Building

Property for building is included on the cost basis. The cost of the property includes credit costs attributed to financing the construction of the asset until the date of operation, planning and design costs, allocated indirect construction costs and other related costs.

Q. Credit costs for qualified assets

The Group capitalizes credit costs to costs of qualified assets.

Credit costs are capitalized when operations commence to prepare the qualified asset. Capitalization ends on completion of the operations for preparing the qualified asset for its designated use or for its sale. The amount of the capitalized borrowing costs in the reporting period does not exceed the borrowing costs incurred in the same reporting period.

R. Intangible assets

Intangible assets that are purchased separately are measured on initial recognition at cost with the addition of direct purchase costs. Intangible assets purchased in a business combination are reported at fair value at the time of purchase. Subsequent to initial recognition, intangible assets are reported at cost less accrued depreciation and impairment losses. Costs for intangible assets that are depreciated internally, with the exception of capitalized development costs, are charged to the statement of income when incurred.

In the opinion of the management, intangible assets have a defined useful life. The assets are depreciated over their useful life and impairment is assessed when there are signs of impairment in an intangible asset. The depreciation period and method for an intangible asset with a defined useful life are assed at least once a year. The change in the useful life or in the expected consumption pattern of financial benefits expected to generate from the asset will be accounted as change in depreciation period or method, and will be recorded as change in accounting estimate. The depreciation expenses for defined intangible assets with useful lives are charged to the statement of income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

R. Intangible assets (contd.)

The useful life of intangible assets is as follows:

	Years
Marketing rights and customer relations	10-15
Software	5-10
Brands and Trade Marks	4-7
Franchises	15
Value of insurance portfolios	5-14

S. Impairment of non-financial assets

The Group is examining the need to assess impairment of the book value of non-financial assets. When there are signs resulting from events or changes in circumstances indicating that the book value is not recoverable. When the book value of the non-financial assets exceeds their recoverable amount, the assets are depreciated to their recoverable value. The recoverable value is the higher of the net selling price and its value in use. When estimating the value of use, the expected cash flows are capitalized according to the discounted rate before tax that reflects the specific risks for each asset. For an asset that does not generate independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

When assessing the impairment of fuel stations operated by a subsidiary in Israel, these stations are considered as a single cash generating unit, inter alia, 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 fuel stations, each of these stations is considered as a separate cash generating unit. In testing for the impairment of fuel stations in the USA, each cluster of stations that are managed and operated together is considered as separate cash generating unit. Other assets are each tested for impairment separately.

The following criteria are applied when assessing impairment of the following specific assets:

1. Goodwill

   The Group assesses goodwill for impairment annually or more frequently if events or changes in circumstances indicate impairment.

   Impairment is determined for goodwill by assessing the recoverable amount of a cash generating unit (or a group of cash generating units) to which the goodwill refers. When the recoverable amount of a cash generating unit (or a group of cash generating units) is lower than the book value of a cash generating unit(or a group of cash generating units) to which goodwill is allocated, the impairment loss is recognized. Losses due to impairment of goodwill are not removed.

2. Investees managed by the equity accounting method

   After implementing the equity accounting method, the Group determines whether it is necessary to recognize further loss for impairment of the investment in an investee. At every balance sheet date, the Group determines whether there is objective evidence of impairment in the investment in an investee. If this is required, the impairment loss is recognized in the amount of the difference between the fair value of the investment in the investee and its book value. The impairment loss is charged to the statement of income under the Group's share in the profits (losses) of investees, net.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

T. Results of oil and gas exploration and development of proved reserves

Oil and gas investments and exploration are stated by the "successful efforts" method, according to which:

1. Expenses incurred in the participation in geological and seismic analyses and surveys are charged to the statement of income as incurred.

2. Investments in oil and gas drillings that are in the drilling stages, that were not yet proven to produce oil or gas and that are yet to be classified as being non-commercial, are presented in the balance sheet at cost.

3. Investments in oil and gas drillings that were proved to be dry and were abandoned, or that were classified as being non-commercial, or for which development programs were not set for the foreseeable future are fully amortized to the statement of income.

4. Expenses entailed in drillings that were proven to have viable gas or oil reserves are stated 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 said asset, as appraised by an expert.

5. Costs accrued for development of the proved reserves of the Yam Tethys joint venture were designed to provide options for the extraction, handling, collection and storage of gas. These costs, which include engineering planning, development drillings, and acquisition and establishment of production facilities and pipes for the delivery of the gas onshore, are stated in the balance sheet at cost and amortized to the statement of income based on the production volume relative to the total proved reserves for the asset, as appraised by an expert.

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.

Excess of the cost of investment in companies, partnerships and joint ventures that own such reserves, over their book value, is attributed to investment in reserves and amortized as stated above.

U. Taxes on income

Income tax in the statement of income includes current taxes and deferred taxes. The tax results for current or deferred taxes are charged to the statement of income, unless they refer to items charged directly to equity. In these cases the impact of the tax is also charged under equity.

1. Current taxes

   Liabilities for current taxes are based on tax rates and on the tax laws in force at the balance sheet date, as well as on the required adjustments for tax liability for payment for prior years.

2. Deferred taxes

   Deferred taxes are recognized for temporary differences between the amounts included in the financial statements and the amounts recognized for tax purposes, except for a limited number of exceptions.

   Deferred tax balances are calculated according to the tax rates that are expected to apply when these taxes are charged in the statement of income or shareholders' equity, based on the tax laws in force at the balance sheet date. The deferred tax balances in the statement of income reflect the changes in these balances in the reporting period.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

U. Taxes on income (contd.)

2. Deferred taxes (contd.)

The deferred taxes calculation does not take into account the taxes that will be incurred if investments in investees are realized, provided that the sale of these investments is not likely in the foreseeable future. In addition, deferred taxes incurred due to the distribution of earnings as dividends by investees were not taken into account, in cases when this dividend distribution does not entail an additional tax liability and due to the Group's policy to refrain from initiating dividend distributions that involve an additional tax liability.

Deferred taxes that are attributed to items charged directly to equity are also charged under equity.

Deferred tax assets and deferred tax liabilities are reported in the balance sheet as non-current assets and long-term liabilities, respectively. Deferred taxes are offset if there is a legal enforceable right that permits offsetting a current tax asset against a current tax liability and the deferred taxes refer to the same entity owing the tax to the same tax authority.

In cases where there is uncertainty with respect to the existence of taxable income in the future, deferred taxes are not assessed as an asset in the financial statements.

V. Share-based payments

Employees of some of the Group companies are entitled to benefits in the form of share-based payment, in consideration for capital instruments (hereinafter: equity settlements) and to cash-settlements based on the increased value of the Company's shares (hereinafter: cash-settlements).

Equity settlements

The cost of equity settlements for employees is measured at the fair value of the equity instruments on the grant date. The fair value is determined using an accepted pricing model.

The cost of equity settlements is recognized in the statement of income with a corresponding increase in shareholders' equity over the period during which the implementation and/or service terms apply, and end on the date on which the relevant employees become entitled to compensation (hereinafter: the vesting period). The accrued expense recognized for equity-settlements in each reported period until the vesting date reflects the progress of the vesting period and the Group's best estimate of the number of equity instruments that will eventually vest.

Expenses for grants that will not vest eventually are not recognized, with the exception of grants with vesting that is dependant on market conditions and that are accounted as vested grants regardless of the market conditions, provided that all execution terms are met.

If the Group amends the conditions for the equity settlement, an additional expense is added to the original calculated expense. An additional expense is recognized for any amendment that increases the overall fair value of the share-based payment or that benefits the employee at the fair value on the amendment date.

Cancellation of an equity settlement is accounted for as if it vested on the cancellation date and the expenses not yet recognized for the settlement are recognized immediately. However, if the cancelled settlement is replaced with a new settlement and is designated as a replacement settlement at the settlement date, the cancelled settlement and the new settlement are both accounted for as an amendment of the original settlement, as described in the previous paragraph.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

V. Share-based payments (contd.)

Cash settlements

The cost of a cash-settlement is measured at its fair value on the grant date. The fair value is determined using an accepted pricing model. The fair value is recognized as an expense over the period until vesting, and a corresponding liability is also recognized. The liability is remeasured at each balance sheet date at fair value until its settlement date, and any changes in fair value are charged to the statement of income.

W. Liabilities for employee benefits

The Group has a number of severance benefit plans. The plans are usually financed by deposits with insurance companies and are classified as defined deposit plans and defined benefit plans.

1. Short-term employee benefits

Short-term employee benefits include salaries, vacation leave, sick leave, vacation pay, convalescence pay and payments to National Insurance and are recognized as expenses with the service provider. A liability is recognized for the amount expected to be paid under short-term or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2. Severance benefits

The Group has defined deposit plans in accordance with Section 14 of the Severance Pay Law. According to these plans, the Group makes fixed payments without having a legal or constructive obligation to make any further payments, even if the amounts accumulated in the fund are insufficient to pay all the employee benefits related to the employee’s service in the current period and the prior periods/ Deposits in a defined deposit plan are recognized as an expense at the deposit date parallel to receiving the services from the employee, and no further provision is required in the books.

In addition, 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 when they retire. Severance is based on the employee's last monthly salary at the date of termination, multiplied by the number of years of employment. The Company deposits amounts for its liabilities to pay compensation to some of its employees in pension funds and insurance companies (hereinafter: the plan assets). The cost of severance pay is based on the expected actuarial value of the projected unit credit. Actuarial profits and losses are charged to the statement of income as incurred.

The liability for employee benefits reported in the balance sheet represents the present value of the defined benefit liability less the fair value of the assets of the plan. Assets deriving from this calculation are limited to the prior cost of the service with the addition of the present value of the available cash and deductions of future amounts that will be deposited in the plan.

3. Other long-term employee benefits

The Group’s net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of related assets are deducted. The discount rate is the yield at the reporting date for government bonds that have maturity dates approximating the terms of the Group’s obligations and that are denominated in the same currency in which the benefits are expected to be paid. Actuarial profits and losses are charged to the statement of income as incurred.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

X. Recognition of revenues

Revenues are recognized in the statement of income when they can be measured reliably, it is probable that there will be an inflow of financial benefits to the Company, and the costs that were or will be generated from the transaction can be measured reliably. The revenues are measured at the fair value of the consideration less commercial discounts, bulk discounts and returns.

Specific instructions for recognition of the Group's revenues required for recognition of the revenue are described below:

1. Revenue from the sale of goods

   Revenue from the sale of goods is recognized once all the significant risks and returns arising from ownership of the goods have been assigned to the buyer, and the seller no longer maintains the continuing management involvement. The transfer date is usually the date that ownership is transferred.

2. Revenue from the sale of apartments

   Revenue from the sale of apartments is recognized once all the significant risks and benefits arising from ownership have been assigned to the buyer. Revenues are only recognized at the date when there is no significant uncertainty regarding collection of the consideration from the transaction, the related costs are known, and there is no continuing managerial involvement in relation to the apartments that were sold. This usually occurs when a significant part of the building is completed, transfer of the apartment to the buyer and full payment of the consideration by the buyer.

3. Revenue from rent

   Revenue from rent is recognized according to the straight line method over the rental period. Revenue from rent that demonstrates a steady increase in rental fees over the contract period is recognized according to the straight line method provided there is certainty as to the collection of differences in rental fees in the future.

4. Revenue from interest

   Revenue from interest is recognized on an accrual basis using the effective interest method.

5. Revenue from royalties

   Revenue from royalties is recognized on an accrual basis, according to nature and terms of the agreement.

6. Revenue from dividends

   Dividends from investments that are not accounted using the equity method are recognized at the record date.

7. Reporting of gross or net revenues

   Where: the Group acts as an agent or intermediary without bearing the risks and benefiting from the returns resulting from the transaction, its revenues are recognized on a net basis. However, where the Group acts as a principal supplier and bears the risks or benefits from the returns resulting from the transaction, revenues are recognized on a gross basis.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

X. <u>Recognition of revenues (contd.)</u>

8. <u>Income from insurance businesses</u>

(a) Premiums

1) Premiums in life assurance and health insurance, including savings premiums and with the exception of receipts in respect of investment contracts recognized as revenues at the date of their collection.

Cancellations are recorded when the notification is received from the policyholder or when initiated by the insurance subsidiaries due to arrears in payments, all according to the policy terms and subject to legal provisions. Participation in profits of policyholders net of 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.

Some of the premiums in the health insurance and foreign travel branch are accounted for on a monthly or daily basis.

Since in the motor vehicle property branch of insurance the insurance comes into effect only after payment of the insurance premium, 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 are recorded as a prepaid premium.

The monthly output reports, primarily in the motor, property, and apartment branches, include automatic renewals of policies due for renewal.

Income included in the financial statements is after cancellations requested by policyholders and after cancellations and provisions due to non-payment of the premiums, subject to the law and net of participation of the policyholders in the profits.

(b) Management fees and commissions

1) Management fees for yield-dependent insurance contracts
Management fees are calculated in accordance with the directives of the Supervisor based on the yield and accumulated savings of the policyholders in participating policies.

Management fees include the following components:
For policies sold commencing January 1, 2004 – fixed management fees only
For policies sold until December 31, 2003 – fixed and variable management fees

The fixed management fees are computed at fixed percentages of the accumulated saving and are recorded on a cumulative basis.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

X. Recognition of revenues (contd.)

8. Income from insurance businesses (contd.)

(b) Management fees and commissions (contd.)

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, and net of negative amounts accumulated in the preceding years.

During the year, the variable management fees are recorded on a cumulative 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 cumulative 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 receipts from the members. Income from the management of provident funds and income from the management of customer portfolios are recognized on the basis of the managed asset balance. Income from general insurance commissions in insurance agencies is recognized as incurred. Income from life assurance commissions are recognized on the basis of the date of payment of the commissions according to agreements with the insurance companies, less provisions for refunds of commissions due to expected cancellations of insurance policies.

3) Net profits (losses) from investments and other financing income.
Income from interest is recognized on a cumulative basis using the effective interest method.

Dividends from investments that are not accounted for using the equity method are recognized at the record date. Income from investments includes the profits or losses realized in respect of available-for-sale financial assets. Profits and losses from the sale of investments are calculated as the difference between the proceeds from the sale, net, and the original or amortized cost and are recognized at the time of the sale. Income from investments includes profits or losses from revaluation of financial assets measured at fair value through the statement of income. Income from investments is charged to the life assurance branch based on a separate accounting system. See Note25 below.

Income from investments is charged to the statement of income and the general insurance branch, according to investments held against liabilities in general insurance and against capital and surpluses of the insurance subsidiaries during the year.

9. Customer discounts

Customer discounts are recognized in the financial statements as granted and are charged to sales.

The discounts received from customers at the end of the year, and the customer did not undertake to meet certain goals, are included in the financial statements when the proportionate purchases with the said discounts are made.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

X. Recognition of revenues (contd.)

9. Customer discounts (contd.)

Discounts from customers that are conditional on the customer's meeting certain goals, such as meeting an annual volume of purchases (quantity or financial) and increase in the volume of purchases compared to prior periods, are included proportionally in the financial statements, according to the volume of the customer's purchases from the suppliers in the reporting period, only when it is likely that the goals will be achieved and the amounts of the discounts can be estimated reasonably. The estimation of meeting the goals is based, inter alia, on past experience and the Company's relationship with the customers and the forecasted volume of purchases from customers in the remaining period.

Y. Cost of income and discounts from suppliers

The cost of sales includes expenses for loss, storage and transportation of inventory up to the final sales point. In addition, the sales cost includes losses for inventory impairment and write-offs and provisions for slow-moving inventory.

Discounts are deducted from the cost of the purchases at the dates that the discount terms apply. Part of the discounts for a portion of the purchases added to closing inventory is attributed to inventory and the remaining portion reduces the cost of sales.

Discounts received from suppliers at the end of the year, for which the Group has no commitment to meet certain goals, are included in the financial statements when the proportionate purchases with the said discounts are made.

Discounts from suppliers that are conditional on the Company's meeting certain goals, such as meeting an annual volume of purchases (quantity or financial) and increase in the volume of purchases compared to prior periods, are included proportionally in the financial statements, according to the volume of the Group's purchases from the suppliers in the reporting, only when it is likely that the goals will be achieved and the amounts of the discounts can be estimated reasonably. The estimation of meeting the goals is based, inter alia, on past experience, the Group's relationship with the suppliers and the projected volume of purchases from suppliers in the remaining period.

Z. Earnings per share

Earnings per share are based on the number of ordinary shares. Basic earnings per share include only shares that actually existed during the period, while potential ordinary shares (convertible securities such as convertible debentures, options warrants and options for employees) are included only in the calculation of the diluted earnings per share if they dilute the earnings per share. The Group's share in the profits of subsidiaries is calculated according to its share in the earnings per share of that subsidiary multiplied by the number of shares held by the Group.

AA. Provisions

A provision is recognized when the Group has a legal or constructive obligation as a result of a past event, and it is likely that financial resources will be required to settle the obligation and it can be estimated reliably. If the effect is material, the provisions are measured when capitalizing expected cash flow, using the pre-tax interest rate that reflects market expectations in respect of the time value of the cash, and in certain cases, the specific risks related to liabilities.

Environmental protection

The Group includes in its accounts a provision for the anticipated costs entailed in the decontamination and remediation of environmental hazards. The provision is recorded when in the management's opinion it is probable that a liability has been created, the amount of which can be reasonably estimated. Environmental liabilities represent an estimate of the costs entailed in examining and remedying the contaminations created.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

AA. Provisions (contd.)

The management's assessment is based on in-house and independent 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.

BB. Advertising costs

Advertising costs are charged to the statement of income as the are incurred

CC Use of estimates

The preparation of financial statements requires the management to make judgments, estimates and assumptions, including actuary estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure in respect of contingent assets and liabilities and the income and expense amounts in the reporting period. Actual results may differ from these estimates. The significant estimates in the financial reports are based on actuary assessments and external value assessments.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which they occur.

DD. Insurance contracts

IFRS 4 *Insurance contracts* allows the insurer to continue with its accounting policy for insurance contracts by deviating from implementation of IAS 8 *Accounting policies, changes in accounting estimates and errors* when determining accounting policy related to insurance contracts, except for five exceptions. IAS 8 determines, inter alia, the accounting policy for a transaction or event for which there is no specific international standard or interpretation.

1. Life assurance:

   (a) Recognition of income – see Section X(8) above.

   (b) Life Insurance Reserves

   Life assurance reserves are computed according to the Supervisor's directives (regulations and circulars), generally accepted accounting principles and accepted actuarial methods. The reserves are computed 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.
   Life assurance reserves and the reinsurers' share therein are determined on the basis of annual actuarial assessments carried out by the actuaries of the insurance subsidiaries.

   (c) Life assurance reserves with respect to policies that according to their terms are semi-annual linked and the assets earmarked to these reserves, are adjusted on a cumulative basis to the known index on the report date.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

DD. Insurance contracts (contd.)

1. Life assurance (contd.)

(d) Directives of the Supervisor regarding reserves for annuities

A circular that was issued by the Supervisor in February 2007, regarding the method of calculating the reserves for annuities in life assurance policies, provides updated directives on how to calculate the provisions as a result of the improvement in life expectancy that requires monitoring the adequacy of the reserves in insurance policies that permit the receipt of an annuity, and their proper supplementation. Accordingly, the Company immediately supplements the reserve, to the extent necessary, with respect to policies in which annuities are currently being paid or when the policyholder has reached the age of retirement. Regarding other policies, where profits are expected, the reserve is supplemented alongside the receipt of the expected income, over the policy period.

(e) Reserve for extraordinary risks

The financial statements prepared according to Israeli GAAP up to and including December 31, 2006 included a reserve for extraordinary risks in life assurance. This reserve was cancelled in the reports according to Israeli GAAP in 2007 and was classified as an extraordinary item in the statement of income. This reserve does not comply with IFRS 4, and therefore according to IFRS the reserve was transferred to retained earnings on January 1, 2007.

(f) Deferred acquisition costs:

Deferred acquisition costs of life assurance policies (DAC) sold as from January 1, 1999 include commission for agents and acquisition supervisors and other expenses related to the acquisition of new policies, including part of the general and administrative expenses. The DAC is amortized at equal annual rates over the policy period but not more than 15 years. The DAC relating to cancelled policies are written off on the cancellation date.

Deferred acquisition costs for policies that were issued up to December 31, 1998 are computed according to the “Zillmer deduction” method based on a percentage of the premium or of the amount at risk according to the various insurance programs. The amortization rate of “Adif” policies is 10% per annum and for “Endowment” policies, over the policy’s term.

(g) Outstanding claims

Outstanding claims, net of the reinsurers’ share therein, are computed on an individual case basis, according to the valuation of insurance subsidiaries’ experts, based on the notifications regarding the insurance events and the sums insured.

The provisions for long lasting payment claims with respect to disability insurance and long-term care (LTC) 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.

(h) Investment contracts

Receipts in respect of investment contracts are not included in the item of earned premiums but are directly recorded under liabilities in respect of life assurance and investment contracts. Surrenders and maturities of these policies are not included in the statement of income but are deducted directly from liabilities for insurance contracts and investment contracts.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

DD. Insurance contracts (contd.)

1. Life assurance (contd.)

In respect of these contracts, the life assurance business statements will include investment income, the management fees collected from the policyholders, the change in the reserve in respect of the share of the reinsurers in investment income, commissions to agents, and general and administrative expenses.

(i) Provision for participation in earnings of policyholders in group insurance

The provision is recognized under other payables. In addition, the change in the provision is offset in the income from the premium.

2. General insurance:

(a) Recognition of income (see section X(8) above).

(b) Payments and changes in liabilities in respect of insurance contracts include, inter alia, settlement and direct handling costs of claims paid and outstanding claims that occurred during the reported period, as well as an adjustment of the provision for outstanding claims and their direct handling costs that were recorded in previous years.

(c) Provision for indirect expenses to settle outstanding claims

Provisions for outstanding claims include provisions for indirect expenses to settle claims

(d) Liabilities for insurance contracts and deferred acquisition expenses

The reserve for unexpired risks, the outstanding claims, including the reinsurers' share in the reserve and in the outstanding claims, and the deferred acquisition costs in general insurance, are computed in accordance with the Supervision of Insurance Business Regulations (Methods of Calculating Provisions for Future Claims in General Insurance) – 1984, as amended, the Supervisor's directives in this respect and generally accepted actuarial methods for computing outstanding claims, according to the actuaries' discretion. The liabilities for insurance contracts were computed by the actuaries in charge.

(e) The reserve for unexpired risks is recognized under liabilities in respect of insurance contracts and is composed as follows:

(1 An unearned premium reserve, which is not calculated on an actuarial basis and does not depend on any assumptions
This reserve reflects the insurance premiums in respect of the insurance period after the balance sheet date and is calculated on a daily basis.

(2 In accordance with the directives of the Supervisor, the reserves include, if necessary in retention, in the motor vehicle property, comprehensive motor vehicle, and comprehensive residential branches, a provision in respect of the anticipated loss (premium deficiency), which is computed on the basis of an actuarial valuation.

(f) Outstanding claims

The outstanding claims in the financial statements are computed as follows:

1) Outstanding claims and the reinsurers' share thereof are recorded based on an actuarial valuation, except for the branches detailed in section 2 hereunder. The actuarial calculation of the Company was made by the actuary in charge.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

DD. Insurance contracts (contd.)

2. General insurance (contd.)

(f) Outstanding claims (contd.)

2) In branches where, according to the directives of the Supervisor, actuary estimation is not required (insurance of freight, marine hull and aircraft, sales law guarantee, financial guarantees and credit risks), and in the incoming business branch, the outstanding claims are included on the basis of an individual evaluation of each claim according to an opinion received from Company lawyers and experts who handle the claims. The evaluations include a suitable provision for settlement and handling expenses not yet paid at the date of the financial statement.

3) Excess of income over expenses

Regarding all businesses with long tail claims (branches in which the time required for issuing a notice of damage and/or determining damage and its compensation, is long and can be a number of years), such as the liability and motor vehicle property branches, the excess of income over expenses is calculated on a tri-annual cumulative basis, in the sales law guarantee branch it is calculated on a five-year cumulative basis, and in the financial guarantees branch according to the date of the end of the policy (the excess).

The excess is comprised from premiums, acquisition costs, claims and part of the investment income at an annual rate of 3%, all net of the reinsurers' share, for each insurance branch and the respective underwriting year. The excess accumulated until its release, from the beginning of the insurance, net of the unexpired risk reserve and net of outstanding claims calculated as aforesaid (hereinafter - the accrual), is included in the outstanding claims item and the deficit is recognized as an expense.

Up to December 31, 2006, income from actual investments is attributed to accrual in liability sectors, but no less than a real return of 3% per year. According to the instructions of Insurance Circular 1-1-2008, following the expected change in the principles relating to recognition of income from investments due to the transition to international standards, the insurance company must change the method of computing income from investments accrued to excess income over expenses to comply with a fixed rate of real 3% per year, irrespective of the yield actually achieved on the investments The impact of the change on January 1, 2007 is not material.

(g) Deferred acquisition costs:

Deferred acquisition costs in general insurance include agents' commissions and part of the general and administrative expenses related to the issuance of polices, in respect of the unearned insurance premiums on retention. The acquisition costs are calculated for each branch separately, on the basis of the actual rates of expenses or according to standard rates, as determined in the Supervision Regulations, as a percentage of the unearned premium, at the lower of the two.

(h) 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 from underwriting agencies, is reported according to the accounts received up to the balance sheet date with the addition of the relevant provisions, based on the insurance subsidiaries' rate of participation in them.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

DD. Insurance contracts (contd.)

2. General insurance (contd.)

(i). The insurance premiums item includes all the amounts paid by the borrowers in connection with property insurance policies through a mortgage bank. The amounts paid to a mortgage bank for expenses are recognized under commissions.

(j) Subrogation and remnants are taken into consideration in the data-base by which the actuarial valuations of the outstanding claims are calculated. In non-statistical branches the subrogation are taken into account on a specific basis at the time of assessing the risk included in the claims.

(k) Participation in income in group insurance, recorded on the basis of valid agreements, is deducted from the premiums.

3. Health insurance

(a) Recognition of income – see Section X(8) above.

(b) Health insurance reserves

Life assurance reserves are computed according to the Supervisor's directives (regulations and circulars), generally accepted accounting principles and accepted actuarial methods. The reserves are computed 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. Health insurance reserves and the reinsurers' share therein are determined on the basis of annual actuarial assessments carried out by the actuary of the Company.

(c) 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.

(d) Provision for participation in earnings of policyholders in group insurance

The provision is recognized under other payables. In addition, the change in the provision is offset in the income from the premium.

(e) The reserve for unexpired risks is recognized under liabilities in respect of insurance contracts includes, when necessary, a provision in respect of the anticipated loss (premium deficiency), which is computed on the basis of an actuarial valuation.

(f) Deferred acquisition costs:

1) Deferred acquisition costs in health insurance include agents' commissions and part of the general and administrative expenses related to the issuance of polices, in respect of the unearned insurance premiums on retention.

2) Deferred acquisition costs health insurance include expenses for medical examinations, underwriting and marketing and administrative and general expenses.

The deferred acquisition costs are amortized at equal rates over the period of the policy, but in insurance policies longer than six years. Deferred acquisition costs relating to cancelled policies are written off on the cancellation date.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

EE. Disclosure of new IFRS in the period prior to adoption

1. IFRS 8 – Operating segments

IFRS 8 (hereinafter: the standard) addresses operating segment and replaces IAS 14. The standard applies to companies whose shares are traded, or are in the process of listing, on any stock exchange. The standard is effective for annual periods beginning on or after January 1, 2009. Early adoption is permitted. The provisions of the standard will be applied retroactively by restatement, unless the information required by the provisions is unavailable and cannot be obtained practically.

Under the standard, the entity will adopt the management approach when reporting on the financial results of the operating segments. The segment information will be the information used internally by the management to assess segment results and to make operating decisions.

In the Company's opinion, the new standard is not expected to have a significant effect on the statement of the segment note.

2. IAS 23 – Borrowing Costs (revised)

Under IAS 23 (revised), an entity is required to capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that takes a substantial period of time to prepare for its intended use or sale. The option of immediately recognizing these costs as an expense was removed.

The revised standard is effective for annual periods beginning on or after January 1, 2009. Early adoption is permitted.

In the Company's opinion, the revised standard is not expected to have a significant effect on the financial position, results of its operations and its cash flows, as the Group's present policy is to capitalize borrowing costs to the cost of qualifying assets.

3. IAS 1 – Presentation of Financial Statements

According to IAS 1, a separate statement is required for comprehensive income. This statement includes the net profit taken from the statement of income, all items charged directly to equity in the reporting period and are not a result of transactions with shareholders as shareholders (other comprehensive income) Alternately, the other comprehensive income items can be presented with the items in the statement of income in one statement that will be called the statement of comprehensive income, which will replace the statement of income, with suitable attribution between the Group and the non-controlling interests. Only items charged to shareholders' equity, which are a result of transactions with shareholders as shareholders will be presented in the statement of changes in equity. The last row will also be transferred from the statement of comprehensive income, with suitable attribution between the Group and the non-controlling interests.

In addition, under the standard, if there is a change in comparative information a result of the change in accounting policy applied retrospectively, restatement or reclassification, a balance sheet is also required at the beginning of the period of the comparative information in which the change was made.

IAS 1 is effective for annual periods beginning on or after January 1, 2009, with restatement for comparative information. Early adoption is permitted.

The effect of IAS 1 will require the Group to provide the required disclosure in the financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

EE. Disclosure of new IFRS in the period prior to adoption (contd.)

4. IFRS 3 (revised) – Business Combinations and IAS 27 (Revised) – Consolidated and Separate Financial Statements

The revised IFRS 3 and IAS 17 (hereinafter: the standards) are effective for annual periods beginning on or after January 1, 2010. Early adoption of the both standards together is permitted for the annual period beginning on or after January 1, 2008.

The main changes expected following application of the standards are described below.

- Under IFRS 3, goodwill, unlike the other identified assets and liabilities of the acquiring company, represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Under the standards, for each business combination the company can elect to measure the goodwill on the basis of its full fair value and not only according to the acquired share.
- Contingent consideration in business combinations is measured at fair value. Changes in fair value of the contingent consideration, which do not constitute adjustments to cost of acquisition in the measuring period, will not be recognized as goodwill adjustment. Contingent consideration will usually be considered as a financial derivative under IAS 39, presented at fair value with changes in profit and loss.
- Direct acquisition costs attributed to a business combination is recognized in profit and loss as incurred. The requirement to charge it as part of the business combination consideration cost is removed.
- A transaction with a minority, whether a sale or an acquisition, is accounted as a capital transaction and therefore is not recognized in the statement of income or does not affect the amount of goodwill, respectively.
- The losses of a subsidiary, even if they result in a deficit in the shareholders' equity of the subsidiary, are allocated between the parent company and the non-controlling interests, even if the non-controlling interest is not a guarantor or does not have a contractual liability to support the subsidiary or to make further investment.
- At the date of the loss of control in a subsidiary, the balance of the holding, if any, is revalued at fair value against the profit and loss from the sale. This fair value will serve as the basis for its cost for subsequent accounting.

5. IFRS 2 (revised) – Share Based Payment

Under revised 2 IRFS (hereinafter: the revised standard), definition of the vesting conditions include service conditions and performance conditions only. Removal of a grant that includes conditions other than vesting conditions, by the Company or by another party, will be accounted for by accelerating the vesting period and not by forfeiture. The standard is effective retrospectively for annual periods beginning on or after January 1, 2009. Early adoption is permitted.

Vesting conditions include service conditions, which require the other party to complete a defined service period, and performance conditions, which require compliance with defined performance goals. Conditions that are not service conditions or performance conditions will be accounted for as conditions that are not vesting conditions and therefore they are calculated in the fair value estimate of the granted instrument.

According to the Group's assessment, the effect of the revised standard on its financial statements, outcome of activities and cash flows are not expected to be material.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

EE. Disclosure of new IFRS in the period prior to adoption (contd.)

6. IFRIC 13 – Customer Loyalty Programs

IFRIC 13–(hereinafter: the Interpretation) is effective for annual periods commencing on or after July 1, 2008, with retrospective application in comparative information for prior periods. Early adoption is permitted. This interpretation applies to purchase benefits and customer incentives (such as club points, credit points and purchase coupons), which the company awards as part of a sales transaction to encourage the customer to make a future purchase. Subject to the conditions, the customer is able to exercise the benefit and receive, free of charge, or at a discount, a product or service.

Under the interpretation, the purchase benefits and customer incentives that are awarded are accounted for as a separate component from the sales transaction for which they were awarded. The amount attributed to the incentive will be determined according to its fair value.

According to the Group's assessment, adoption of the new interpretation is not expected to have a material impact on its financial position, results of operations and cash flows.

NOTE 3:- BUSINESS COMBINATIONS AND INVESTMENTS IN INVESTEES

A. Real estate operations

1. On December 31, 2007, a subsidiary of Delek Real Estate Ltd. (hereinafter: Delek Real Estate) holds about 17.3% of the share capital of Carmel Beach Resort 89 Ltd (hereinafter: Carmel Beach) that engages in the establishment and operation of a hotel and apartment hotel.

In January 2008 Delek Real Estate purchased the holdings of other shareholders of Carmel Beach in the company, and upon completion of the transaction Delek Real Estate holds 100% of Carmel Beach's share capital. In consideration for the acquisition of the shares, Delek Real Estate paid NIS 32 million. Following the said share acquisition, Delek Real Estate entered into an agreement with a bank, according to which Delek Real Estate will purchase from the bank the entire debt of Carmel Beach in the amount of NIS 397 million, in consideration for NIS 302 on the signing date and certain future payments that are contingent on appreciation of the value of the investment in Camel Beach. Under the agreement, Delek Real Estate's guarantees for the bank debts of Carmel Beach debts were cancelled (guarantee up to $30 million).

The financial reports of Hof Carmel Ltd.(Hof Carmel) were consolidated with those of the Group on the acquisition date.

In the Hof Carmel acquisition, the acquisition costs were temporarily attributed to the assets and liabilities acquired as part of the business combination. As part of the temporary attribution, goodwill of NIS 42 million was recorded.

2. On March 24, 2008, Delek Real Estate signed an agreement with Kardan Real Estate Enterprise and Development Ltd. and Kardan Israel Ltd. (hereinafter: Kardan Real Estate and Kardan, respectively).

(a) Under the agreement, Delek Real Estate will transfer to Kardan Real Estate all its shares in Dankner against the allotment of 40% of the shares of Kardan Real Estate to Delek Real Estate. Subsequent to the allotment, Delek Real Estate will hold 40% of the shares of Kardan Real Estate and Kardan Real Estate will hold the entire issued and paid-up share capital of Dankner.

NOTE 3:- BUSINESS COMBINATIONS AND INVESTMENTS IN INVESTEES (CONTD.)

A. Real estate operations (contd.)

2. (contd.)

(b) Prior to transfer of Dankner shares to Kardan Real Estate on the one hand and allotment of Kardan Real Estate shares on the other, the parties shall take the following steps:

(i) Dankner will transfer to Delek Real Estate several assets and activities that are not in the residential real estate sector.
(ii) Delek Real Estate will transfer to Dankner two residential real estate projects in Israel.
(iii) Kardan Real Estate will distribute all shares owned by it in GTC Real Estate N.V.) to its shareholders, as dividend in kind.

(c) The sale agreement is subject to compliance with various suspending conditions, inter alia, receiving the approval of the Antitrust Commissioner and the tax authorities. The transaction is expected to be completed within six months from the signing date, with an option for a 90-day extension.

(d) In addition, Kardan Israel granted Delek Real Estate a put option, according to which if Kardan Real Estate securities are not issued to the public, Delek Real Estate may require Kardan Israel to purchase the shares Delek Real Estate holds in Kardan Real Estate. The exercise notice will be provided over 90 days, commencing four years from completion of the transaction. In addition, under certain conditions, Kardan Real Estate may notify Delek Real Estate of the postponement of the period for exercising the put option by one year.

The consideration for the put option will be based valuations of Kardan Real Estate, however it will not fall below $67.5 million. Under the shareholders' agreement, Kardan Israel may notify Delek Real Estate that the consideration of the put option will be paid, in full or in part, with shares of Kardan Israel allotted to Delek Real Estate in a private placement, provided Kardan Israel is a public company at the allotment date.

As of the date of the financial statements the foregoing transaction had not been completed.

3. In January 2008 Delek Real Estate purchased an additional 3.53% of the issued and paid up share capital of the its subsidiary Delek Global Real Estate Ltd. (DGRE) for £1.5 million (NIS 11 million). Following the acquisition Delek Real Estate held 85% in DGRE. The acquired equity amounted to NIS 18 million and was charged as income in the statement of income.

Furthermore, in Q1, 2008 the Group acquired 0.4% of the issued and paid up share capital of Delek Real Estate for NIS 9 million. Following the acquisition, the Group held 64% in Delek Real Estate. The equity value of the acquired equity amounted to NIS 2 million and was charged as income in the statement of income.

4. As described in Note 9J(1)(G) to the annual financial statements, during 2007, a foreign subsidiary, which owns road side service stations in England operating under the name Road Chef, signed a management contract according to which it transferred the absolute responsibility for the management of Road Chef to a third party for a period of 5 years

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As of the beginning of 2008, the subsidiary and the third party operate in accordance with an upgraded agreement. The main points of the update to the agreement signed on Mary 2008 and effective from January 1, 2008 are as follows:

(a) The third party is responsible for the management and operation service stations.

(b) In consideration for the services, the third party will receive a fixed annual amount of £400,000. In addition, on or before the termination of the agreement, at the date of the sale of the foreign subsidiary, the third party will be eligible for an additional amount of 7.5% of the difference in value of all the assets and operations of the foreign subsidiary at that date compared to the basic amount, as determined in the agreement.

NOTE 3:- BUSINESS COMBINATIONS AND INVESTMENTS IN INVESTEES (CONTD.)

A. Real estate operations (contd.)

4. (contd.)

(c) The third party undertook to attain a minimum annual EBITDA of £28.5 million in the first year, £29 million in the second year, £30 million in the third year, £31 million in the fourth year and £32 million in the fifth year. The EBIDTA is calculated according to the annual financial statements of the subsidiary and if the EBITDA is lower than the EBIDTA guaranteed by the third party, the third party is obligated, under the agreement, to pay the difference to the subsidiary. In addition, if the EBITDA is higher than the EBITDA guaranteed by the third party, the third party will be eligible, under the agreement, to receive the difference from the subsidiary.

(d) The third party was granted the full authority to decide on the management and ongoing operations of the road service operations. For this purpose, the third party received the full authority from the board of directors and shareholders to carry out its task. In addition, the RoadChef management is obligated to transfer all the information and reports it submits to the board of directors to the third party.

(e) The agreement is valid for five years, until the end of 2012, however it may be terminated earlier under the provisions in the agreement.

Under the abovementioned agreement, as the third party bears all the risks and surplus yields deriving from the operation of the roadside service and as a subsidiary is the owner of the service stations, the subsidiary is entitled to receive a fixed annual amount from the third party. Commencing from the first quarter of 2008 the service station assets are accounted for as investment property (up to December 31, 2007 the assets are recognized under property, plant and equipment). In addition, the revenues and expenses relating to the roadside services of Road Chef are not reflected in the statement of income and only the fixed amount is included under income.

B. Fuel products sector in Europe:

1. In January 2008 a subsidiary, Delek Benelux B.V. (hereinafter: Delek Benelux) 55% additional share capital of the joint venture, Schreurs Oilemaatschappij BV (hereinafter: Schreurs).

   Subsequent to this acquisition, Delek Benelux owns all the shares in Schreurs. The cost of the additional acquisition totaled EUR 12 million. Furthermore, in February 2008, Delek Benelux acquired another 50% in the share capital of another joint venture, De Groot Verschuur Holding BV (hereinafter: DGV). Subsequent to this acquisition, Delek Benelux owns all the shares in DGV. The cost of the additional acquisition totaled EUR 22 million.

   The aforesaid joint ventures operate 140 stations.

NOTE 3:- BUSINESS COMBINATIONS AND INVESTMENTS IN INVESTEES (CONTD.)

B. Fuel products sector in Europe: (contd.)

1. (contd.)

The aforesaid acquisition consideration, in the amount of EUR 34 million, with the additional acquisition consideration attributed to the previous investment in the joint venture shares (EUR 26 million), amounted to EUR 60 million and is temporarily attributed to recognized assets and liabilities of the joint ventures and to goodwill as follows:

	Fair value	Book value
	Euro millions	
Current assets	38	38
Long-term investments and debit balances	3	2
Property, plant and equipment	48	30
Intangible assets	12	9
Current liabilities	(63)	(63)
Deferred taxes	(6)	(1)
Total	32	15
Goodwill created at during the acquisition	28	
Total acquisition cost	60	

2. Delek Europe Options Plan

(1) Subsequent to the balance sheet date, in April 2008, a chairperson was appoint to Delek Europe's Board of Directors. As part of the employment agreement of the chairperson of the board it was decided, inter alia, to grant the chairperson with options that may be exercised to 2.75% of Delek Europe B.V. shares (a wholly owned subsidiary of Delek Europe and which holds the shares in Delek Benelux, hereinafter: DEBV). The options may be exercised in five equal parts as of December 31, 2008 until June 30, 3012. The exercise price for these options will be fixed in accordance with the equity of DEBV as at March 31, 2008, with the addition of 7% interest between installments (subject to adjustments for dividend).

The said options were granted subject to the approval of the DEBV Board of Directors.

It was also agreed that at the end of one month from the date of issue of the financial statements for Q3 2008, Delek Europe shall sell to the chairperson (or DEBV shall allocate) shares equivalent to 3% of DEBV shares.

The price per share shall be fixed in accordance with Delek Europe's initial investment agreement in DEBV with the addition of annual interest of7%. In addition, the chairperson shall be required to put up his relative share in the shareholders loans to DEBV.

In addition, it was agreed that should Delek Europe or Delek Benelux, or another affiliate in the fuel operations in Europe, issue any securities on the stock exchange, then the chairperson shall be entitled to convert his shares in DEBV in to shares of the aforesaid issue, in accordance with financial values. Furthermore, it was agreed that the chairperson shall have the option to purchase up to 3% of any subsidiary that may be established in the future, with respect to certain new investments in return for the relative amount paid or invested in the new company.

NOTE 3:- BUSINESS COMBINATIONS AND INVESTMENTS IN INVESTEES (CONTD.)

B. Fuel products sector in Europe: (contd.)

2. Delek Europe Options Plan (contd.)

(2) Subsequent to the balance sheet date, in May 2008, Delek Benelux Board of Directors approved the allocation of 45,000 options without consideration to the Delek Benelux CEO (hereinafter; The CEO). The options may be exercised to 2.5% of Delek Benelux shares. Over a maturity period of four years, the said options may be exercised until October 31, 2011 or until the end of 90 days from the termination of the said agreement with the CEO. The exercise price for each ordinary share is EUR 71.66 (based on the value of Delek Benelux at EUR 129 million) for the first tranche and afterwards the exercise price for each additional tranche will be the price of the first tranche with the addition of 5% interest that will accrue until the relevant purchase date. . If Delek Benelux or Delek Europe or DEBV or any other company in the Delek Group operating in the Benelux countries, will issue its shares in any market, the CEO will be granted the right to convert the shares allocated to him as aforesaid to shares in the Company as aforesaid, so that the benefit component deriving from the shares will be retained and the CEO will keep the financial benefits provided that any taxes applicable with respect to the conversion will be borne by the CEO. Upon termination of the agreement with the CEO, for any reason whatsoever and upon the termination of the prior notice period (hereinafter: The Final Date), in the event that Delek Benelux is a private company, Delek Benelux will purchase all the unexercised options which will be exercisable by the final date (hereinafter: Exercisable Options) and all the shares held by the CEO, as set forth in the agreement. In the event that Delek Benelux is a public company, the shares deriving from the exercise shall be subject to a lock-up period that will be required for compliance with the conditions of the relevant legislature, and afterwards may be sold subject to Delek Benelux's first refusal, as set forth in the agreement. For exercising these options the CEO will be entitled to receive a loan at annual interest of 5% which will be secured only by a non-recourse lien on the shares. The loan will be settled at the earliest date between: The sale of the shares, distribution of dividends with respect to the shares, termination of 90 days from the end of the prior notice period.

C. Oil and gas exploration and production

1. Subsequent to the balance sheet date, in February 2008, a wholly-owned company of Delek Energy acquired 100% of the issued and paid up share capital of Elk Resources LLC (Elk), a company in the USA engaging in oil and gas exploration, production and sale in the USA. The transaction amounted to $95.5 million, of which $78.5 million was used to repay Elk’s loans. The acquisition was fully financed by a 10-year bank loan, renewable every year. As collateral for repayment of the loan, all the shares and assets of the DES subsidiary were pledged in favor of the bank and DES provided a $30 million guarantee for two years. The loan agreement requires the subsidiary to comply with financial agreements.

   Following the transaction, Elk’s financial statements are consolidated with the Group's financial statements as of the date of the acquisition.

   The table below includes a description of the fair value of Elk’s recognized assets and liabilities and their book value at the date of the acquisition.

	Fair value	Book value
	NIS Millions	
Cash	2	2
Working capital, net (excluding cash)	(1)	(1)
Oil and gas assets	349	225
Total assets, net	350	226
Cash consideration	350	

The contribution of Elk to the Company's revenues in the reporting period was not material.

NOTE 3:- BUSINESS COMBINATIONS AND INVESTMENTS IN INVESTEES (CONTD.)

D. Insurance and finance operations

1. Subsequent to the balance sheet date, in March 2008, a Phoenix subsidiary entered into an agreement for the purchase of 49% of the shares of Gama Management and Clearing Ltd. (Gama) for NIS 64 million. The existing agreement grants Phoenix a purchase option for an additional 2% of Gama's share capital. The option exercise period will be 3 years.

2. Subsequent to the balance sheet date, in May 2008, Phoenix Insurance signed a contract with a third party and companies in its control acquired the operations of the Shekel Group Insurance and Financial Management Ltd., for consideration of NIS 130 million.

   In addition, a management agreement was signed with a third party according to which the third party will serve as chairperson of the Board of Directors of the company which will coordinate the acquired operations, in consideration of management fees as they will be fixed in the contract and will receive options for Phoenix shares, under the Phoenix Group's employee options plan.

   The closing of the transaction is contingent on several conditions which have not yet been concluded as of the date of the approval of the financial statements.

E. Refinery operations in the USA

1. At the end of 2007 and the first quarter of 2008 Delek USA entered into a number of swap agreements to hedge margins of gasoline distillates produced by diluting ethanol. The transactions are for periods of up to two years. According to these transactions, Delek USA is entitled to receive a refinery margin in a predefined amount derived from its right to receive the cash value of a defined amount of raw materials and it is obligated to pay the cash value of a defined amount of refinery product. On March 31, 2008 these transactions refer to 460,000 barrels and the fair value of these agreements on March 31, 2008 amounted to $3 million. The transactions are not recognized as accounting hedge and the change in fair value in the first quarter of 2008, which amounted to $2.2 million, net of tax (NIS 8 million) is charged to the statement of income.

2. In the first quarter of 2008 Delek USA entered into a number of swap agreements to hedge the refinery margin of diesel oil in the scope of 2.7 million barrels (as of March 31, 2008). The fair value of these agreements on March 31, 2008 reflects liabilities of $5.6 million ($3.6 million net of tax). The transactions were recognized as accounting hedging and loss net of tax charged directly to shareholders' equity

NOTE 4:- INVESTMENTS IN OIL AND GAS PRODUCTION

A. As stated in Note 13(I) of the financial statements, in January 2008 exploration drilling 7G 21/20F was initiated in Block F21/20 in the North Sea. A subsidiary of DES holds 25% of the block. The operator's preliminary calculations indicate that the amount of producible oil is smaller than the minimum required for the economic development of an oil field in the North Sea, therefore the discovery is non-commercial. In view of the aforesaid, the drilling was abandoned.

The subsidiary’s share of the drilling costs amounted to NIS 25 million, which was charged to the statement of income in the reporting period.

In addition, subsequent to the balance sheet date, Matra Petroleum, an investee held 30% by DES, announced the decision to abandon the drilling in Russia. DES’s share in the drilling costs amounting to NIS 5 million will be charged to the statement of income in the second quarter of 2008.

B. As stated in Note 13(D)(2) of the annual financial statements, in March 2008 the Yam Tethys partners entered into an agreement with the Israel Chemicals Group (ICL) for the supply of natural gas totaling 2 BCM over 5-10 years. The value of this transaction is estimated at $260-330 million, impacted by a range of terms set forth in the agreement.

NOTE 5 –- DEBENTURES

A In March 2008 Delek Real Estate issued a new series of Debentures (Series 25) in the scope of NIS 551 million, graded A+. The debentures are unlinked, bear annual interest of 7.3% and are payable in two annual payments on September 3 in 2011 and 2012.

Delek Real Estate undertook to comply with certain financial criteria for the debentures.

B On February 14, 2008, Phoenix Insurance raised, by way of issue of deferred deeds of undertaking to Bank Hapoalim and to other organizations stipulated in the deferred deeds of undertaking, the amount of NIS 200 million for a period of 6 years at annual interest of 4.6%. The principle and interest are linked to the Consumer Price Index (CPI). The principle will be paid in 16 equal quarterly installments from May 2010. The interest will be paid in quarterly payments from May 2008.

NOTE 6 – CONTINGENT LIABILITIES

Against certain investee companies there are outstanding law suits for significant sums that might reach several hundred million NIS, up to one billion NIS. In some cases, it is not possible to assess their outcome at this stage, and therefore no provision was recorded with respect thereof in the financial statements as set forth hereunder: (Also see Notes 25A and 38H to the annual financial statements).

A. Against Gadot Biochemical Industries Ltd. (hereinafter, "Gadot"), and others, several law suits have been filed for bodily injury and damage to property totalling several hundred million NIS with regard to Gadot's activity in the area of the Kishon River (for details, see Gadot's financial statements, which available to the public).

Most of these aforementioned suits are currently in very early stages. In some cases, proceedings are yet to begin and in others proceedings have only reached the stage of preliminary proceedings. In some of the cases, evidentiary sessions are yet to be held and in most cases, the parties have not yet submitted all of the opinion papers and affidavits. Furthermore, in the aforementioned cases there are difficult issues of fact and indeed there are many facts that need to be decided and are unknown to Gadot. Moreover, the aforementioned proceedings are very complex and problematic for the reason, *inter alia*, that most of the suits pertain to on-going events that occurred over decades, in which a very large number of entities are involved, including the State and local authorities, so that it is not possible to assess the responsibility and the share of any one entity involved in the suits and it is difficult scientifically to determine the degree of causal connection between the discharge of industrial waste water and the damages claimed by the plaintiffs. In the estimate of the Group's management, based on the assessment of the management of Gadot and the opinion of legal counsel, considering all of the uncertainties existing in the entirety of these cases and because of the complexities and inherent difficulties therein, the chances of the aforementioned suits and proceedings cannot be assessed at this stage and therefore provisions in their regard have not been included in these financial statements.

B. Several lawsuits were filed against HOT Cable Communication Systems Ltd. (hereinafter, "HOT") in previous years, including motions to recognize some of them as class actions, amounting to substantial sums (several hundred million NIS). In part, these suits pertain to the following issues: failure to connect peripheral settlements to the cable networks, failure to meet the conditions of the Council for Cable and Satellite Broadcasting pertaining to the broadcasting of a specific channel, claims for the alleged breach of copyrights of various producers and breach of agreements to purchase various broadcasting rights. Regarding the remaining suits, the management of HOT estimates, based on the opinion of its legal counsel, that the chances of the said claims cannot be assessed at this stage and therefore no provisions were recorded in this respect in HOT's financial statements. For further information see the financial statements of HOT as of June or September 30, 2007, which are available to the public.

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

C. In March 2006, a motion was filed to approve a class-action suit against the consolidated company Delek Israel and against other petroleum companies. The plaintiffs claim that Delek Israel charged handicapped persons the full service charge, which may not be charged to a vehicle carrying a handicapped tag in those stations where there are self-service pumps. The plaintiff are suing the entire group of defendants for a total of approximately NIS 22 million (the share of Delek Israel according to the plaintiff's estimation is approximately 27%) for financial damages and consideration for non-financial damages without proof of harm, the discretion of the court.

In the estimation of the Group's management, based on the assessment of the management of Delek Israel and the opinion of legal counsel, it is more likely that the suit will be rejected and therefore provisions in this regard have not been included in these financial statements.

D. In November 2006 three motions to approve class actions were filled against Delek Israel, third parties and also against the former Vice CEO of Delek Israel's former Deputy CEO, Mr. Yisrael Chelouche. The applicants claim that Delek Israel, together with the other defendants, acted, *inter alia*, in a fraudulent, misleading and negligent manner and violated their statutory duty. The said 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 consideration of various possible damages that may have incurred as a result of this. The total amount of the motions is approximately NIS 1.4 billion.

In all the said proceedings, Delek 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 all three proceedings before the same judge and instructed the parties to refrain from submitting responses to the motions for approval or to the motions for summary dismissal until the date of the said hearing.

During the third quarter of 2007, one motion, in the amount of approximately NIS 90 million, was stricken off by agreement and the two remaining motions were combined into one. Following combination of the two motions, the amount of the motion for approval as a class-action was reduced to NIS 554 million. Similarly the former Deputy CEO of Delek Israel was removed from the petition.

The Group's management estimates, based on the assessment of Delek Israel's management and on the opinion of its legal counsel, that considering the preliminary stage of the motions, and considering the very vague nature of the factual arguments raised in the motions for approval, the chances of the said proceedings cannot be assessed and therefore no provision was made for them in the financial statements.

E. In May 2007, a motion to approve a class action suit were filed against Delek Israel and other Delek companies (hereinafter: the Defendants). According to the claimants, the Defendants unlawfully collected service fees without the appropriate price marking. The defendants estimate that if the motion is approved as a class action, the overall sum of the suit (against all the defendants) will not be less than NIS 491 million.

The Group's management estimates, based on the assessment of Delek Israel management and the opinion of the legal counsel, that it is most likely that the motion will be turned down and therefore provisions have not been set aside in the financial statements.

F. In November 2005, a motion to approve a class action suit was filed against the subsidiary, Delekol Ltd. (hereinafter: Delkol) and two other Delek companies. The claimant's suit amounts to NIS 450 and the sum of the suit against Delkol if the suit is recognized as a class action, totals NIS 1,664 million, plus compensation for mental distress in the amount of NIS 27.5 million.

The request to recognize the suit as class action is primarily based on the claim that Delkol marketed engine oil while representing the oils as compatible with certain US and European standards. According to the claimant, such representation is false. Delkol's management is of the opinion that Delkol acted within the law and the engine oil marketed by Delkol in Israel does comply with the specifications of the said standards.

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

F. (contd.)

During November 2007, a settlement was negotiated between Delkol (and the other defendants) and the claimant, according to which the motion to approve a class action and the suit will be withdrawn and Delkol (and the other defendants) will reimburse the claimant for expenses (which are not material). Accordingly, a joint motion to dismiss was filed to the court.

The Group's management estimates, based on the assessment of Delkol management and the opinion of the legal counsel, that the probability of the motion to be dismissed will at the end of the day be approved is great and therefore no provisions have been set aside for this lawsuit in the financial statements.

G. As described in Note 38.H.2 of the annual financial statements, several lawsuits have been filed against Phoenix, its investee companies and others, including motions to recognize some of them as class actions and which total significant amounts (several hundred million NIS). Some of the suits relate to: high insurance premiums that were collected unlawfully, damages at the time of insurance events for reduced amounts, etc. For most of these claims, no provisions were included in these financial statements because, inter alia, in most of these cases, in the estimation of the Group’s management, based on the assessment of the management of Phoenix and the opinion of its legal counsel, Phoenix has defensive claims that have a good chance of being able to refute the claims.

Furthermore, in May 2007, a motion to recognize a class action suit totally approximately NIS 21 million was with regard to the collection of excess premiums. The parties are in contact with each other regarding a compromise agreement (for an amount which is not significant).

In August 2007, a motion to approve a class action suit was filed against Phoenix and other insurance companies. The subject of the suit is reimbursement of insurance premiums paid for the qualification period of health insurance policies. The total amount claimed from all of the defendants is approximately NIS 731 million. In the opinion of the Group’s management, based on the assessment of the management of Phoenix and the opinion of its legal counsel, it is more likely that the motion will be rejected. If the class action suit is approved, at this preliminary and early stage of the proceedings, it is not possible to assess the chances of its success.

H. As described in Note 38.H.2.15 of the Annual Financial Statements, in 2006 and 2007, two motions to recognize class action suits were filed against subsidiaries of Republic, in respect of a hurricane. The claimants argue that the subsidiaries are in breach of their insurance policies because they did pay insurance claims suitably did not apply the law properly on various matters. Furthermore, several claims for financial and declarative remedies were filed against subsidiaries of Republic, for unspecified amounts, in the aftermath of Hurricane Katrina.

The suits are in the preliminary stages and are yet to be approved as class action suits. At the stage, the Group's management, based on Republic's management, is unable to estimate at this time the outcome of the proceedings and the range of possible losses caused thereby, if any, and if any of the claims will have materially negative implications on its business, results or operations. Therefore, no provisions were recorded in respect of the said proceedings in these financial statements

H. Further to Note 25(A)(5) of the annual financial statements, subsequent to the balance sheet date, in May 2008, the Swiss company Jelmoli Holding AG (hereinafter: Jelmoli) announced that it was withdrawing its notice of arbitration proceedings for the enforcement of the agreement for the sale of its property and it intends only to sue for breach of contract. It is hereby clarified that at this stage of the arbitration, during which only preliminary proceedings are underway and Jemoli has not yet submitted a statement of claim and a counter claim has also not yet been filed. It is yet unclear what compensation is being demanded by Jemoli and it is liable to be in excess of 275 million Swiss francs (NIS 893 million) with the addition of interest, which is an amount that Delek Real Estate assumed From the beginning would be the compensation for which Jemoli would claim.

Delek Real Estate management estimates, based on the opinion of the legal counsel, there is no change in the probability of Jelmoli's claim succeeding and therefore there is no need to set aside additional provisions over and above those set aside in the past, in the financial statements.

NOTE 7 – SHAREHOLDER'S EQUITY

A. In the three month period ending March 31, 2008, 13,560 options (Series 3) were exercised into 13,560 ordinary shares of the Company in consideration of NIS 6 million. After the said exercises, the Company's issued and paid-up share capital consists of 11,686,363 ordinary shares of NIS 1 par value each.

B. In January 2008 the Company acquired 6,310 of its shares on the TASE for NIS 5 million.

C. On March 30, 2008, the Group declared the distribution of a dividend to its shareholders totalling NIS 64 million (NIS 5.5 per share). The dividend was paid in April 2008.

Subsequent to the balance sheet date, on May 29, 2008, the Group declared the distribution of a dividend to its shareholders totally approximately NIS 7.5 million (NIS 6.4 per share).

NOTE 8 – TAXES ON INCOME

During Q1 2008, the management of DGRE resolved its intention to sell, over the next two years, 9 investment real estate properties owned by it in Europe. The overall value of the options as at the date of their allotment is NIS -3,430 million.

Pursuant to DGRE's intention, the sale of the investment properties will be carried out by selling the shares of the its investees in these properties and not by direct sale of the properties.

As a result of DGRE's decision to sell the investment properties as set forth above, which constitutes a change in the management's estimate with respect to the expected exercise date for these properties, DGRE updated the provisions for deferred taxes. The updated provisions for taxes stem from the use of the tax rates applicable on the capital gains from the sale of properties and/or shares which are lower in those countries in which the properties and/or the shares will be sold than the tax rates applicable on the current revenues (according to which the provisions for deferred taxes were calculated in the past, under the assumption that the investment properties were long-term holdings). Therefore, DGRE recorded in Q1 2008, revenue from the tax update, in the amount of £ 23 million (approximately NIS 162 million).

NOTE 9 – INFORMATION REGARDING BUSINESS SECTORS

A. Revenues

	The three-month period ended March 31,		The year ended December 31,
	2008	2007	2007
	Unaudited		Audited
	NIS millions		
Fuel operations in Israel	1,397	1,000	4,837
Petrol stations and convenience stores in the USA	1,777	1,396	7,260
Refinery and marketing operations in the USA	2,723	2,000	9,534
Petrol stations and convenience stores in Europe	3,638	-	9,715
Vehicles segment	1,562	1,175	4,630
Real estate segment	390	97	3,274
Oil and gas exploration and production segment	112	80	351
Insurance operations segment abroad	380	381	1,461
Insurance operations segment in Israel	314	1,777	6,697
Other segments	164	129	540
Total in Statement of Income	12,457	8,035	42,299

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

B. Sector Results*)

	The three-month period ended March 31,		The year ended December 31,
	2008	2007	2007
	Unaudited		Audited
	NIS millions		
Fuel operations in Israel	82	15	223
Petrol stations and convenience stores in the USA	18	17	91
Refinery and marketing operations in the USA	67	140	710
Petrol stations and convenience stores in Europe	42	-	69
Vehicles segment	270	155	671
Real estate segment	338	34	1,548
Oil and gas exploration and production segment	42	7	130
Insurance abroad	65	66	220
Insurance in Israel	39	189	476
Other segments	-	15	3
Adjustments **)	(44)	(38)	(114)
Total in Statement of Income	919	600	4,027

*) Represents segment operating income.
**) Including expenses not attributed to sectors.

NOTE 10 - MINIMAL SHAREHOLDERS' EQUITY REQUIRED OF AN INSURER

The following data regarding Phoenix's equity is in accordance with Insurance Supervision Regulations (Minimal Equity Capital Required of an Insurer) 5758-1998, including the amendments of 2004 (hereinafter: "The Regulations")

	March 31, 2008	
	Equity capital	**Basic equity**
	Unaudited	
	NIS millions reported	
The existing amount in accordance with the Articles (1)	1,371(3)	77
The minimum amount required in accordance with the Articles (1) (2)	1,653	1,102
	282	1,025

1) Including deferred liability notes considered secondary capital, according to the Regulations totalling NIS 544 million.
2) The amount of capital, as at December 31, 2007, calculated as per the Regulations, based on the financial statements published by Phoenix under the Israeli Regulation.
3) The required shareholders' equity includes, inter alia, equity requirements for the following:

	December 31, 2007
	Unaudited
	NIS millions
Deferred acquisition expenses in life assurance and health	686
In respect of the retained amount at risk in the event of death	179
Unknown assets as defined in the Articles (mainly loans)	99
	964

(4) a. Insurance circular of March 12, 2008, determines that the insurance company shall not share the net excess capital deriving from the transfer to the international standard, computed as on December 31, 2007 until the supervisor has examined the effect of the transition to IFRS and determined regulations. Therefore, the capital requirements calculation was not performed at March 31, 2008.
Insurance circular of March 6, 2008, determines that the insurance company shall not distribute dividend in an amount that exceeds half of its profits from regular operations as of 2008, unless with prior approval of the Supervisor.

b. Distribution of dividend from capital surpluses is subject to liquidity requirements and compliance with Investment Regulations.

c. In October 2007 and April 2008, draft amendments were published of the Supervision of Financial Services (Minimal Equity Required from an Insurer) (Amendment) Regulations, 5767-2007.

The draft includes a proposal to add capital requirements for the following categories:

(1 Assets held against non-yield dependent liabilities,
(2 Catastrophe risk in general insurance transactions
(3 Credit risks as a percentage of the assets according to the scope of the risk characteristic of the various assets.
(4 Operational risks.

The new capital requirements are expected to increase the minimal required equity significantly, nonetheless, it will not be possible to estimate their impact until the final formulation of the regulations. The equity is to be increased by the end of 2010 in three equal annual portions.

NOTE 10 - MINIMAL SHAREHOLDERS' EQUITY REQUIRED OF AN INSURER (CONTD.)

(5) Pursuant to the control permit issued to the Group, no more than 50% of the annual profits of Phoenix may be distributed as dividend for a period of 3 years from the date of the issue of the permit. This restriction will only be applicable if Phoenix Insurance shareholders equity will be less than 120% of the equity under the provisions of the Control of Insurance Law, or any other regulation or law that may replace it.

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS

As stated in Note 2.A above, these interim financial statements are the first interim financial statements of the Group prepared according to IFRS. The Group first adopted IFRS for 2008 and therefore the transition date for reporting according to IFRS is January 1, 2007. The Group prepared an opening balance for the transition date from reporting according to IFRS commenced.

Prior to adoption of IFRS, the Group prepared its financial statements according to the accounting standards accepted in Israel. The last interim financial statements of the Group according to the accounting standards accepted in Israel were prepared for September 30, 2007 for periods of nine and three months that end on that date. The first annual financial statements prepared according to IFRS will be as of December 31, 2008 and for the year ending on that date.

IFRS 1 states that application of IFRS for the opening balance as of the transition date shall be retroactive (from now onwards).

IFRS 1 for first time adoption of IFRS states that, in principle, application of IFRS in the opening balance for the transition date shall be retroactive (from now onwards).

Concessions regarding Retroactive Application of IFRS Adopted by the Company

IFRS 1 leaves several subjects for which retroactive application is not required in the transition to IFRS. The Company chose to adopt the following concessions:

<u>Business combinations</u>

The Group did not apply IFRS 3, regarding business combinations retroactively. Therefore, goodwill and surplus costs that were created by business combinations that occurred before January 1, 2007, for acquiring consolidated, investee and jointly-controlled companies were not handled according to IFRS 3 but rather are presented as they were treated in accordance with the accounting standards accepted in Israel.

<u>Translation differences from business activity</u>

The Group did not recognize the cumulative translation differences of January 1, 2007, for all foreign operations. Therefore, the adjusted capital funds originating in the translation of financial statements for all foreign operations as of January 1, 2007 is zero.

<u>Allocation of financial instruments that were recognized in the past</u>

On January 1, 2007, the Group allocated financial instruments (that comply with the certain conditions of International Accounting Standard (IAS) 39 *Financial Instruments: Recognition and Measurement*) to the group of financial assets and liabilities that are measured according fair value via the income statement and the group of financial assets available for sale because this type of allocation was not made at the time of initial recognition (meaning, at the time the financial asset was acquired).

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

Share-based payment

IFRS 2, dealing with share-based payment, was not applied for the capital instruments that were granted and vested before the transition date. Regarding share-based payment transactions that are paid in cash, the Company chose not to apply IFRS 2 regarding liabilities that were paid before the transition date.

Assets and liabilities of consolidated companies

A consolidated company, Delek Real Estate, adopted IFRS beginning in the third quarter of 2007 and its transition date to IFRS is January 1, 2006. In addition, certain subsidiaries of Delek Real Estate have always applied IFRS.

The Group measured the assets and liabilities of the said consolidated companies according to the same values that were included in their financial statements, according to IFRS, as stated above.

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

A. Adjustments to balance sheets

		January 1, 2007				March 31, 2007				December 31, 2007			
		Israeli standard	Effect of transition to IFRS	Sorting of insurance company items	IFRS	Israeli standard*)	Effect of transition to IFRS	Sorting of insurance company items (14)	IFRS	Israeli standard	Effect of transition to IFRS	Sorting of insurance company items	IFRS
		Unaudited								Audited			
	Section	NIS thousands											
Cash and cash equivalents	9	881	(38)	1,085	1,928	1,832	(59)	1,228	3,001	2,323	(35)	794	3,082
Short-term investments	10	815	-	-	815	975	(57)	-	918	1,097	(76)	-	1,021
Short-term investments in insurance companies	9	-	(87)	1,731	1,644	-	(87)	1,778	1,691	-	-	1,890	1,890
Trade receivables		2,352	(20)	-	2,332	2,593	(7)	-	2,586	3,382	(11)	-	3,371
Insurance premiums to collect	15,10,9	-	-	821	821	-	-	1,059	1,059	-	-	890	890
Other receivables and debit balances	5,9,	577	(85)	133	625	791	(22)	217	986	829	(127)	446	1,148
Reinsurance assets		-	-	1,314	1,314	-	-	1,504	1,504	-	-	1,497	1,497
Inventory		1,477	14	-	1,491	1,200	93	-	1,293	2,074	167	-	2,241
Deferred acquisition expenses in insurance companies		-	-	241	241	-	-	209	209	-	-	348	348
		6,102	(216)	5,325	11,211	7,391	(139)	5,995	13,247	9,705	(82)	5,865	15,488

*) Following reclassification

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

A. Adjustments to balance sheets

		January 1, 2007				March 31, 2007				December 31, 2007			
		Israeli standard	Effect of transition to IFRS	Sorting of insurance company items	IFRS	Israeli standard*)	Effect of transition to IFRS	Sorting of insurance company items (14)	IFRS	Israeli standard	Effect of transition to IFRS	Sorting of insurance company items	IFRS
		Unaudited								Audited			
	Section	NIS thousands											
Non-current assets													
Investments in other financial assets	10	-	1,421	-	1,421	-	2,051	-	2,051	-	1,171	-	1,171
Investments in securities in insurance companies		-	-	23,581	23,581	-	-	24,616	24,616	-	-	26,995	26,995
Long-term loans, deposits and receivables	9,10	903	(191)	-	712	811	(63)	12	760	1,173	(90)	31	1,114
Investment in investees and others	1,7,9,10	2,815	(57)	633	3,391	3,100	(1,158)	842	2,784	3,531	(53)	770	4,248
Investment property	1,9	3,230	727	50	4,007	3,426	785	187	4,398	15,446	2,644	386	18,476
Land for construction	5,9	477	37	13	527	439	43	13	495	463	(12)	-	451
Investments in oil and gas exploration and production	7	969	(46)	-	923	1,000	(58)	-	942	998	(115)	-	883
Reinsurance assets		-	-	1,453	1,453	-	-	1,308	1,308	-	-	1,327	1,327
Property, plant and equipment, net	2,7,9	3,077	(94)	411	3,394	5,628	(19)	420	6,029	8,560	(371)	897	9,086
Deferred acquisition expenses in insurance companies	2	-	-	837	837	-	-	741	741	-	-	716	716
Deferred expenses, net (mainly in respect of operational leasing)		25	63	-	88	22	52	-	74	59	315	-	374
Goodwill	4,9	566	(58)	960	1,468	1,405	108	932	2,445	2,060	145	837	3,042
Other intangible assets, net		92	(24)	915	983	-	(27)	974	947	398	3	1,091	1,492
Deferred taxes	16	57	30	46	133	45	21	47	113	268	5	54	327
		12,211	1,808	28,899	42,918	15,876	1,735	30,092	47,703	32,956	3,642	33,104	69,702
Insurance business assets	13												
Cash and cash equivalents		1,115	(31)	(1,084)	-	1,233	-	(1,233)	-	826	-	(826)	-
Investments		26,018	78	(26,096)	-	27,340	259	(27,599)	-	29,981	67	(30,048)	-
Property, plant and equipment		330	(238)	(92)	-	345	-	(345)	-	871	-	(871)	-
Amounts receivable		3,880	(58)	(3,822)	-	4,132	(55)	(4,077)	-	4,239	(45)	(4,194)	-
Deferred acquisition costs and intangible assets		2,797	333	(3,130)	-	2,729	104	(2,833)	-	2,898	132	(3,030)	-
Total insurance business assets		34,140	84	(34,224)	-	35,779	308	(36,087)	-	38,815	154	(38,969)	-
Total assets		52,454	1,675	-	54,129	59,046	1,904	-	60,950	81,476	3,714	-	85,190

*) Following reclassification

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

A. Adjustments to balance sheets

		January 1, 2007				March 31, 2007				December 31, 2007			
		Israeli standard	Effect of transition to IFRS	Sorting of insurance company items	IFRS	Israeli standard*)	Effect of transition to IFRS	Sorting of insurance company items (14)	IFRS	Israeli standard	Effect of transition to IFRS	Sorting of insurance company items	IFRS
		Unaudited								Audited			
	Section	NIS thousands											
Current liabilities													
Credit from banks and other credit providers	9	3,185	(25)	57	3,217	3,383	(9)	279	3,653	5,005	(86)	416	5,335
Liabilities to suppliers and service providers	9	1,298	(27)	-	1,271	1,594	(17)	-	1,577	2,990	(21)	-	2,969
Trade payables and credit balances	5,9,10, 16	928	13	761	1,702	1,146	92	788	2,026	2,151	67	665	2,883
Dividend declared		86	-	-	86	100	-	-	100	160	-	-	160
Insurance reserves and pending claims		-	-	4,176	4,176	-	-	4,504	4,504	-	-	4,768	4,768
		5,497	(39)	4,994	10,452	6,223	66	5,571	11,860	10,306	(40)	5,849	16,115
Long-term liabilities													
Loans from banks and others	9,10	4,880	169	1,312	6,361	6,242	(96)	1,075	7,221	16,226	(1,309)	2,441	17,358
Debentures convertible to Company shares		8	-	-	8	6	-	-	6	1	-	-	1
Debentures convertible to shares of consolidated subsidiaries	3	301	(4)	-	297	299	28	-	327	208	-	-	208
Other debentures and deferred deeds of undertaking		4,221	-	506	4,727	6,866	(14)	1,294	8,146	8,964	1,008	113	10,085
Option warrants and conversion component in convertible debentures	3	-	47	20	67	-	28	22	50	-	41	8	49
Financial derivatives	10	-	42	-	42	13	150	-	163	-	769	-	769
Liabilities in respect of employee benefits, net	6	16	(4)	67	79	71	(18)	67	120	111	(4)	73	180
Insurance reserves and pending claims – insurance operations		-	-	23,636	23,636	-	-	24,469	24,469	-	-	26,036	26,036
Other liabilities	1,2	337	6	444	787	361	187	434	982	876	443	604	1,923
Deferred taxes	16	399	296	445	1,140	394	414	(14)	794	1,594	1,152	471	3,217
		10,162	552	26,430	37,144	14,252	679	27,347	42,278	27,980	2,100	29,746	59,826

* Following reclassification

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

A. Adjustments to balance sheets

		January 1, 2007				March 31, 2007				December 31, 2007			
		Israeli standard	Effect of transition to IFRS	Sorting of insurance company items	IFRS	Israeli standard*)	Effect of transition to IFRS	Sorting of insurance company items (14)	IFRS	Israeli standard	Effect of transition to IFRS	Sorting of insurance company items	IFRS
		Unaudited								Audited			
	Section	NIS thousands											
Insurance business liabilities	13												
Insurance reserves and pending claims		27,841	(24)	(27,817)	-	28,708	(29)	(28,679)	-	30,914	(31)	(30,883)	-
Long-term liabilities		2,253	371	(2,624)	-	2,796	392	(3,188)	-	3,354	172	(3,526)	-
Other liabilities		1,022	(39)	(983)	-	1,053	(2)	(1,051)	-	1,190	(4)	(1,186)	-
		31,116	308	(31,424)	-	32,557	361	(32,918)	-	35,458	137	(35,595)	-
Equity capital attributable to company shareholders													
Share capital		13	-	-	13	13	-	-	13	13	-	-	13
Premium on shares		1,543		-	1,543	1,553	4	-	1,557	1,557	17	-	1,574
Capital funds		14	245	-	259	(30)	214	-	184	(188)	183	-	(5)
Treasury shares		-	(87)	-	(87)	-	(87)	-	(87)	-	-	-	-
Balance of earnings		1,777	456	-	2,233	1,949	467	-	2,416	2,475	532	-	3,007
Dividend declared after the balance sheet date		100	(100)	-	-	130	(130)	-	-	64	(64)	-	-
		3,447	514	-	3,961	3,615	468	-	4,083	3,921	668	-	4,589
Non-controlling interest		2,232	341	-	2,573	2,399	330	-	2,729	3,811	849	-	4,660
Total equity capital		5,679	855	-	6,534	6,014	798	-	6,812	7,732	1,517	-	9,249
		52,454	1,675	-	54,129	59,046	1,904	-	60,950	81,476	3,714	-	85,190

* Following reclassification

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

B. Adjustments to Statement of income

	Section	The three-month period ended March 31, 2007				The year ended December 31, 2007			
		Israeli standard	Effect of transition to IFRS	Sorting of insurance company items (14)	IFRS	Israeli standard	Effect of transition to IFRS	Sorting of insurance company items	IFRS
		Unaudited				Audited			
		NIS millions							
General business									
Revenues	5,9	5,970	(93)	2,158	8,035	34,498	(382)	8,183	42,299
Cost of revenues	5,7,9	5,245	(97)	1,450	6,598	29,840	(409)	5,775	35,206
Gross profit		725	4	708	1,437	4,658	27	2,408	7,093
Increase in the value of investment property, net	1	-	-	-	-	-	755	-	755
Marketing, sale and petrol station operation expenses	5,9	225	1	248	474	1,422	6	800	2,228
Administrative and general expenses	9	169	(5)	205	369	652	(26)	887	1,513
Other revenues (expenses), net		-	13	(7)	6	-	(100)	20	(80)
Earnings from ordinary operations		331	21	248	600	2,584	702	741	4,027
Financing income	8	-	89	-	89	-	262		262
Financing expenses	3,5,7,8, 9,10	147	110	58	315	1,585	343	198	2,126
Earnings after financing		184	-	190	374	999	621	543	2,163
Earnings from exercise of investment in investees and other companies, net	4,10	143	(143)	-	-	593	(282)	-	311
Other revenues, net	3,4,10	35	(28)	(7)	-	69	(89)	20	-
Company share in earnings of investees and partnerships, net	1,7,10	-	113	47	160	-	335	13	348
Earnings before taxes on income		362	(58)	230	534	1,661	585	576	2,822
Taxes on income	16	108	(20)	89	177	348	97	192	637
Earnings after taxes on income		254	(38)	141	357	1,313	488	384	2,185
Company share in earnings of affiliates and partnerships, net		67	(114)	47	-	187	(187)	-	-
Non-controlling interest in consolidated subsidiaries, net		(88)	88	-	-	(451)	451	-	-
Net profit from ordinary business		233	(64)	188	357	1,049	752	384	2,185

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

B. Adjustments to Statement of income

		The three-month period ended March 31, 2007				The year ended December 31, 2007			
	Section	Israeli standard	Effect of transition to IFRS	Sorting of insurance company items	IFRS	Israeli standard	Effect of transition to IFRS	Sorting of insurance company items	IFRS
		Unaudited				Audited			
		NIS millions							
Insurance business	13								
Earnings from insurance business		219			-	527	(32)	(495)	-
Income from investments and others not included in insurance business		40			-	188	(37)	(151)	-
Marketing and sales expenses not included in insurance business		(4)			-	41	1	(42)	-
Interest expenses on long-term liabilities		(47)			-	195	(10)	(185)	-
Group's share in earnings of investees		46			-	78	28	(106)	-
Earnings before taxes on income		254			-	557	(32)	(525)	-
Taxes on income		92			-	191	(15)	(176)	-
Earnings after taxes on income		162			-	366	(18)	(384)	-
Non-controlling interest in profits of consolidated subsidiaries		(70)			-	140	(140)	-	-
earnings from insurance business		92			-	226	158	(384)	-
Net earnings		325			357	1,275	875	-	2,185
Attributable to:									
Company shareholders					196				1,277
Non-controlling shareholders					161				908
					357				2,185

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

C. Notes on the Adjustment of Financial Statements

1. Investment property

According to the accounting standards accepted in Israel (Standard 19) the companies in the Group chose to the present their investment real estate on the basis of cost. On the transition date (pursuant to the provisions of IAS 40) the Group decided to present investment real estate according to fair value with changes in fair value credited to the income statement. Therefore, on the transition date, the Group credited (including for its share in associated companies) a total of NIS 578 million to the retained earnings (after taxes). The impact, as stated, on the earnings balances as of December 31, 2007 totaled NIS 881 million.

The revenues from appraisal totaling NIS 755 million were credited to the income statement for the year ending December 31, 2007.

2. Leasing rights for land from the Israel Lands Administration

In accordance with leasing agreements with the Israel Lands Administration (ILA), the Group has leasing rights for the certain land, generally for a period of 49 years with an option to extend the agreement for another 49 years (in some cases).

According to the accounting standards accepted in Israel, the amounts paid for the said lease rights were stated in property, plant and equipment as un-depreciated land.

According to IFRS, this lease is classified as in accordance with the provisions of IAS 17, *Leases* as an operating lease and therefore the amounts paid are considered advance lease fees.

Upon transition to reporting in accordance with IFRS, as of January 1, 2007 the amounts were reclassified from the property, plant and equipment item and were stated in deferred expenses under prepaid expenses in respect of operating lease line item and were depreciated over the lease period (including the option for extension of the lease period if, on the agreement date, there was a reasonable certainty that the option would be exercised). Therefore, the balance of the prepaid expenses in respect of operating lease amounts as of the transition date totaling increased by approximately NIS 67 million and the property, plant and equipment balance as of that date decreased by an amount of approximately NIS 71 million. As of December 31, 2007, the property, plant and equipment balance decreased by NIS 325 million and the other assets and expenses balance increased by NIS 315 million. Impact of the decrease (after taxes) was charged to retained earnings.

3. Options, convertible debentures and attribution of consideration for block issues

a) Convertible debentures

Group companies have debentures that are convertible into their ordinary shares, for which the conversion price is linked to the exchange rate of the dollars and/or to the CPI. In accordance with the transition provisions of Israeli Accounting Standard No. 22 (hereinafter, "Standard No. 22") of the Israel Accounting Standards Board, *Financial Instruments: Disclosure and Presentation*, the said debentures constitute a complex financial instrument that includes a liability component and a capital component (the Group stated this capital component in its liabilities). Accordingly, the consideration received for the debentures issue was split into the said components, in accordance with the provisions of Standard No. 22.

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

C. Notes on the Adjustment of Financial Statements (contd.)

3. Options, convertible debentures and attribution of consideration for block issues (contd.)

a) Convertible debentures (contd.)

In accordance with IAS 32, *Financial Instruments: Presentation*, because the conversion component is linked to the exchange rate of the dollars and/or to the CPI and is not fixed in shekel terms (the operating currency), it constitutes a financial liability component rather than a capital component. The conversion component is measured in accordance with IAS 39, *Financial Instruments: Recognition and Measuremen*t at its fair value and changes in the fair value of this component are attributed periodically to the statement of income.

Upon transition to reporting in accordance with IFRS, as of January 1, 2007, a long-term liability of approximately NIS 27 million, representing the fair value of the options on the transition date. As of December 31, 2007 the balance for the said the balance of this liability totalled approximately NIS 33 million. The earnings balance earnings decreased by the same amount.

b) Options

According to Israeli GAAP, pursuant to the provisions of Israeli Accounting Standard No. 22 (hereinafter, "Standard No. 22") the Israel Accounting Standards Board, consideration attributed to options for which the exercise price is linked to the CPI is presented as part of the Group's equity.

According to IAS 32, *Financial Instruments: Presentation*, these options constitute a financial because the addition to their exercise price is not fixed. Therefore, they were stated as liabilities. The liability is measured in accordance with IAS 39, *Financial Instruments: Recognition and Measuremen*t. Therefore, the warrants are stated at fair value at each balance sheet date and changes in fair value are credited to the statement of income.

Upon transition to reporting according to IFRS, as of January 1, 2007 a long-term liability was created that represents the fair value of the options as of the transition date, totaling approximately NIS 27 million. As of December 31, 2007, the balance of the aforementioned liability totalled approximately NIS 33 million. The aforementioned balance of retained earnings decreased by the same amount.

c) Block issue

According to Israeli GAAP, based on the provisions of Standard No. 22 of the Israel Accounting Standards Board, the Group divided the consideration for the issue of a block that includes shares, options and debentures, according to the ratio between the values of the components of the block, based on the average of the first three trading days following the issue.

Upon the transition to reporting in according with IFRS, according to IAS 32, *Financial Instruments: Presentation* when such a block issue is issued the consideration is attributed first to financial liabilities measured periodically at fair value, then to financial liabilities measured at fair value only at the initial recognition date and the value attributed to the share component is considered a capital instrument that is calculated as a residual value. The value is attributed on the basis of first trading day, not according to the first three trading days as was p[previously accepted in Israel.

Impact of the transition to reporting according to IFRS, resulting from the aforementioned, was not material.

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

C. Notes on the Adjustment of Financial Statements (contd.)

4. Business combinations

a) According to Israeli GAAP, the balance of goodwill derived from the acquisition of a company in business combination, was amortized beginning on the acquisition date and ending on December 31, 2005. On January 1, 2006 the goodwill amortization was discontinued, pursuant to the instructions of Accounting Standard No. 20 (amended) of the Israel Accounting Standards Board, *The Accounting Treatment of Goodwill and Intangible Assets when Purchasing an Investee Company*.

Pursuant to the provisions of IFRS 1, the Group chose the concession that allows business combinations created before the transition date for reporting according to IFRS not to be corrected. According to the said concession, the value of goodwill at the transition date is set as its value according to Israeli GAAP.

b) According to Israeli GAAP, the non-controlling interests when acquiring a subsidiary are calculated based on the book value of the assets and liabilities of the subsidiary and are stated after the liabilities and before equity.

According to the provisions of IFRS 3, *Business Combinations*, the Group will recognize non-controlling interests as of the acquisition date, for the amount of the minority share in the full value of the assets and liabilities of the subsidiary on the acquisition date, against presentation of the said assets and liabilities on the balance sheet for that date at their full fair value. Goodwill on the acquisition date will continue to be calculated on the basis of the difference between the acquisition cost and the Company's share in the fair value of the net assets and liabilities of the subsidiary, as calculated according Israeli GAAP.

c) According to Israeli GAAP, non-controlling interests are stated in the Group's balance sheet after the liability items and before the equity items, and in the consolidated statement of income as an expense for the purpose of determining the Group’s consolidated net earnings. Pursuant to the provisions of IAS 1, *Presentation of Financial Statements*, the Group presents the non-controlling interests in the consolidated balance sheets as part of its equity. The minority share will not be deducted from the net earnings of the Group.

d) Assets and liabilities of consolidated companies

A consolidated company, Delek Real Estate, adopted IFRS commencing the third quarter of 2007 and its transition date to IFRS is January 1, 2006. In addition, certain subsidiaries of Delek Real Estate have always applied the IFRS.

The Group measured the assets and liabilities of the said subsidiaries according to the same values that were included in their financial statements, according to IFRS, as stated above.

e) Transactions with minority shareholders

(1) According to Israeli GAAP, when purchasing shares from minority shareholders in a company that the Group already controls, the Group allocated the excess of the cost created to identified, acquired assets and liabilities and the unallocated remainder to goodwill. According to IFRS, the Group chose to apply the option that allocates the entire excess cost to goodwill.

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

C. Notes on the Adjustment of Financial Statements (contd.)

4. Business combinations (contd.)

e) (contd.)

(2) According to Israeli GAAP, at the time of sale and allocation of shares to minority shareholders, while maintaining control, the Group recognized a gain from the decrease in holding.

According to IFRS and considering the Group's policy regarding transactions with minority shareholders, there was no change in the said accounting treatment. However, the amount of earnings recognized said transactions was impacted by the difference in the amount of book value exercised. As a result thereof, retained earning as of December 31, 2007 decreased by NIS 121 million.

(3) In certain cases, companies in the Group granted minority shareholders put options for the sale of minority shares to the Group companies, at a stated amount or at the fair value of the holdings on date of sale. According to Israeli GAAP, these options were stated off the balance sheet only.

According to international standards, options of this type are considered a financial liability that is measured according to current value of the sale price, and changes in the liability amount are treated as contingent consideration. Furthermore, the Group does not include non-controlling interests of these shares but does include all of the results from the minority shares. Retained earnings were not materially impacted by the aforementioned difference.

5. Construction of buildings for sale and capitalized cost and inventory of buildings for sale

According to Israeli GAAP, the Group recognizes revenue from a project designated for sale when the percentage of completion has reached or exceeded 25% and the accumulated consideration from the sales is equal to or has exceeded 50% of the project's revenues.

Upon the transition to reporting according to IFRS, pursuant to IAS 18, *Revenues*, revenues from the sale of real estate, including from a project of a contractor building apartments for sale, are recognized when the apartments are transferred to the buyer.

Furthermore, according to Israeli GAAP, based on Accounting Standard No. 3 of the Israeli Accounting Standards Board, *Capitalized Credit Costs*, the Group only capitalized credit costs for properties whose construction period is longer than 3 years or that have an exceptional construction period or investment amount. With transition to reporting according to IFRS, the Group directly capitalizes costs of credit for all projects that require a significant time to be made usable or ready for sale. Furthermore, according to Israeli GAAP, advertising and sales promotion clearly identified with the project may be capitalized to cost of the project. However, under IFRS these costs may not be capitalized.

According to Israeli GAAP, the Group deducted advance payments received from buyers from the balance of inventories of buildings for sale. According to IFRS, these amounts were present gross.

Retained earnings were not materially impacted by the aforementioned difference.

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

C. Notes on the Adjustment of Financial Statements (contd.)

6. Employee benefits

According to Israeli GAAP, liability for severance pay is measured, in some cases, based on the product of the number of work years of the employee and his last monthly salary at each balance sheet date, in accordance with the "shut down method" and the severance pay funds are measured at their redemption values at each balance sheet date.

According to IAS 19, *Employee Benefits*, the Group's compensation plans is considered a defined benefit plan. Therefore, it is mandatory to state liability for severance pay liability on an actuarial basis. The actuarial calculation takes into account future salary costs and employee turnover, based on the estimated time of the payment.

The amounts are presented on the basis of expected future cash flows, according to the interest rates of long-term government bonds, the maturity of which is close to the period of the liabilities in respect of retirement compensation. Furthermore, the assets in respect of employee benefits are measured at fair value.

The interest rate used to calculate the actuary liabilities is based on the interest of government bonds, since in the Group's opinion there is no in-depth market for corporate bonds in Israel. The issue of capitalization interest is being examined and it may be decided that the appropriate capitalization rate for Israel is based on corporate bonds.

Retained earnings were not materially impacted by the aforementioned difference.

7. Currency of operation

According to Israeli GAAP, the currency in which the financial statements of the Company and of the Israeli investees are denominated is the New Israel Shekel (NIS). Foreign investees are autonomous units and their financial statements are denominated in their currency of operation.

In accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, the Company is required to set its currency of operation and that of each company in the group according to the currency of the principal economic environment in which each one operates, in accordance with the criteria set in IAS 21. Certain investee companies that operate in Israel have come to the conclusion that their currency of operation is the United States dollar because most of the revenues and expenses of these companies are denominated in this currency. There was no change in the currency of operation of foreign investees.

Upon transition to reporting in accordance with IFRS, the Group re-measured the assets and liabilities of the those subsidiaries that are denominated in dollars, according to the provisions of IAS 21 and changed their measurement to New Israel Shekels and translated them from their currency of operation (US dollar) to the presentation currency (NIS).

In accordance with the concession pursuant to IFRS 1, the Group chose to state the cumulative translation differences, as of January 1, 2007, as zero.

Due to the above, retained earnings decreased by NIS 56 million, as of the transition date, mostly against a decrease in fixed asset items and investment in oil and gas exploration. As of December 31, 2007, the impact of the aforementioned changes on retained earnings were not materially impacted by the aforementioned changes.

Furthermore, as of December 31, 2007, because of the transition to reporting according to IFRS, the principal for translation differences of investee companies totalled NIS 103 million because, inter alia, changes in the operating currencies of the investee companies, as described above.

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

C. Notes on the Adjustment of Financial Statements (contd.)

8. Financial revenues and expenses

According to Israeli GAAP, net financial expenses and revenues were presented in the statement of income. According to IFRS, financial expenses and financing revenues are stated separately in the statement of income.

9. Investments in jointly controlled companies

According to Israeli GAAP, companies for which the Group has an agreement for joint control and/or equal holdings (50%) with another party, were included in the financial statements using the proportionate consolidation method.

According to IFRS, the Group chose to include its investments in the said investees using the equity method.

10. Financial instruments

According to Israeli GAAP, securities were classified into two categories: "non-current investments," presented at cost, and "current investments," presented at fair value with changes in fair value credited in the statement of income.

According to IAS 39, *Financial Instruments: Recognition and Measurement*, the accounting treatment of financial instruments is based on their classification in one of the following four categories:

- Financial asset or financial liability measured at fair value through profit or loss
- Investments held to maturity
- Loans and receivables
- Financial assets available for sale.

a) Investment in negotiable securities

According to Israeli GAAP, the Group classified investments in certain securities "current investments." Accordingly, these investments were presented at fair value and changes in fair value were credited on the statement of income.

Upon transition to reporting in accordance with IFRS, pursuant to the provisions of IAS 39, *Financial Instruments: Recognition and Measurement*, the Group classified its investment in the said securities as "financial assets measured at fair value in the statement of income." Therefore, the securities were presented at fair value as of each balance sheet date and changes in their fair value were credited on the statement of income.

b) Investment in other companies

According to Israeli GAAP, investments in other companies, in which the Company has no control or substantial impact, are presented on the balance sheet at cost after deduction of provision for non-temporary impairment of value.

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

C. Notes on the Adjustment of Financial Statements (contd.)

10. Financial instruments (contd.)

b) Investment in other companies (contd.)

Upon transition to reporting in accordance with IFRS and in accordance with the provisions of IAS 39, *Financial Instruments: Recognition and Measurement*, some of these investments are classified as securities available for sale and are measured at fair value. Changes in their fair value are credited to capital reserve. The other investments were classified as financial assets measured at fair value through the income statement. Due to the aforementioned, as of the transition date capital reserve and retained earnings balances increased (after tax) by NIS 218 million and NIS 125 million, respectively. As of December 31, 2007 the capital reserve balance increased by NIS 313 million.

c) Embedded derivatives

Group companies have entered into operating lease agreements (mainly in respect of gas stations), of which some are linked to the dollar, which is not the currency of operation of either of the parties to the lease agreement.

According to Israeli GAAP, a lease agreement is treated as one piece and is not separated into its components. The current lease amounts (including exchange differences in respect thereof) are stated in the statement of income when they are created.

Upon transition to reporting in accordance with IFRS, pursuant to the provisions of IAS 39, *Financial Instruments: Recognition and Measurement*, these lease agreements are considered agreements that contain embedded derivatives that should be separated from the host contract (the lease agreement). The embedded derivatives are separated from the lease contracts and measured separately, at each balance sheet date, at fair value. Changes in the fair value of the said separate embedded derivatives are stated in the statement of income for each period. Furthermore, a liability was recorded for denomination of the rental fees in shekels over the rental period.

As a result of the above, the balance of retained earnings for the transition date and for December 31, 2007 increased (before taxes) by NIS 43 million and NIS 60 million, respectively.

d) Derivative financial instruments

According to Israeli GAAP, the results of the hedging transaction in respect of the gas price as part of the agreement with Israel Electric Corp. and certain interest exchange transactions were recorded in the statement of income against the corresponding items for which the hedge was taken. In accordance with IFRS, because these transactions were not designated as hedging transactions on the transition date and/or do not meet criteria for a hedging transaction under IFRS, the said hedging transactions are measured at fair value, and changes in their fair value recorded in the financial item of the statement of income. As a result of stating these transactions according to fair value, as described, the balance of retained earnings for the transition date and for December 31, 2007 decreased (before taxes) by NIS 47 million and NIS 92 million, respectively.
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NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

C. Notes on the Adjustment of Financial Statements (contd.)

11. Dividend declared subsequent to the balance sheet date

According to Israeli GAAP, a dividend declared after the balance sheet date but before the date of approval of the financial statements is stated in equity as a decrease in retained earnings and an increase in dividend declared subsequent to the balance sheet date. With the transition to reporting according to IFRS, the Group shall only disclose the dividend declared after the balance sheet date.

12. Treasury shares

According to the practice in Israel, Group shares held by Phoenix in investment portfolios of profit-sharing policies were not treated as treasury shares. In accordance with IFRS, Group shares held by Phoenix are treated as treasury shares. As a result, the Group's equity as of the transition date decreased by a total of approximately NIS 87 million. During 2007, the aforementioned shares were sold for a total of NIS 112 million. Due to the above, as of December 31, 2007 retained earnings decreased by NIS 13 million against an increase in share premium.

13. Insurance business

a) Financial instruments

(1) Assets included in the investment portfolios of investment profit-sharing policies

In accordance with the guidelines issued by the Supervisor of Insurance these assets, which include negotiable and non-negotiable financial instruments, are included in the balance sheets prepared in accordance with the accounting principles accepted in Israel, at fair value.

According to international standards, these financial instruments are classified in the fair value group in the statement of income. See also section 10(a) above.

(2) Embedded derivatives

Negotiable derivatives and financial instruments that include embedded derivatives: These instruments were all classified to the fair value class through the statement of income, beginning on the transition date. Therefore, these assets will be measured at fair value, and the changes in fair value will be transferred to the statement of income.
Non-negotiable derivatives and financial instruments that include embedded derivatives: For these instruments, the embedded derivative and the host contract were separated, the host contract is measured by depreciated cost and the derivative is measured by fair value.

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

C. Notes on the Adjustment of Financial Statements (contd.)

13 Insurance business (contd.)

a) Financial instruments (contd.)

(3) Negotiable assets that are not included in the investment portfolios of investment profit-sharing policies (*nostro*), which do not include embedded derivatives or that constitute derivatives

In accordance with the guidelines issued by the Supervisor of Insurance, these assets are included in the balance sheets that are prepared according to Israeli GAAP, at market value and the changes in value are credited to the statement of income.

According to international standards, these financial instruments are classified as financial assets available for sale. These investments are measured at fair value and the changes in fair value are credited to capital fund, minus taxes applying until the sale of the investment. Decreases in fair value, which have the character of permanent impairment of value are recorded in the statement of income.

See also section 10(b) above.

(4) Non-negotiable assets that are not included in the investment portfolios against investment profit sharing policies (*nostro*)

In accordance with IFRS and according to accounting procedures, non-negotiable shares were presented at cost after deduction of a provision for non-temporary impairment. According to IFRS, these shares are classified as financial assets that are available for sale.

See also section 10(b) above.

b) Contingent claims in general insurance – provision for indirect expenses

In accordance with the guidelines issued by the Supervisor of Insurance, no provisions were made for contingent claims in general insurance for indirect expenses entailed in the settlement of claims pertaining to policies issued before underwriting year 2006.

Upon transition to international standards and in accordance with the guidelines of the Supervisor, the entire provision for indirect expenses was also recorded for underwriting years prior to 2006. As a result, as of January 1, 2007 and as of December 31, 2007 the retained earnings decreased by NIS 21 million.

c) Call options and put options in associated companies

According to Israeli GAAP, investments in call options on investments in associated companies and in put options on investments in associated companies are not reflected as a separate financial asset or a separate financial liability.

According to international standards, call options on associated companies held by the Group and third party holdings in put options for associated companies are recorded in the balance sheet at fair value as of each balance sheet date. Changes in the fair value of the said options are recorded in the statement of income.

NOTE 11 – ADJUSTMENT OF REPORTING ACCORDING TO ISRAELI GAAP TO REPORTING ACCORDING TO IFRS (CONTD.)

C. Notes on the Adjustment of Financial Statements (contd.)

13 Insurance business (contd.)

c) Call options and put options in associated companies (contd.)

The impact as of January 1, 2007 and December 1, 2007 was expressed as a decrease in retained earnings amounting to NIS 113 million and NIS 115 million, respectively.

d) For additional impact of the transition to international standards on the insurance business. See Sections 1-10, above.

14. Insurance business operations

According to the accounting standards accepted in Israel, the Group stated insurance business operations separately from other Group business (general business). In accordance with international standards, insurance operations are presented together with other Group business.

15. Gas and oil assets

According to accepted practice in Israel, the Group presented its share in the current assets and liabilities that were created as part of joint ventures for oil and gas exploration and production in a separate clause under current assets and under current liabilities. According to IAS, the assets and liabilities to the joint ventures were combined with the other items in the Group's balance sheet, according to their nature.

16. Deferred taxes

According to the accounting standards accepted in Israel, deferred taxes were presented in the short term, in the other receivables item and in the other payables item. Upon transition to reporting in accordance with IFRS, in accordance with IAS 12, *Income Taxes*, the deferred tax balances are stated in the long term investments and liabilities items, respectively.

In addition, the deferred taxes balances were impacted by the tax impact of the aforementioned adjustments.