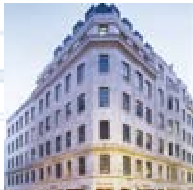
Delek Group

FINANCIAL STATEMENTS

UNAUDITED

AS OF JUNE 30, 2008



IMPORTANT

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

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

Delek Group

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UPDATE OF CHAPTER A (DESCRIPTION OF THE CORPORATION'S BUSINESS) OF THE 2007 PERIODIC REPORT OF DELEK LTD. ("THE COMPANY")[1]

1. Company activities and business development

Section 1.1.4

On June 25, 2008 the Company purchased from Tau Tsuot Ltd. ("Tau") all the shares of the subsidiary Delek Real Estate Ltd. ("Delek Real Estate") held by Tau, 6,057,385 shares, comprising approximately 4.7% of the shares of Delek Real Estate. The transaction was made off the stock exchange floor, at a transaction price of NIS 12 per share and a total consideration of approximately NIS 72.7 million. The transaction followed other transactions in which NIS 8 million of shares of Delek Real Estate were purchased on the stock exchange on June 24, 2008 (at an average price about NIS 10 per share). Following these purchases, the Company's holding in Delek Real Estate increased to 68.53% in equity and 61.06% in voting rights. For further details, see the Company's immediate report of June 26, 2008 (Ref: 2008-01-179532). The information in that immediate report is presented here by way of reference.

Section 1.1.4

On June 29, 2008 the subsidiary (100%) Delek Investments and Properties Ltd. ("Delek Investments") sold 930,000 shares of the subsidiary (in concatenation) Delek Automotive Systems Ltd. ("Delek Automotive"), which is approximately 1% of the shares of Delek Automotive. The transaction was made off the stock exchange floor, at NIS 54 per share and a total consideration of approximately NIS 50 million. Following the purchase, Delek Investment's holding in Delek Automotive decreased to 54.22% in equity and 52.76% in voting rights. For further details, see the Company's immediate report of June 30, 2008 (Ref: 2008-01-184263. The information in that immediate report is presented here by way of reference.

2. Investments in the Company's capital and transactions in its shares

Section 1.3

On July 16, 22, 24 and 28, 2008, the Company bought back (cumulatively) 111,605 of its own shares. Following these purchases, the number of treasury shares in the issued share capital of the Company increased to 117,915, which is approximately 1.01% of the Company's issued share capital. None of the treasury shares grants a voting right or a right to receive dividends. For further details, see the Company's immediate reports of July 16, 2008 (Ref: 2008-01-204909), July 17, 2008 (Ref: 2008-01-206163), July 23, 2008 (Ref: 2008-01-212898), July 27, 2008 (Ref: 2008-01-216054) and July 29, 2008 (Ref: 2008-01-219027). The information in those immediate reports is presented here by way of reference.

3. Distribution of dividends

Section 1.4.1

On August 28, 2008, the Board of Directors of the Company resolved on the distribution of a cash dividend of approximately NIS 25 milion.

4. Refineries USA

Section 1.71

On June 29, 2008, the Company announced that Delek USA is considering possible acquisition of a fuel refinery, retail, wholesale and marketing operation in the USA. On August 3, 2008, the Company announced that on August 1, 2008, Delek USA had announced termination of the negotiations to acquire the above operation. For further details, see the Company's immediate reports of June 29, 2008 (Ref: 2008-01-182304) and August 3, 2008 (Ref: 2008-01-222474). The information in those immediate reports is presented here by way of reference.

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[1] The update includes changes or new events that occurred in the Company's business during the second quarter and until immediately prior to the date of this report, on any matter that must be described in the Periodic Report and which was not updated in the Company's 2007 Periodic Report. The section numbers in this update correspond to the section numbers in Chapter A (Description of the Corporation's Business) in the 2007 Periodic Report.

5. Delek Products Europe

Section 1.10.1

On June 29, 2008 the Company published an immediate report concerning negotiations of Delek Europe B.V. ("Delek Europe") in connection with the transaction to acquire holdings of a third party in a foreign company that owns gas stations and other fuel-related operations in Europe. For further details, see the Company's immediate report of June 29, 2008 (Ref: 2008-01-182304). The information in that immediate report is presented here by way of reference. After the reporting period, in August 2008, the period of exclusivity granted to Delek Europe came in the context of the transaction came to an end; nevertheless, the parties are continuing the examine various outlines for the purchase of some of the assets which are the subject of the above transaction. There is no certainty that the negotiations will mature to a transaction or that any binding agreements will be signed.

6. Real estate

Section 1.12.1

On June 12, 2008, based on the shelf prospectus published by Delek Real Estate on August 29, 2007, the Company issued 1,700,000 ordinary shares registered in the name of Delek Real Estate. For further details, see the immediate report of Delek Real Estate of June 15, 2008 (Ref: 2008-01-166497). The information in that immediate report is presented here by way of reference.

Section 1.12.1I

On July 3, 2008, based on the shelf prospectus published by Delek Real Estate on August 29, 2007, Delek Real Estate made a private placement of NIS 20 million of registered Debentures (Series Y) of NIS 1 par value each ("the Debentures"). The Debentures were issued at a price equal to 100.22% of their par value, i.e. total proceeds received for issue of the Debentures is NIS 20.044 million. The other terms of the Debentures are the same as those of the debentures existing prior to the placement. For further details, see the immediate report of Delek Real Estate of June 30, 2008 (Ref: 2008-01-187335). The information in that immediate report is presented here by way of reference.

On June 16, 2008, Maalot Standard & Poors announced a Credit Watch Negative rating (A+\) for the Debentures (Series Y) of Delek Real Estate. For further details, see the immediate report of Delek Real Estate of June 16, 2008 (Ref: 2008-01-168831). The information in that immediate report is presented here by way of reference.

Section 1.12.26

On June 4, 2008, a concatenated subsidiary of Delek Real Estate, Sahar Holdings (1967) Ltd. ("Sahar"), entered into an agreement to purchase the rights of Yaad Industry Agencies Ltd. in an office and commercial building in Jerusalem. For further details, see the immediate report of Delek Real Estate of June 5, 2008 (Ref: 2008-01-161646). The information in that immediate report is presented here by way of reference.

Section 1.12.29

On July 8, 2008, a foreign subsidiary of Delek Real Estate which is held in equal parts by Belron and The Phoenix, closed the purchase of three parts of non-recourse loans from an international banking corporation, in a total amount of 80.07 million euro (see below), backed by 30 productive real estate properties in Germany and Switzerland. For further details, see the immediate reports of Delek Real Estate of June 1, 2008 (Ref: 2008-01-155085) and of July 9, 2008 (Ref: 2008-01-197511). The information in those immediate reports is presented here by way of reference.

Section 1.12.29

On September 21, 2005, a framework agreement was signed between Delek Real Estate and The Phoenix Assurance, which today is a corporation controlled by the Company ("the Framework Agreement"). On the date of execution of the Framework Agreement, The Phoenix was not controlled by the Company. Under the framework Agreement, The Phoenix provided insurance for Delek Real Estate, a credit facility for a period stated ion the Framework Agreement (a period that was extended with the consent of the parties), in the amount of NIS 75 million ("the Facility Amount"), against payment of a quarterly utilization commission as determined in the Framework Agreement (for additional details about the Framework Agreement, see Section 8.2.3.(r) of the prospectus published by Delek Real Estate on August 29, 2007). The date of utilization of the credit according to the Framework Agreement was left to the discretion of Delek Real Estate, subject to the terms of the Framework Agreement.

In accordance with approvals given by the Audit Committee and the Board of Directors of Delek Real Estate, a loan agreement was signed on August 20, 2008 between The Phoenix and Delek Real Estate, for utilization of the Facility Amount ("the Loan Agreement").

The terms of the loan are these: the loan principal is NIS 75 million, the loan is linked to the CPI and bears interest at the rate determined by Interest Rates Co. on the date of execution of the Loan Agreement , as set forth in the Loan Agreement (Interest Rates Co. provides the risk-free interest rates and risk premiums for the revaluation of non-tradable assets, based on the guidelines of the Capital Markets Department at the Ministry of Finance). The loan principle and the interest on it will be repaid in ten equal and consecutive annual payments commencing on the date on which the loan was provided.

To secure repayment of the loan and repayment of additional loans provided for Delek Real Estate by The Phoenix Assurance in 2004 ("the Additional Loans"), Delek Real Estate provided collateral in favor of The Phoenix, as agreed in the Loan Agreement. The Loan Agreement defines a mechanism of cross-collateral between the collateral given for the loan and the collateral given for the Additional Loans, all as provided in the Loan Agreement.

In addition, the loan Agreement contains standard financial and other stipulations for this type of transaction.

For further details, see the immediate report of Delek Real Estate dated August 21, 2008 (Ref; 2008-01-241491). The information in that immediate report is presented here by way of reference.

Section 1.12.32A

On June 24, 2008, Delek Real Estate announced that the Swiss company Jelmoli Holding AG ("Jelmoli"), acting in its own name and in the name of is subsidiaries (together: "Jelmoli Group"), of the first part, and Empario Holding GmbH ("Empario") together with the subsidiary Delek Belron International Ltd. (which holds indirectly 16.67% of the share capital of Empario) and Blenheim Properties Group Limited (which holds indirectly 50% of the share capital of Empario) daughter company Delek Global Real Estate (which holds indirectly 33.33% of the share capital of Empario) (together: "Delek-Blenheim Group"), of the other part, had reached agreement settling their reciprocal allegations in connection with (1) the sale agreement signed between Jelmoli and Empario on July 31, 2007 ("the Sale Agreement"), and (2) the arbitration proceeding instituted by Jelmoli against Delek-Blenheim Group ("the Arbitration Proceeding"), as follows:

1. As a final settlement arrangement of all the reciprocal allegations of one against the other, including against all the subsidiaries, shareholders, directors and employees, in connection with the Sale Agreement and the Arbitration Proceeding, Delek-Blenheim Group will pay Jelmoli the sum of SF 21.5 million ("the Settlement Amount"), and Empario will waive its right to restitution of the amount of the advance payment it made under the Sale Agreement.
2. The parties' lawyers will draft a detailed agreement for Delek-Blenheim Group and Jelmoli Group ("the Parties"), as soon as possible, based on the agreements described in Paragraph 1 above and in Paragraph 4 below ("the Detailed Agreement").
3. The Parties will request that the panel of arbitrators approve the Detailed Agreement and validate it as a judgment.
4. Each of the Parties will bear its own legal expenses, and Jelmoli and Delek-Blenheim Group will bear equally the costs and expenses of the panel of arbitrators.

On August 24, 2008, Delek Real Estate announced that Delek-Blenheim Group together with Empario, had signed a settlement agreement with Jelmoli in accordance with the principles described above. The part of Belron and DGRE in payment of the Settlement Amount is SF 11.750 million (of which Belron's part is SF 3,913 million and DGE's part is SF 7,837 million).

For further details, see the immediate reports of Delek Real Estate of May 20, 2008 (Ref: 2008-01-139140), May 25, 2008 (Ref: 2008-01-143826), June 24, 2008 (Ref: 2008-01-176340), and August 24, 2008 (Ref: 2008-01-243639). The information in those immediate reports is presented here by way of reference.

7. Energy

Section 1.13.3A

On June 12, 2008 and June 25, 2008, Delek Energy published updates relating to the Tamar drilling site – see the immediate reports of Delek Energy dated June 12, 2008 (Ref: 2008-01-165168) and June 25, 2008 (Ref: 2008-01- 178905). The information in those immediate reports is presented here by way of reference.

Section 1.13.4F

On July 8, 2008, July 15, 2008 and August 28, 2008, Delek Energy published updates relating to the results of the successful exploration drilled in the Chim Ung, Chim Boi and Chim Cong fields in Vietnam and to the drilling plans in the project – see the immediate reports of Delek Energy dated July 8, 2008 (Ref: 2008-01-196269), July 15, 2008 (Ref: 2008-01-203532) and August 28, 2008 (Ref: 2008-01-249036). The information in those immediate reports is presented here by way of reference.

Section 1.13.10

On June 10, 2008, Delek Energy announced the purchase of 9,350,000 shares, representing 1.46% of the issued share capital of Nexus Energy Ltd. See the immediate report of Delek Energy dated June 10, 2008 (Ref. 2008-01-162327). The information in that immediate reports is presented here by way of reference.

Section 1.13.28A

On August 11, 2008, Delek Energy published an update relating to an additional extension of an agreement to supply natural gas to Israel Electric Corporation – see the immediate report of Delek Energy dated August 11, 2008 (Ref: 2008-01-230418). The details contained in that immediate reports are presented here by way of reference.

8. Insurance and finance in Israel

Section 1.14.14

On June 3, 2008, The Phoenix signed a memorandum of understanding with Midland Capital Management LLC ("MCM") for purchase of about half (see below) of the share capital of Ukrainian insurance company Inter Trans Polis ("ITP"), whose business includes health insurances, through a wholly owned and controlled subsidiary, Inter-Assist ("the Transaction").

The Transaction is contingent upon completion of a due diligence proceeding to the satisfaction of The Phoenix, approval by the board of directors of The Phoenix, the execution of detailed agreements including a detailed business plan, and obtaining the requisite regulatory approvals.

During the due diligence and preparation of the business plan, changes were made in the management of ITP. The Phoenix is considering the implications of these changes for the planned transaction.

Section 1.14.14

On July 27, 2008, The Phoenix signed a binding document of principles with David Shield – Insurance Agency (2000) Ltd. ("David Shield" or "the Agency"), whereby The Phoenix was granted an option to purchase 33.3% of the shares of the Agency, as part of their cooperative venture in comprehensive medical insurance for residents domiciled outside their country of origin, and cover for a period without medical rights in Israel, specializing in the population of Israelis living abroad ("the Agency's Activities").

It was agreed in the document of principles that The Phoenix would become the insurer of the Agency's Activities by no later than August 1, 2009 ("the Insurance Transaction"), and would provide a loan to the Agency. As mentioned, The Phoenix was granted a Call option to purchase 33.3% of the shares of David Shield within 24 months of the date of the Insurance Transaction, for a consideration that would reflect a company value of not more than NIS 160 million, in accordance with a formula derived from the Agency's performance. The consideration will bear CPI-linkage differentials and 5.25% annual interest from the date of execution of the document of principles ("the Consideration"). The Consideration will reflect a company value of not less than NIS 125 million (plus linkage differentials and interest as aforesaid). Exercise of the option can be by an allocation of shares by the Agency and/or their purchase from the owner, at the discretion of The Phoenix.

Exercise of the option is conditional upon the approval of the Antitrust Commissioner, and the policies which are the subject of the Insurance Transaction must be approved by the Commissioner of Insurance.

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Delek Group Ltd.

Date: August 28, 2008

Names and titles of signatories:

Gaby Last, Chairman of the Board

Assi Bartfeld, CEO

August 28, 2008

Delek Group Ltd.

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

For the period of January – June 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 June 30, 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. Principal Operations

During the report period the Group's revenues amounted to some NIS 27 billion compared with NIS 18.8 billion in the corresponding period last year, representing an increase of about 42%. 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 reporting period, profit from normal operations amounted to some NIS 1.8 billion similar to the profits from operations in the corresponding period of the previous year.

During the report period, the net profit ascribed to the Company's shareholders amounted to some NIS 224 million compared with a profit of NIS 617 million in the corresponding period of the previous year.

Main areas of operations during the report period:

In February 2008 the transaction was completed for the acquisition of the entire share capital of Elk Resources LLC (Elk), operating in the production and marketing of oil and gas. The shares were acquired by Delek Energy System (Rockies), LLC (the Subsidiary), a wholly owned subsidiary (affiliated) of Delek Energy, a subsidiary of the Group. In consideration for the acquisition of Elk, Rockies paid an amount of $95.5 million, of which $17 million was used to repay Elk's loan from the hedge fund in the USA. The deal was financed in whole by a loan from a foreign bank.

During the reporting period a one time loss was recorded in the amount of NIS 38 million, of which NIS 25 million was for the abandonment of exploration drilling in the North Sea where the discovery was found to be noncommercial and NIS 13 million for the abandonment of the drilling in Vietnam, In addition, a loss in the amount of NIS 70 million was recorded for hedging transactions on the price of oil and gas, of which approximately NIS 50 million was for the investment in AriesOne. During the reporting period, the option of selling the holdings in AriesOne is under examination.

In March 2008 an agreement was signed between the Yam Tethys project partners and a subsidiary of Israel Chemicals Ltd. (ICL), which guaranteed the agreement, for the supply of natural gas to plants in the ICL Group in Israel (ICL Group). ICL Group undertook to purchase from the Yam Tethys partnership a total quantity of 2 BCM (two billion cubic meters) of natural gas, and the total financial value of the agreement (for all Yam Tethys project partners) is estimated at US$ 260-330 million. Gas supply shall commence upon completion of the gas pipeline to the south (in all probability towards the end of 2008).

Subsequent to the balance sheet date, on July 9, 2008, the subsidiary, Delek Petroleum, completed a public issue of securities for total proceeds of NIS 419 million. The issued debentures include a CPI linked debenture series and a nominal shekel debenture series.

In March 2008, IPP Delek Ashkelon Ltd., a wholly owned (indirectly) subsidiary of the Company (Delek Ashkelon), announced that all statutory permits were received for the commercial operation of the plant to produce electricity (power station) which it established, to produce 87 MW of electricity. The majority of the production from the power station is intended for the needs of the desalination plant in Ashkelon and the balance will be sold, as of the date of receipt of permits, to private customers and to IEC.

On January 28, 2008, the subsidiary Delek Infrastructure signed a Memorandum of Understanding with Nillit Ltd (hereinafter: Nillit) with respect to the establishment of a private power station on Nillit's premises in Migdal HaEmek. The cogeneration power station (producing electricity by steam) will have a capacity of 48 MW and will supply all the electricity and steam requirements of Nillit, volume of 22 MW. The rest of the electricity will be sold to other private customers. The cost of the establishment of the station is US$ 46 million and is contingent upon obtaining of a financial loan agreement for the project.

On April 8, 2008, Delek Ashkelon signed a contract for the supply of up to 22.5 MW electricity to Nillit at an estimated amount of NIS 70 million per year. The agreement is for the period until December 31, 2011 with an option to extend for a further six years. The agreement is contingent upon receipt of the Water Desalination Authority in Israel and Bank Leumi.

In May 2008, IDE won a tender to supply three water desalination plants with a total daily capacity of 72,000 cubic meters of desalinated water 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 addition, subsequent to the balance sheet date, in July 2008, IDE signed a contract to establish a desalination plant for an industrial client in Australia, with a daily production capacity of 140,000 cubic liters of desalinated water and at a sale price of more than EUR 100 million. This project will be completed in 2010.

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

In June 2008, Delek Blenheim Group reached an agreement with the Swiss company, Jelmoli Holding AG and its subsidiaries (hereinafter: Jelmoli) to settle the arbitration initiated by Jelmoli against the Delek Blenheim Group. Delek Blenheim Group will pay to Jelmoli the sum of CHF 21.5 million. Delek Real Estate's share (the subsidiaries) is CHF 11.750 million.

In May 2008, Phoenix Holdings Ltd. and Delek Real Estate (in equal shares) acquired three parts of a loan from an international banking concern in an overall amount of EUR 80 million in return for EUR 58 million (approximately NIS 320 million). The loans are backed by a secondary charge on 30 profit-yielding real estate properties in Germany and Switzerland.

During the reporting period and thereafter, until the approval of the financial statements, the Company acquired 117,915 of its shares constituting 1.01% of the Company's issued share capital for consideration in the overall amount of NIS 53 million. In addition, the Company acquired during the reporting period and thereafter, shares in its subsidiaries as follows:

6% of Delek Real Estate share captial in return for the total amount of NIS 93 million. 2.5% of Phoenix Holdings Ltd. (Phoenix 1) share capital in return for a total amount of NIS 49 million.

In June 2008, Delek Investments and Properties Ltd. sold 1% of the shares in its subsidiary, Delek Automotive Systems in an ex-TASE transaction at a total cost of NIS 50 million.

Subsequent to the balance sheet date, in July 2008, Delek Israel allocated to institutional bodies, ordinary shares, which subsequent to the allocation constitute 1.06% of its paid-up and issued share capital and of its voting rights for consideration of NIS 20 million. As a result of said issue, Delek

Petroleum's holding in Delek Israel dropped from 88.88% to 87.94%. The profit derived as a result of the issue is NIS 9 million and will be charged to the profit and loss statement in the third quarter of 2008

The board of directors of the Company resolved, on August 28, 2008, to pay a dividend in the amount of NIS 25 million for the profits of the second quarter of 2008. This amount should be added to the amount of approximately NIS 75 million that was paid in July 2008, the NIS 64 million paid in April 2008 and the NIS 160 million paid in January 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.

3. Adoption of international financial reporting standards

As of January 1, 2008, the Group adopted international financial reporting standards (IFRS), and therefore the interim consolidated financial statements for June 30, 2008 presented 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 617 million compared with profits in the sum of approximately NIS 758 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 previous 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 the Group's shareholders for the second quarter of 2007 amounted to NIS 421 million compared with a profit of NIS 433 million based on the Israeli GAAP.

The net profit ascribed to shareholders of the Group in 2007 amounted to approximately NIS 1,280 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 11 to the financial statements.

4. Results of Operations

Contribution of Principal Operations to Net income (ascribed to the majority shareholders) (NIS millions)

	08/3-1	08/6-4	08/6-1	07/3-1	07/6-4	07/6-1	2007
Fuel operations in the US	1	45	46	57	212	269	353
Fuel operations in Israel	23	31	54	1	34	35	138
Capital gains from realization of Amisragas	-	-	-	-	-	-	86
Fuel operations in Europe[(1)]	11	42	53	-	-	-	31
Oil and gas exploration operations and gas production	33	(14)	19	18	16	34	90
Oil exploration expenses[(2)]	(26)	(13)	(39)	(43)	(15)	(58)	(58)
Automotive operations	85	105	190	56	71	127	245
Real estate operation according to Israeli standards[)]	30	(41)	(11)	35	55	90	210
Insurance and finance operations	17	(73)	(56)	83	81	164	151
Capital gains and others[(3)]	-	(32)	(32)	(11)	(33)	(44)	34
Net profit attributable to company shareholders	**174**	**50**	**224**	**196**	**421**	**617**	**1,280**

(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 2007.
(2) For abandonment of drills – see also Chapter 7D below.
(3) IIn the second quarter of 2008, the Group exercised Delek Automotive systems Ltd. shares at a rate of 1%, as a result of which the Group derived a profit in the amount of NIs 42 million (pre tax). .

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

	1-6/07	1-6/07	4-6/08	4-6/07	2007
Revenues	27,047	18,848	14,579	10,813	42,299
Cost of revenues	22,911	15,402	12,433	8,804	35,206
Gross profit	**4,136**	**3,446**	**2,146**	**2,009**	**7,093**
Increase in value of investment real estate, net	38	(24)	29	(24)	755
Sales, marketing and gas station operation expenses	1,618	917	868	443	2,228
General & administrative expenses	758	696	396	327	1,513
Other income (expenses), net	5	(57)	(26)	(63)	(80)
Operating Income	**1,803**	**1,752**	**885**	**1,152**	**4,027**
Net Financing Income	407	295	246	206	262
Financial expenses, net	1,768	659	926	344	2,126
Profit after financing	**442**	**1,388**	**205**	**1,014**	**2,163**
Profits from realization of investments in investee and other companies, net	35	-	35	-	311
Group's share of profits of affiliates and partnerships, net	86	235	32	75	351
Income before taxes on income	**563**	**1,623**	**272**	**1,089**	**2825**
Income tax	41	475	106	298	637
Net profit	**522**	**1,148**	**166**	**791**	**2,185**
Ascribed to:					
Shareholders of the Company	224	617	50	421	1280
Minority shareholders	298	531	116	370	908
	522	**1,148**	**166**	**791**	**2188**

Revenues from operating activities

During the report period, the Group's revenues amounted to NIS 27 billion compared with NIS 19 billion in the corresponding quarter of last year, an increase of NIS 8 billion (representing an increase of 42%). 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, and from an increase in revenues of Delek Automotive. On the other hand, the revenues from investments in the insurance sector in Israel began to decline. For information regarding the Company's revenues based on principal areas of operations see Note 9 to the financial statements.

Gross Profit

During the reporting period, gross profit amounted to NIS 4,136 million compared with NIS 3,446 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 as of the second 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 1,803 million, compared with NIS 1,752 million in the corresponding period last year. The regular operating profit for the second quarter of 2008 amounted to NIS 885 million compared with operating profit of NIS 1,152 million in the corresponding period of the previous year. For information regarding 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 compared with the corresponding period of the previous year, 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 2.8% compared with a increase of 0.7% 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 1,361 million compared with NIS 364 million in the corresponding period last year, an increase of NIS 952 million most of which (NIS 580 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

Earnings from the realization of investments in the Group's investees and other companies in the reporting period amounted to NIS 35 million, which is derived from capital gains of NIS 43 million (pre tax) as a result of the exercise of 1% of Delek Automotive shares against a capital loss of NIS 7 million as the result of the issue of Delek Real Estate shares. There were no realizations and/or issues during the corresponding period of the previous year. 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 and the first time IPO of Delek Israel 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).

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 86 million compared with NIS 235 million in the corresponding period last year.

The decrease in the reporting period 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 0.7 billion in the Delek Group, NIS1.1 billion in Delek Real Estate, NIS 0.3 billion in Delek US, NIS 0.4 billion in Delek Benelux and approximately NIS 1 billion in Phoenix.

Total current assets

The Group's total current assets amounted, as at June 30, 2008, to approximately NIS 17.6 billion compared with the sum of approximately NIS 16.5 billion as at December 31, 2007.

Investments in other financial assets

The balance of these investments amounts to approximately NIS 1.1 billion. The Group examined the existence of objective evidence for reducing the value of investments categorized as "financial assets available-for-sale" and where, in its estimate objective evidence existed as aforesaid, such value reduction amounts were charged to the statements of profit and loss as part of the financing expenses. During the six month period ended on June 30, 2008 and subsequent to the examination

as aforesaid, a reduction in financing expenses in the amount of NIS 35 million was included as aforesaid.

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'4 to the financial statements.

Balance of short-term financial liabilities

Total financial liabilities (to debenture-holding banking corporations and others) amounted, as at June 30, 2008 to approximately NIS 33 billion similar to the balance 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

Maalot, The Israel Securities Rating Company Ltd. an affiliate of Standard & Poor's, has awarded all the Company's debentures an (AA) rating. For further information relating to the debt raising operations of investees see Note 5 to the financial statements.

In the reporting period, option warrants were exercised in the sum of approximately NIS 9 million into Company shares. For details see Note 7A to the financial statements.

Surplus financial liabilities of the Company (in non-consolidated statements) as at June 30, 2008 totaled approximately NIS 590 million .

Surplus financial liabilities of Delek Investments (in the non-consolidated financial statements of Delek Investments) as at June 30, 2008, totaled approximately NIS 830 million. 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 June 30, 2008, amounted to approximately NIS 1,985 million.

Surplus financial liabilities of Delek Petroleum (in the non-consolidated statements of Delek Petroleum) as at June 30, 2008 amounted to NIS 255 million.

Surplus financial liabilities (in the non-consolidated statements) of Delek Europe Israel Ltd. (a wholly-owned subsidiary of the Group) as at June 30, 2008 amounted to NIS 649 million.

Surplus financial liabilities (in the non-consolidated statements) of Delek Hungary (a wholly-owned subsidiary of Delek US) as at June 30, 2008 amounted to NIS 56 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

7.1 Fuel operations in the US

Delek USA results as they are included in the Company's consolidated financial statements:

	1-6/08			1-6/07		
	Refinery and marketing operations	Convenience Stores and gas stations	Total	Refinery and marketing operations	Convenience Stores and gas stations	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	5,652	3,729	9,381	4,527	3,394	7,921
Gross profit	**345**	**349**	**694**	**573**	**395**	**968**
Selling and Station Operation Expenses	198	57	255	539	54	593
General & administrative expenses			131			56
Operating Income			**124**			**537**
Financial expenses, net			36			44
Share of losses of affiliates			2			-
Net profit			**63**			**347**

	4-6/08			4-6/07		
	Refinery and marketing operations	Convenience Stores and gas stations	Total	Refinery and marketing operations	Convenience Stores and gas stations	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	2,929	1,952	4,881	2,527	1,998	4,525
Gross profit	**197**	**177**	**374**	**418**	**227**	**645**
Selling and Station Operation Expenses	131	39	170	399	37	436
General & administrative expenses			90			22
Operating Income			**80**			**414**
Financial expenses, net			18			20
Share of losses of affiliates			15			-
Net profit			**56**			**273**

	2007		
	Refinery and marketing operations	**Convenience Stores and gas stations**	**Total**
	NIS millions	**NIS millions**	**NIS millions**
Revenues	9,534	7,260	16,794
Gross profit	**824**	**806**	**1,630**
Results of Operations	710	91	801
Expenses not allocated to segments			84
Operating income			**717**
Financing expenses, net			96
Share in losses of affiliates			3
Net profit			**456**

Delek USA operates a refinery with maximum daily capacity of 60,000 barrels, a crude oil pipeline and a chain of terminals for marketing fuel in Texas, USA, as well as service stations and convenience stores in eight neighboring states in the Southeast United States. In addition, Delek USA 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 USA. Delek USA is a listed company in the USA.

Analysis of the results of fuel operations in the USA

It should be noted that the profit and loss statements of Delek USA are translated into NIS in accordance with the average exchange rates for each period. The average exchange rate for the period ending June 30, 2008 was significantly lower than the average exchange rate for the corresponding period of the prior year. This affected the results of profit and loss items (the average exchange rate of the USD in the reporting period is NIS 3.5 and the average exchange rate in corresponding period of the prior year was NIS 4.2, constituting a decline of 20%. The average exchange rate in 2007 was NIS 4.1).

Refinery and marketing operations

Revenues from the refinery and marketing sector during the reporting period amounted to approximately NIS 5,652 million compared with NIS 4,527 million in the corresponding period of the previous year, an increase of about 25%. Revenues from the refinery and marketing sector in the second quarter of 2008 amounted to approximately NIS 2,929 million compared with NIS 2,527 million in the corresponding quarter of the previous year, an increase of about 16%. Most of the increase in revenues during the reporting period derives from the rise in the average price per barrel during the reporting periods, as compared with the corresponding periods of the previous year. This increase was offset in part because of the drop in the average number of barrels produced in the second quarter of 2008, as is explained below.

The contribution of the results of the refinery and marketing sector during the reporting period amounted to approximately NIS 345 million compared with NIS 573 million in the corresponding period of the previous year. The contribution of the results of the refinery and marketing sector during the second quarter of 2008 amounted to approximately NIS 197 million compared with NIS 418 million in the corresponding period of the previous year. The decline in this contribution derives primarily from the substantial decrease in the refinery margin between the reporting period and the corresponding period of the previous year, and an increase in operating costs resulting from the price increase of natural gas which is the energy source used by the refinery.

The refining margin in the second quarter of 2008 amounted to US$ 10.49 per barrel whilst in the corresponding quarter of the previous year, the margin per barrel amounted to US$ 24.06. The decline in the refining margin in the reporting period stemmed primarily from a sharp increase in the prices of crude oil and on the other hand this decline was partially offset by the use of an ethanol mix and increased use of sour crude.

In the second quarter of 2008, Delek USA sales amounted to 51,731 barrels per day as compared with 53,792 barrels per day in the corresponding quarter of the previous year. The decline mainly stems from a decrease in the productivity of the refinery as a result of maintenance work which was carried out on the low-sulfur diesel fuel production facility at the beginning of the second quarter.

During the course of the second quarter, Delek USA completed the project of the establishment of a low-sulfur gasoline fuel production facility at the refinery in Tyler. This project is part of the program to produce clean fuels and with its completion the Company complies with the US regulatory requirements, which are committed to lower the quantity of sulfur in gasoline.

Gas station and convenience store operations

Revenues from the gas station and convenience store sectors during the reporting period amounted to NIS 3,729 million compared with NIS 3,394 million in the corresponding period of the previous year, an increase of about 10%. Revenues from the gas station and convenience store sectors in the second quarter of 2008 amounted to approximately NIS 1,952 million compared with NIS 1,998 million in the corresponding period of the previous year.

The contribution of the results of the gas station and convenience store sectors to gross profit during the reporting period amounted to NIS 349 million compared with to gross profit of NIS 395 million in the corresponding period of the previous year. The contribution of the results of the gas stations and convenience stores sectors to gross profit in the second quarter of 2008 amounted to approximately NIS 177 million compared with NIS 227 million in the corresponding period of the previous year. The contribution of the results of this sector of operation during the reporting period was affected, among other things, by the sharp rise in fuel consumer prices, the increased expenses for credit card payment commissions and a general drop in private consumption.

During the second quarter of 2008, the sale of the products at convenience stores operating during the two reporting periods dropped by 3.1%. The decline in the sale of the aforesaid convenience store products was partially offset against the rise in the margin for the sale of these products, which was 31.9% compared with 31.6% in the corresponding period of the previous year.

Additional information:

It is noted that there are several differences in the financial results of Delek USA according to the published US GAAP and the inclusion of these results in the financial statements based on IFRS. The principal difference stems from different accounting policy for handling of inventory – in US financial statements the LIFO method is used to determine cost of inventory, as opposed to the average method applied by the IFRS.

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

7.2 Fuel Operations in Israel

Below are data from the financial statements of Delek Israel:

	1-6/08	1-6/07	4-6/08	4-6/07	2007
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	3,019	2,182	1,622	1,183	4,837
Gross profit	388	295	200	153	667
Operating income	175	67	93	52	256
EBITDA	221	133	116	73	353
Financial expenses, net	88	30	43	11	112
Capital gain from realization of Amisragas, net of tax	-	-	-	-	91
Net profit before share in results of Delek US	66	36	38	20	250
Delek Israel's share in results of Delek US	2	9	2	21	15
Net profit	**68**	**45**	**40**	**41**	**265**
Ascribed to:					
Shareholders of the Company	64	43	38	40	258
Minority rights	4	2	2	1	7
	68	45	40	41	265

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

Analysis of the results of Delek Israel fuel operations during the reporting period:

Revenues

Revenues during the reporting period amounted to approximately NIS 3,019 million compared with NIS 2,182 million in the corresponding period of the previous year, an increase of about 38%. Revenues from the sector in the second quarter of 2008 amounted to approximately NIS 1,622 million compared with NIS 1,183 million in the corresponding quarter of the previous year, an increase of about 37%. The increase in sales stems primarily from the prices of fuel compared with the corresponding period of the previous year, increase in the quantities sold, and increase in the results from the acquisition of distribution and storage operations and from the continuing trend of sales growth of Delek Israel's Menta chain of convenience stores.

Gross profit

Gross earnings during the reporting period amounted to approximately NIS 388 million compared with NIS 295 million in the corresponding period of the previous year (an increase of about 31%). Gross earnings during the second quarter of 2008 amounted to approximately NIS 200 million compared with NIS 153 million in the corresponding period of the previous year (an increase of about 30%). In comparing the aforesaid periods, the increase in gross earnings stems mainly from an improvement in the marketing margins, increase in sales of Delek Israel's chain of convenience stores, increase in the quantities sold (primarily in the direct marketing sector), modifying filling stations to self-service operation and the acquisition of the distribution and storage operations as of August 2007. In addition, in the current six month period, as a result of the sharp decline in the dollar exchange rate, Delek Israel derived gross earnings increase (in the amount of NIS 25 million) originating from the exchange rate differentials which were offset by the rise in financing costs of the Company due to Delek Israel's policy to carry out forward transactions against currency exposures stemming from the settling of accounts with Delek Israel's fuel suppliers.

Operating income

Operating income in the reporting period amounted to NIS 175 million compared with NIS 67 million in the corresponding period of the previous year. Operating income in the second quarter of 2008 amounted to NIS 93 million compared with NIS 52 million in the corresponding period of the previous 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.

Financing expenses

Financing expenses during the reporting period amounted to approximately NIS 88 million compared with NIS 30 million in the corresponding period of the previous year. Financing expenses in the second quarter of 2008 amounted to NIS 43 million compared with NIS 11 million in the corresponding period of the previous year. The increase stemmed mainly from an increase in the known index of 2.85% for the current six month period compared with 0.27% for the corresponding six month period of the previous year (for the second quarter of 2008, 2.4% compared with 0.7% for the corresponding period of the previous year). Furthermore, the net financial liabilities, linked to the CPI, increased by a total of NIS 250 million. In addition, due to Delek Israel's policy to hedge against currency exposure (which is not handled as accounting hedging) against fuel suppliers, as aforesaid, and the sharp decline in the dollar exchange rate during the six month period, the financing expenses rose during the quarter on the one hand, while on the other, Delek Israel's gross earnings increased at the same time.

7.3 Fuel Operations in Europe

In August 2007 the Company completed its acquisition of Chevron's operations in the Benelux countries (Belgium, Netherlands and Luxembourg), consisting of 803 Texaco gas stations and 66 privately brands stations (hereinafter: "Benelux Marketing Operation") for consideration of EUR 400 million. The Benelux marketing operations also include 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 acquired an additional 55% of the 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% of 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 total gas stations operated by the above joint ventures (and which were included in the aforementioned 803 stations) amount to 140 stations.

Summary of Delek Benelux balance sheet as at June 30, 2008 (in EUR millions)

	At June 30, 2008
	Euro millions
Cash	75
Current assets (except for cash)	245
Investments in investee companies and long-term debit balances	48
Property, plant and equipment, net	208
Other assets, net	215
Short-term loans	(36)
Current liabilities (excluding short-term loans)	(269)
Long-term loans	(295)
Other long-term liabilities	(40)
Equity capital	(151)

Data from the profit and loss statements of Delek Benelux:

	1-6/08	4-6/08	1-3/08	8-12/07
	Euro millions	Euro millions	Euro millions	Euro millions
Revenues	1,393	738	656	650
Gross profit	120	64	56	80
Operating income	25	18	7	12
EBITDA	36	23	13	22
Financial expenses, net	13	7	6	9
Equity in affiliates	2	1	1	2
Net profit	10	8	2	5

Analysis of the results of Delek Benelux operations during the reporting period:

Revenues

Revenues for the reporting period amounted to EUR 1,393 million. Revenues in the second quarter of 2008 amounted to approximately EUR 738 million compared with EUR 656 million in the corresponding quarter of the previous year, an increase of about 13%.

The increase in sales stems mainly from the rise in fuel prices and from the increase in Delek Benelux convenience store sales.

Gross profit

Revenues for the reporting period amounted to EUR 120 million. Gross earnings in the second quarter of 2008 amounted to approximately EUR 64 million compared with EUR 56 million in the corresponding quarter of the previous year, an increase of about 14%.

The increase in gross earnings stems mainly from an improvement in the fuel market margins, increase in Delek Benelux convenience store sales and improved gross earnings from Delek Benelux convenience store sales.

EBITDA:

The EBITDA (earnings before interest, taxes and depreciation) during the reporting period amounted to EUR 36 million. EBITDA in the second quarter of 2008 amounted to approximately EUR 23 million compared with EUR 13 million in the corresponding quarter of the previous year, an increase of about 77%.

The increase in earnings from these operations stem from the improvement in the gross earnings as explained above and from the decrease in sales and administrative and general expenses.

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

7.4 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., and which are held partly by Delek Energy Systems Ltd. (hereinafter: **Delek Energy** or **DES**) and the Group.

Overseas operations are carried out by subsidiaries of Delek Energy, 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:

	1-6/08	1-6/07	4-6/08	4-6/07	2007
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	210	155	95	74	352
Operating income	80	24	36	21	135
EBITDA	124	62	57	40	217
Financing expenses	102	44	80	25	93
The Group's share in the results of Avner and other affiliates	2	21	(5)	9	43
Net income attributed to company shareholders	**(20)**	**(24)**	**(27)**	**(1)**	**32**
Gas sales in BCM(*)	1.6	1.2	0.7	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 March 2008, an additional agreement was signed for 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 he 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).

(2) On July 8, 2008 (subsequent to the balance sheet date) Delek Energy gave notice that it was abandoning the (Falcon) Chim Ung 1 exploration drilling and diagonal drilling carried out for the

broken block adjacent to Chim Boi, after the results were found to be unstable as a commercial option. Delek Energy's share in the costs accrued up until June 30, 2008 for the above drillings amounted to NIS 13.2 million and is included in the statement of profit and loss under section "Expenses for abandoned oil and gas exploration drillings". Delek Energy's share in the additional costs accrued subsequent to the balance sheet date for the above drillings amounted to NIS 4.3 million.

On May 15, 2008, the affiliate, Matra, gave notice regarding updates relating to the results of the Arkhangelovskoe 11 drilling in Russia. According to the update, the production tests that were carried out did not succeed in producing oil and therefore it was decided to seal off and abandon the drilling.Delek Energy's share of Matra losses with respect to the operations in Russia and Hungary in the first half of 2008 amounted to NIS 7.3 million, of which NIS 5.1 million were for the second quarter of 2008..

The proceeds received by Delek Energy (including by way of consolidated affiliates and partnerships) for the sale of oil and gas produced by it, stem from the global price for oil and gas. As a result of this, Delek Energy's exposure, for its business operations, to changes in the oil and gas prices which impact its receipts and can affect the feasibility of producing from existing reserves (developed and undeveloped) and/or from new reserves that will be discovered in the future (if at all).

The Company, by way of consolidated affiliates and partnerships, conducts hedging transactions for the oil prices so that it ensures a minimum price of part of its future oil sales according to the anticipated production regime from the reserves that it owns. During the period from January 1, 2008 until June 30, 2008, oil prices were subject to significant price changes, for which Delek Energy recorded for the hedging transactions that it carried out in the past by its AriesOne partnership (before DES USA acquired the rights) a loss of NIS 49.5 million and a loss from the hedging transaction for the oil prices that was carried out as part of the financing procedures for the ELK deal, in the amount of NIS 19.3 million.

It should be noted that these losses stem from the fact that the aforesaid hedging transactions were not recognized as cash flow hedges in accordance with the international hedging standards IAS 39, and therefore the changes in the updated fair value due to the rise in the price of oil charged directly to the statement of profit and loss, and that while Delek Energy does not record in its books the undated financial value of its oil and gas reserves which are of course also affected by the above rise in oil prices (including the Yam Tethys, Elk and AriesOne projects)

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 210 million of which approximately NIS 155 million were in the corresponding period of the previous year, representing an increase of some 35%. 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 Group Power Station at Ashkelon (IPP) also contributed to the increase.

Operating income

The operating income for the sector in the reporting period amounted to NIS 80 million compared with operating income of NIS 24 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 and in Vietnam, amounted to the sum of approximately NIS 38 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 102 million, compared with NIS 44 million in the corresponding period last year, i.e. an increase of about NIS 58 million.

The increase in financing expenses is mainly due to future transactions performed in the past (before DES USA acquired the rights) by the AriesOne partnership in the amount of NIS 50 million. and from hedging transactions on the price of oil and gas that were carried out for receiving finance in the

Elk deal, in the amount of NIS 19 million. It is noted that the AriesOne transactions were taken into account when DES USA acquired the rights in the partnership. These transactions are valid until the end of 2010 and the results, until their expiry date, will be reflected in the Company's consolidated statements of income accordingly

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 30 million compared with revenues of NIS 17 million in the corresponding period in the previous year, representing an increase of NIS 13 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 Vogil amounting to NIS 21 million.

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.

7.5 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.

Following are the results of the operation of Delek Automotive:

	1-3/08	4-6/08	1-6/08	1-3/07	4-6/07	1-6/07	2007
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues	1,562	1,317	2,879	1,175	1,160	2,335	4,630
Gross profit	289	263	552	170	188	358	748
Sales, marketing and general and administrative expenses	20	20	40	15	17	32	80
Operating income	269	246	515	155	171	326	668
EBITDA	273	245	518	157	175	332	680
Financing revenues (expenses)	(57)	6	(51)	(12)	-	(12)	(64)
Net income	**150**	**182**	**332**	**100**	**121**	**221**	**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	4-6/08	1-6/08	1-3/07	4-6/07	1-6/07	2007
Mazda vehicles	11,108	9,262	20,370	6,464	7,578	14,042	28,191
Ford vehicles	3,335	2,945	6,280	4,321	3,444	7,765	14,345
Total vehicle sales	**14,443**	**12,207**	**26,650**	**10,785**	**11,022**	**21,807**	**42,536**
Delek Automotive's market share out of total vehicle sales in Israel (Ministry of Transport Licensing Bureau figures)	24%	22%	23%	24%	22%	23%	22%

Revenues from sales

During the report period, sales amounted to NIS 2,879 million compared with 2,335 million in the corresponding quarter in the previous year, an increase of 24% which stemmed primarily from a rise

in number of cars sold during the report period. In the second quarter, sales turnover amounted to NIS 1,317 million compared with NIS 1,160 million in the corresponding quarter last year. .

Sales, marketing and administrative and general expenses

In the reporting period, sales, marketing and general and administrative expenses increased by NIS 8 million which stemmed primarily from an increase in advertising volume and a rise in the commissions paid to sales agents

Financing expenses

In the reporting period, financing expenses of NIS 51 million were the item that most affected these results was the loss from hedging transactions of approximately NIS 55 million. In the second quarter of 2008, the Company created net financing income of NIS 6 million which is made up of revenues of NIS 47 million less financing expenses of NIS 41 million. The financing income for the second quarter is primarily due to the weakening of the Japanese Yen during the current quarter which eroded the liabilities to motor vehicle suppliers by NIS 40 million. In addition, financing income of NIS 6.5 million were recorded, primarily for the erosion of the loans-liabilities for the issue of blocked shares which includes liabilities in Yen and Euro.

These revenues in the second quarter were offset by the expenses and registration of the fair value of hedging transactions in the amount of NIS 32 million. The decline in the value of the investment in Ford Motor Co shares in the amount of NIS 9.2 million during the second quarter was also charged to financing expenses.

7.6 Real Estate Operations

Delek Real Estate Ltd. Delek Real Estate) is a public company whose shares are traded on the TASE. During the reporting period, the Group purchased approximately 6% of the shares of Delek Real Estate for approximately NIS 93 million. The surplus equity value acquired over the cost of the purchase was approximately NIS 40 million, charged as profit in the Group's income statement. At the balance sheet date (after the above purchase the Group holds 69% of Delek Real Estate's shares.

Results of Delek Real Estate operations:

	1-3/08	4-6/08	1-6/08	1-3/07	4-6/07	1-6/07	2007
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues from rent and sale of apartments	390	392	782	99	301	400	1,121
Revenues from operation of service stations	-	-	-	-	674	674	2,152
Cost of Revenues	57	82	139	37	56	93	265
Service station operating costs	-	-	-	-	604	604	2,019
Selling, general and administrative expenses	37	47	84	27	47	74	175
Financing expenses, net	386	228	614	68	(9)	59	1,026
Increased value of real estate for investment, and other revenues (expenses), net	31	(12)	19	11	(15)	(4)	748
Expenses in respect of severance agreement	8	41	49	-	-	-	29
Group's share in earnings (losses) of affiliates	21	(3)	18	101	21	122	136
Taxes on income	(146)	35	(111)	19	17	36	34
Net earnings attributed to Company shareholders	**27**	**(105)**	**(79)**	**59**	**140**	**199**	**308**

Hereunder, the principles issues and events which impacted the financial statements of Delek Real Estate Ltd (hereinafter: Delek Real Estate) as of June 30, 2008 and comparisons with the financial statements for the corresponding period of the previous years, and financial statements as at December 31, 2007:

- Settlement agreement with respect to the Jelmoli deal
- Increase in CPI

- Recognition of the decrease in the value of Durban shares as of the date of their acquisition (asset available for sale).
- Revaluation of financial derivatives
- Currency erosion (especially the pound sterling GBP) against the NIS
- Recognition of revenues from the sale of apartments based on delivery only
- Roadchef properties presented as real estate for investment and not as fixed assets, as of January 2008, due to the new management agreement.
- Update of deferred taxes in the first quarter as a result of the decision of the subsidiary, Delek Global Real Estate Ltd. (DGRE), to sell 9 properties over the next two years.
- Acquisition of the Hof Carmel companies

As of the report date, the condition of the markets did not significantly affect Delek Real Estate's properties and its income from rentals. The stability of the tenant, quality of the properties and their location are key factors in Delek Real Estate's ability to comply with its commitments and to continue developing in accordance with the plans of its core business.

Significant events during the reporting period

1) In 2007 Delek Real Estate acquired a British company that owns 29 Motorway Service Areas in the UK (hereunder: RoadChef). As of January 2008 the parties operate according to an amendment to the management and operating agreement of RoadChef. Under the provisions of the amended management agreement, the foreign subsidiary which holds RoadChef, was granted a commitment to receive a fixed annual EBITDA amount, without risk and yield exposures, for the management and operation of RoadChef as from 2008. The amendment of the management agreement meant that the service stations are treated, for accounting purposes, as investment real estate. Furthermore, due to the change, 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) During the first quarter of 2008, the management of the subsidiary, DGRE resolved to sell 9 investment real estate properties over the next two years. As a result of DGRE's resolution to sell the investment properties as set forth above, which constitutes a change in the estimate of the management of Delek Real Estate with respect to the expected exercise date for these properties, DGRE adjusted the provisions for deferred taxes. The adjustment is due to the use of the tax rates applicable to the capital gains from the sale of properties and/or shares which are lower in the countries in which the properties and/or the shares will be sold, compared to the tax rates applicable on 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 the first quarter of 2008, revenues from the tax update, in the amount of £ 23 million (approximately NIS 162 million).

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% Subsequent to the balance sheet date, on July 3, 2008, Delek Real Estate offered an expansion of the debenture series (Series 25) in a private allocation for consideration of NIS 20 million. The terms and conditions of the debentures are similar to the existing terms and conditions prior to the allocation.

4) On March 25, 2008 Delek Real Estate announced in an immediate report that it had signed two agreements with Kardan Real Estate and Kardan Israel (hereinafter: Kardan Israel), a shareholders agreement and a sales and investment agreement. A brief description of the sales agreement is as follows:

   A) Under the agreement signed between Delek Real Estate, Kardan Real Estate and Kardan Israel (the Sales Agreement), Delek Real Estate will transfer to Kardan Real Estate all its shares in Dankner, a wholly owned subsidiary, against the allotment of 40% of the shares of Kardan Real Estate to the Company. Subsequent to the allotment, Kardan Israel and Delek Real Estate will hold 60% and 40% of the shares of Kardan Real Estate, accordingly, and Kardan Real Estate will hold the entire issued and paid-up share capital of Dankner.

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

- Dankner will transfer to the Company several assets and operations that are not part of the residential real estate sector, as set forth hereunder:
- Delek Real Estate will transfer to Dankner two residential real estate projects in Israel, as set forth hereunder.
- Karden Real Estate will distribute all shares owned by it in GTC Real Estate N.V. (hereinafter: GTC) to its shareholders, as dividend in kind.

5) On June 12, 2008, Delek Real Estate issued 1,700 ordinary shares in return for gross proceeds of NIS 18 million

6) 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. In return for the acquisition of the shares and loans, Delek Real Estate paid a total amount of NIS 32 million.

7) On August 20, 2008 a loan agreement was signed between Phoenix (a company which is currently controlled by the controlling shareholder in the Company) and Delek Real Estate, to utilize the credit line amount of NIS 75 million granted in the past to Delek Real Estate as part of an agreement from 2005 (at which time Delek and Phoenix were not under the control of the same controlling shareholder).. The loan is CPI linked and bears fixed interest. The interest rate is set according to that published by Shaarey Ribit at the time of the signing of the loan agreement. To secure the repayment of the loan, Delek Real Estate put up collateral in favor of Phoenix and financial and other stipulations were set as usually accepted for this type of transaction..

8) On July 8, 2007 the foreign subsidiary that is held in equal shares by Belron and Phoenix, acquired three parts of a loan from an international banking concern in an overall amount of EUR 80 million (in return for the sum of EUR 58 million) which is backed by 30 profit yielding real estate properties located in Germany and Switzerland. The loans are nonrecourse, which means that the lender is entitled to repayment only from the collateral, and the fruits thereof, that was given for the repayment of the loan In addition, a deferred creditors agreement for an earlier loan extended by the bank is backed by the same real estate properties (hereinafter: the Earlier Debt). Under the terms and conditions of the loans, the interest payments are made quarterly and the payments of the majority of the principal are made at the end of the period, all according to the terms and conditions and the specific stages in the loan purchase and agreements between the lender holding the debt and the holder of the deferred creditors agreement, and the lenders holding the earlier debt.

   The source of the current repayments on the loans is from the cash flow from property rentals received from a mix of tenants, including commercial tenants dealing in various business and commercial sectors, part of whom are large and leading organizations while others are private.

Analysis of the results of Delek Real Estate operations during the reporting period:

Revenues from rentals of apartments and service station operation

Revenues from rentals during the reporting period amounted to a total of NIS 782 million, as compared with NIS 400 million in the corresponding period of the previous year. The increase stems mainly from the different classification of the results of the service station operations, as a result of the new management agreement in 2008, as set out above. In the reporting period, the results of the service station operations are presented as net revenues from rental as compared with the corresponding period of the previous year, when the revenues and expenses of the service stations were presented as gross figures under separate sections. In addition, there has been an increase due to the increase in the holdings in affiliates which were merged and from new acquisitions made in the second half of 2007.

Gross profit from rental, sale of apartments and service station operation

The gross earnings from rentals during the reporting period amounted to NIS 640 million as compared to NIS 380 million for the corresponding period of the previous year, an increase in gross earnings in the amount of NIS 260 million stemming from the completion of the acquisition of the control in companies in the second quarter of 2007 and the inclusion of the results of RoadChef in the first quarter of 2008.

Administrative and general and expenses

The administrative and general expenses for the reporting period amounted to approximately NIS -84 million compared with NIS 74 million in the corresponding period of the previous year, an increase of NIS 10 million. The increase in the administrative and general expenses stems primarily from general and administrative expenses for companies consolidated in the second quarter of 2007 and from an increase in expenses for professional consultation of DGRE.

Financing expenses, net

Financing expenses for the reporting period amounted to approximately NIS 613 million compared with approximately NIS 59 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), financial instruments are used mainly to set the interest rates on nonrecourse loans, but which are not considered as hedging for accounting purposes (under the IAS 39 definition, hedging is not effective because the period of the loans does not overlap the hedging period), and therefore, changes in values are recognized under financing expenses. During the reporting period losses were accrued in the amount of NIS 49 million for these instruments, as compared with NIS 301 million in the corresponding period of the previous year.
3) Delek Real Estate has CPI linked liabilities in the amount of NIS 4 billion. The effect of the high indices (an increase of 2.85% compared with 0.74% in the corresponding period of the previous year) and an increase in linked liabilities compared with the corresponding period of the previous year, increased Delek Real Estate's financing expenses significantly.
4) Delek Real Estate financed the acquisition of Hof Carmel from a bank loan in the amount of NS 348 million, which is also a factor in the increase of financing expenses compared with the corresponding period of the previous year.

Expenses in respect of severance agreement

Expenses with respect to a severance agreement in the Jelmoli arbitration totaled NIS 49 million (for further information relating to the severance agreement see the section on Additional Information below).

Delek Real Estate's share in earnings (losses) of affiliates

Delek Real Estate's share in the profits of its affiliates during the reporting period amounted to NIS 18 million, as compared with NIS 122 million for the corresponding period of the previous year.

Our share in the profits of affiliates abroad was impacted by the consolidation of the majority of the affiliates as of the second quarter of 2007 and accordingly, the weigh of this section is the statement of profit and loss declined significantly.

Working capital

Delek Real Estate's negative working capital as of June 30, 2008 totaled NIS 2.1 billion compared with negative working capital of NIS 2.7 billion as of December 31, 2007. The negative working capital derives, among other things, from the need to repay the loan in the amount of approximately NIS 1 million (US$ 300 million) which its subsidiary received for financing the acquisition of MSA the owners company that owns 29 Motorway Service Areas in the UK, the due date of which is September 30, 2008 (hereinafter: MSA loan) The balance of the working capital deficit stems from long and short term liabilities for which their due dates are drawing close and which were taken for financing long term investments. Part of these loans are backed by the rental agreements on the profit yielding real estate properties, which have not changed, and part are loans which are renewed from time to time.

To repay Delek Real Estate's share in the MSA loan, i.e. NIS 751 million (US$ 225 million), which constitutes 75% of the debt, the management of Delek Real Estate is taking action at several levels and is examining several options, as follows:

A. Delek Real Estate and Delek Petroleum entered an agreement with a foreign investment house to raise capital for reprocessing the MSA loan. The foreign investment house is the current financer of the loan and it appealed to existing investors and new investors to renew the loan. The investment house announced that there are indications that part of the investors showed an interest in renewing their investment in the loan.

B. On August 21, 2008 an agreement in principle was signed between Delek Real Estate and a financial corporation in Israel to receive a loan in the amount of US$ 117 million, intended, among other things, to repay the MSA loan. Receipt of this loan is contingent upon the approval of the organs of the financial corporation and the board of directors of Delek Real Estate.

C. Delek Real Estate reached an agreement with a bank in Israel to receive a loan in the amount of US$ 50 million.

D. Delek Real Estate is conducting negotiations to sell 33% of its holdings in MSA, including all the liabilities and guarantees given for the investment in MSA to a foreign subsidiary (which is not wholly owned by the Company). The sale is subject to the approval of the board of directors of the foreign subsidiary and the investment house. The acquisition amount will not be reduced from the investment amount, including the shareholders loan, as it is presented in the books, in the amount of US$ 18 million for the share that is up for sale, and for entering in place of Delek Real Estate as guarantor of part of the additional debt of US$ 75 million, and in total of US$ 93 million.

E. Delek Real Estate is conducting negotiations with foreign banks to refinance loans inside MSA subsidiaries. In the estimate of the management, the completion of the refinancing as aforesaid will be enable MSA to receive additional loans in the amount of US$ 60 million.

Delek Real Estate management estimates that by execution of part of the actions described in sections (A) to (E) above, together with the financial resources in Delek Real Estate's possession, it will be able to repay its share in the MSA loan. Furthermore, the Company's managements informed Delek Real Estate, (and subject to all the approvals required by law), that it will act as required in order to assist in extending sources of finance to repay the MSA loan.

Additional information:

Jelmoli Compromise Agreement

On June 24, 2008 Delek Real Estate announced that following negotiations with Jelmoli Holdings AG, (hereinafter: Jelmoli) the parties reached a final settlement according to which Delek Real Estate, a foreign subsidiary (DGRE) and Blenheim will pay Jelmoli jointly the sum of CHF 21.5 million (approximately NIS 65 million), (hereinafter: the Settlement Amount) and in addition, they will waive their claim for the reimbursement of the advance payment of CHF 10 million (approximately NIS 33 million) which was given to Jelmoli upon signing of the agreement. Subsequent to the balance sheet date, on August 24, 2008, Delek Belron International Ltd. (hereinafter: Belron) and the subsidiary, Delek Global Real Estate (hereinafter: DGRE), Blenheim Properties Group Ltd and Empario Holding GMBH signed an compromise agreement with the Swiss company, Jelmoli Holding AG (pursuant to the principles set forth abovet. Belron and DGRE's share in the payment is CHF 11.750 million (of which Belron's share is CHF 3.913 million and DGRE's share is CHF 7,837 million).

As a result of the aforesaid settlement, Delek Real Estate (including the share of the foreign subsidiary DGRE) included additional provisions in the financial statements as of June 30, 2008 in the amount of CHF 11.75 million (approximately NIS 39 million) which in its estimation is sufficient to cover its liabilities under the settlement.

The total expenses recorded by Delek Real Estate in its statements of profit and loss for the six and three month periods ended on June 30, 2008 amounted to NIS 49 million and NIS 41 million, accordingly.

For additional information relating to the real estate operations, see Note 4 to the financial statements.

7.7 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%, with the exception of the 28. 3% direct holding of Delek Investments in Phoenix Holdings Ltd.

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

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

Principal data from Phoenix consolidated financial statements, in which the Group has a 55% holding (in NIS millions):

	1-6/2008	1-6/2007	4-6/2008	4-6/2007	1-12/2007
Profit (loss) from life insurance and long-term savings	(24.5)	304.7	-	188.2	181.0
Profit (loss) from general insurance sectors	5.2	99.9	4.8	34.4	134.6
Profit from health insurance sectors	45.9	46.9	27.4	29.1	122.4
Total profit (loss) from sectors of operation	**26.6**	**451.5**	**32.2**	**251.7**	**438.0**
Income less expenses not charged to sectors of operations	(19.8)	23.5	(27.8)	31.3	14.2
Company's share in net results of investees	32.5	58.4	7.5	16.2	86.2
Profit before income tax	**39.3**	**533.4**	**11.9**	**299.2**	**538.4**
Income tax	0.9	186.2	5.7	104.0	175.3
Net profit for the period	**38.4**	**347.2**	**6.2**	**195.2**	**363.1**
Net profit for the period (attributable to shareholders of the Company)	**34.7**	**346.6**	**5.1**	**194.8**	**357.8**

In the sectors of operation in which Phoenix operates, the results of the sectors of operation during in the reporting period amounted to a gain of approximately NIS 26.6 million compared with NIS 451.5 million in the corresponding period of the previous year. In the second quarter of 2008 the results of these sectors of operation amounted to a gain of approximately NIS 32.2 million compared with NIS 251.7 million in the corresponding period of the previous year. The main factor for the decrease in earnings in the current period compared with the corresponding period last year is the depreciation of rates of negotiable and non-negotiable securities on the capital markets in Israel and worldwide and a devaluation in foreign currency exchange rates against the shekel, which were not ascribed to capital funds at the same time as a significant increase in the rate of inflation.

As a result of the foregoing, the net earnings during the reporting period amounted to NIS 38.4 million as compared with NIS 347.2 million during the corresponding period of the previous year, a decline of 88.9%. Net profit for the second quarter of 2008 amounted to NIS 6.2 million as compared with NIS 195.2 million in the corresponding period last year. The results for the reporting period are primarily affected by the decline in the results of the sectors of operation, the decline in revenues from investments which were not attributed to sectors of operation and a rise in the financing expenses, and this due to the rise in the consumer price index during the second quarter of the year

Significant events during and after the reporting period

A) In August 2008, a transaction was completed, according to which a subsidiary of Phoenix Insurance, which is an affiliate of the Group (indirectly) ("Phoenix Insurance") to acquire the operations of the Shekel Group which manages insurance and pension funds under the control of Meir Uzan. The Shekel Group is the largest private pension manager in Israel and deals in executive insurance, pension funds, provident funds, etc. the consideration for the operations, approximately NIS 128 million.

B) 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. In addition, Phoenix published the amended embedded value4 as at December 31, 2006, which was NIS 3,479 million and the embedded value of sales of new transactions in 2006, which was NIS 88 million.

C) During the six month period ended June 30, 2008, the immense fluctuation of revenues from the investments continued, which expresses the behavior of the capital markets in Israel and worldwide and the fluctuations of the CPI and dollar exchange rates, which impact the financial margins and the management fees that Phoenix is entitled to from its insured.

Due to the negative yield for profit participating policies Phoenix did not collect variable management fees and cannot collect variable management fees so long as it attains positive returns that will cover the real negative returns accrued thus far. The forecast of

uncollected management fees due to the negative returns until positive returns are attained as aforesaid is NIS 167 million, which will reduce the management fees that Phoenix will collect and the profitability that it will record in the future.

Analysis of life insurance and long-term saving sectors

Life insurance:

During the reporting period, the results of the life insurance sector amounted to a loss of approximately NIS 29.7 million compared with a profit in the sum of approximately NIS 301.1 million in the corresponding period of the previous year, and in the second quarter of 2008 the loss amounted to NIS 0.9 million compared to the profit of NIS 185.2 million in the corresponding period of the previous year. This was due to a loss recorded under income from investments in the current quarter, following a decrease in the value of negotiable assets which are not negotiable in Israel and worldwide, in the reporting 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 reporting period amounted to approximately NIS 1,285.1 million, as compared with NIS 1,182 million in the corresponding period last year, an increase of 8.7%. Profit yielding premiums for the second quarter of 2008 amounted to NIS 646.3 million as compared with NIS 580.1 million in the corresponding period last year, And increase of 11.4%..

The redemptions in reporting period amounted to approximately NIS 310.5 million, as compared with NIS 351.2 million in the corresponding period last year, an increase of 11.6%. The rate of redemptions compared with gross average life insurance reserves as at June 30, 2008 and June 30, 2007 amounted to approximately 1.34% and 1.64% respectively

Particulars 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 are as follows:

	1-6/08	1-6/07	4-6/08	4-6/07
	NIS millions			
Investment earnings (losses) charged to policyholders after management fees	(871.6)	1,148.5	173.4	813.0
Management fees	53.9	232.5	26.6	143.9

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 1,481 million compared with assets of NIS 1,106 million as at June 30, 2007. Phoenix Pension recorded a pre-tax loss in the reporting period of NIS 3.5 million compared with a pre-tax loss of NIS 1.1 million in the corresponding period of the previous year.

As at the reporting date, the volume of assets in Phoenix Provident Fund Management Ltd. (hereinafter: "Phoenix Pension") amounted to NIS 711 million compared with assets of NIS 563 million as at June 30, 2007. Phoenix Provident recorded a pre-tax loss in the reporting period of NIS 0.4 million and a pre-tax loss of NIS 0.9 million in the corresponding period of the previous year.

Furthermore, the results of the life insurance and long-term savings sectors also includes the information relating to the provident funds of Excellence, which during in the reporting period amounted to a gain of approximately NIS 9.1 million compared with a gain of NIS 5.6 million in the corresponding period of the previous year.

Analysis of the general insurance sector

Total profits from general insurance in the reporting period amounted to approximately NIS 5.2 million compared with NIS 99.9 million in the corresponding period of the previous year, and in the second quarter of 2008 the profits amounted to NIS 4.8 million compared with NIS 34.4 million for the corresponding period of the previous 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 reporting period amounted to approximately NIS 814.5 million, as compared with NIS 810.5 million in the corresponding period last year, an increase of approximately 0.5%, and in the second quarter of 2008 to NIS 408 million compared with NIS 410.2 million for the corresponding quarter of last year..

Revenues from investments during the reporting period amounted to approximately NIS 79 million, as compared with NIS 123.9 million in the corresponding period last year, an decline of 36.2%.

Health insurance sector

Revenues from premiums collected in the health insurance operations during the reporting period amounted to approximately NIS 413 million, as compared with NIS 366.2 million in the corresponding period last year, an increase of 12.8%. In the second quarter of 2008 the premiums collected amounted to NIS 209.2 million as compared with NIS 191.6 million in the corresponding period of the previous year, an increase of 9.2%..

Profit in the reporting period amounted to approximately NIS 45.9 million, as compared with NIS 46.9 million in the corresponding period of the previous year, and in the second quarter of 2008 the profit amounted to NIS 27.4 million compared with NIS 29.1 million for the corresponding quarter of the previous year, an increase of approximately 5.84%. .

In this sector of operations, improved underwriting was recorded despite the decline recorded in the income from investments item.

2) Delek Finance US Inc. (hereinafter: 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.

Results of the operations of Delek Finance (in USD millions):

	1-6/08	1-6/07	4-6/08	4-6/07	2007
Premiums earned, residual	191	146	97	76	320
Revenue from income and other, net	22	18	11	9	38
Total revenues	213	163	107	84	358
Increase of insurance liabilities less reinsurance	124	97	76	55	202
Commissions and other purchase costs	55	27	26	12	67
Management and general and expenses	21	18	11	10	37
Financing expenses	12	12	5	6	26
Total expenses	211	154	118	83	332
Pre-tax income (loss)	1	9	(10)	1	26
Net earnings (loss)	0	8	(7)	2	20

Analysis of the results of Republic's operations

Revenues from gross premiums in the first half of 2008 amounted to US$ 388 million compared with US$ 363 million in the corresponding period of the previous year, an increase of 7%.

Revenues from gross premiums in the second quarter of 2008 amounted to US$ 205 million compared with US$ 194 million in the corresponding period of the previous year, an increase of 5%.

The increase in revenues from premiums stems from growth in all areas of Republic's operations including an increase in premiums in the private and commercial insurance sectors, accelerated operations in the program management activities at insurance agencies (MGA) and a continued increase in the insurance services sector (provision of insurance services to other insurance companies).

Profits (residual) from management fees in the first half of 2008 amounted to US$ 191 million compared with US$ -146 million in the corresponding period of the previous year, an increase of 31%.

Profits (residual) from management fees in the second quarter of 2008 amounted to US$ 97 million compared with US$ 76 million in the corresponding period of the previous year, an increase of 28%.

Republic's profit in the first half of 2008 amounted to US$ 6 million compared with US$ 13 million in the corresponding period of the previous year. Republic's loss in the second quarter of 2008 amounted to US$ 4 million compared with a profit of US$ 4 million in the corresponding period of the previous year. The loss in the second quarter of 2008 stems mainly from the especially turbulent weather conditions during that quarter. Traditionally, the second quarter is characterized by low earnings due to damage caused by bad weather conditions in the regions in which Republic operates. This year the damage caused by bad weather conditions (hail, strong winds, tornados, and so on) occurred more frequently than over the past 20 years.

Republic's shareholders' equity as at June 30, 2008 amounted to US$ 297 million (as at December 31, 2007 – US$ 291 million) and net profits in the reporting period amounted to US$ 6 million.

Breakdown of the premiums and fees for the period of three months ended on June 30, 2008, in general insurance by the various distribution sectors:

	Gross %	**Self retention %**
Private insurance	25	45
Commercial insurance	17	25
Insurance agencies (MGA)	31	30
Insurance services	27	0
	100	100

Additional information:

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

In June 2008, Republic acquired the 20% remaining share capital in Republic Home Protectors Ltd. (RHP) insurance agencts for a consideration of US$ 8 million, thereby becoming the 100% owner of the share capital of RHP.

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

7.8 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.

At the end of 2007 IDE announced that it was planning a public offering to list its shares for trading on the London Stock Exchange (LSE). The offering has been deferred due to the conditions generated in the capital markets at the end of 2007, however, IDE continues to examine the appropriate timing to effect the aforesaid offering.

In 2007, a subsidiary of IDE (in which it holds 50%) 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,the subsidiary 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. At the beginning of 2008, the bank financing transaction was completed with a consortium of international banks for construction of the project.

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. Furthermore, subsequent to the balance sheet date, in July 2008, IDE signed an agreement to establish a desalination plant for an industrial client in Australia with daily capacity to produce 140,000 cubic litres of desalinated water and at a sale price of more than EUR 100 million. This project is expected to be completed in 2010.

(B) <u>Electricity Generation Plants</u>

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 sea water desalination plant in Ashkelon (hereinafter: the Desalination Plan) under the BOT agreements between a subsidiary of IDR and the State, as described above) and to other entities. The cost of the establishment of the power station, less depreciation as at the balance sheet date is NIS 354 million.

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 start from March 2008. 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.

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) <u>Power plants in Brazil</u>

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, 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.

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 6 million compared with a profit of approximately NIS 10 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 11 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 June 30, 2008 amounted to some NIS 288 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.

(a) Delek US entered into a number of swap transactions at the end of 2007 and during the first half 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 June 30, 2008, the fair value of the aforesaid contracts reflects liabilities of US$ 13.2 million. The transactions were not recognized as accounting hedges and the change in fair value were charged to the statements of profit and loss. During the six month period ended June 30, 2008, the transactions amounted to a loss of US$ 13.2 and 10.4 (pre tax) accordingly

(b) Delek US entered, during the first half of 2008, into a number of swap transactions in order to hedge its diesel distillate margin. The fair value of these contracts as at June 30, 2008 reflects a liability of approximately US$ 22.3 (US$ 14.2 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. The transactions were recognized as hedging for accounting purposes and the net of tax loss is directly ascribed to the equity statement.

It is noted 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	(43)	(21)	(11)	(74)	11	21	43

(*) 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	57	29	14	65	(14)	(29)	(57)
Derivatives on gasoline price	(70)	(35)	(17)	(100)	17	35	70

(*) 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. The dividend amounted to approximately NIS 64 million, and was paid on April 29, 2008.

B) 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. The dividend was paid on July 10, 2008.

C) On August 28, 2008 the Company's board of directors resolved to distribute dividend out of the profits of the second quarter of 2008 in the amount of NIS 25 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

August 28, 2008

DELEK GROUP LTD.

Interim Consolidated Financial Statements as of June 30, 2007

Unaudited

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ERNST & YOUNG

The Board of Directors
DELEK GROUP LTD.

Re: Review of the unaudited interim consolidated financial statements
for the six- and three-months ended June, 2008

At your request we have reviewed the interim consolidated balance sheets of Delek Group Ltd. (her
the Company) as of June 30, 2008 as well as the consolidated statements of income, the consolidat
statements of changes in shareholders' equity and the consolidated statements of cash flow for the
three-months then ended. Our review was carried out in accordance with procedures established by
Institute of Certified Public Accountants in Israel. These procedures included, inter alia, reading the
abovementioned financial statements, reading minutes of the meetings of the shareholders and of th
of directors and its committees, as well as 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 statem
companies whose assets constitute 10% of total consolidated assets as of June 30, 2008 and whos
revenues constitute 5% of total consolidated revenues for the six- and three-month period then ende
respectively. In addition, we were furnished with reports of other auditors regarding the review of the
financial statements of companies presented in accordance with the equity accounting method, in w
investments amounted to NIS 553 million on June 30, 2008 and the Company's share in their profits
amounted to NIS 47 million and NIS 22 million for the six- and three-month period then ended, respe

Since the review is limited in scope and does not constitute an audit in accordance with generally ac
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
attention that would necessitate any material modifications to the abovementioned financial stateme
order for them to be in conformity with International Accounting Standard (IAS) 34 *Interim Financial
Reporting*, and pursuant to Section D of the Securities Regulations (Periodic and Immediate Reports
1970, as far as the standards apply to insurance subsidiaries.

We draw your attention to Note 6 to the financial statements with respect to lawsuits filed against inv

Kost Forer (
Kasie
Certified Public

Tel Aviv
August 28, 2008

Consolidated Balance Sheets

	At June 30		At Dece
	2008	2007	2(
	Unaudited		Au(
	NIS millions		
Current Assets			
Cash and cash equivalents	3,355	3,396	3,(
Short term investments	1,174	1,526	1,(
Short term investments in insurance companies	2,591	2,338	2,(
Trade receivables	4,040	3,032	3,:
Amounts receivable – insurance operations	933	1,007	(
Other receivables and debit balances	1,142	775	1,(
Reinsurance assets	1,429	1,653	1,!
Inventory	2,653	1,507	2,:
Deferred acquisition expenses in insurance companies	382	319	:
	17,699	15,553	16,!
Non-current assets			
Investment in securities in insurance companies	25,169	26,067	25,(
Long-term loans, deposits and receivables	1,468	1,239	1,:
Investments in financial assets	1,113	1,278	1,'
Investments in investees	3,862	3,246	4,'
Investment property	20,316	15,692	18,:
Land held for construction	471	474	:
Investment in oil and gas exploration and production	1,147	983	(
Reinsurance assets	1,157	1,271	1,:
Property, plant and equipment, net	5,668	7,826	9,'
Deferred acquisition expenses in insurance companies	718	714	:
Deferred expenses, net (primarily for operating lease)	403	98	:
Goodwill	3,151	2,380	3,'
Other intangible assets and deferred expenses, net	1,383	1,022	1,:
Deferred taxes	338	116	:
	66,364	62,406	68,!
Total assets	**84,063**	77,959	85,'

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

Consolidated Balance Sheets

	At June 30		At Dece
	2008	2007	20
	Unaudited		Au
	NIS millions		
Current liabilities			
Credit from banks and others	5,921	4,238	5,3
Trade payables	3,367	2,066	2,9
Other payables and credit balances	4,080	2,771	2,8
Dividend declared	75	130	1
Insurance reserves and contingent claims	4,942	5,194	5,0
	18,385	14,399	16,4
Long-term liabilities			
Loans from banks and others	16,226	15,414	17,1
Debentures convertible into company shares	1	1	
Debentures convertible into shares of subsidiaries	111	271	2
Other debentures and subordinated notes	10,660	8,840	10,2
Option warrants and the convertible component of debentures	7	70	[illegible]
Financial derivatives	668	756	1,0
Liabilities for employee benefits, net	169	112	1
Insurance reserves and contingent claims	25,687	25,142	25,7
Other liabilities	1,366	958	1,6
Deferred taxes	2,729	2,923	3,2
	57,624	54,487	59,5
Equity capital attributed to company shareholders			
Share capital	13	13	1
Premium on shares	1,583	1,561	1,5
Retained earnings	3,095	2,707	3,0
Capital funds	(807)	473	1
Treasury shares	(5)	(87)	
	3,879	4,667	4,6
Non-controlling interest	4,175	4,406	4,5
Total shareholders' equity	8,054	9,073	9,1
	84,063	77,959	85,1

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

August 28, 2008			
Date of approval of the financial statements	Gabriel Last	Asi Bartfeld	Barak M
	Chairman of the Board	CEO	CF

Consolidated Statements of Income

	The six-month period ended June 30		The three-month period ended June 30		The y Dec
	2008	2007	2008	2007	
	Unaudited				A
	NIS millions (except net earnings per share data)				
Revenues	27,047	18,848	14,579	10,813	4
Cost of revenues	22,911	15,402	12,433	8,804	3
Gross earnings	4,136	3,446	2,146	2,009	
Appreciation of investment property, net	38	(24)	29	(24)	
Selling, marketing and gas station operating expenses	1,618	917	868	443	
General & administrative expenses	758	696	396	327	
Other income (expenses), net	5	(57)	(26)	(63)	
Operating income	1,803	1,752	885	1,152	
Financing income	407	295	246	206	
Financing expenses	1,768	659	926	344	
Earnings after financing	442	1,388	205	1,014	
Gains from the sale of investments in investee companies, net	35	-	35	-	
Group's share in earnings of investees and partnerships, net	86	235	32	75	
Earnings before taxes on income	563	1,623	272	1,089	
Taxes on income (tax benefits)	41	475	106	298	
Net profit	522	1,148	166	791	
Attributable to:					
Company shareholders	224	617	50	421	
Minority interest	298	531	116	370	
	522	1,148	166	791	
Net earnings per share attributable to Company shareholders (NIS)					
Basic net earnings	19.18	53.49	4.28	36.45	11
Diluted net earnings	17.52	51.97	2.60	35.09	1C

*) Represents an amount lower than NIS 1 million

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

Consolidated Statement of Changes in Equity

	Attributed to the Company's shareholders								
	Share capital	Premium on shares	Retained earnings	Adjustments for translation of financial statements of foreign operations	Other capital funds	Treasury shares	Total	Non-controlling interest	shar
	Unaudited								
	NIS millions								
Balance as at January 1, 2008 (audited)	13	1,574	3,010	(288)	298	-	4,607	4,586	9
Loss in respect of available-for-sale financial assets, net	-	-	-	-	(114)	-	(114)	(7)	
Earnings in respect of cash flow hedges, net	-	-	-	-	23	-	23	21	
Revaluation of investment for increase in control	-	-	-	-	13	-	13	7	
Adjustments for translation of financial statements of foreign operations	-	-	-	(739)	-	-	(739)	(478)	(1
Total expenses charged directly to shareholders' equity	-	-	-	(739)	(78)	-	(817)	(457)	(1
Net earnings	-	-	224	-	-	-	224	298	
Total revenue (expenses) recognized	-	-	224	(739)	(78)	-	(593)	(159)	
Cost of share-based payment	-	-	-	-	-	-	-	28	
Acquisition of minority interest	-	-	-	-	-	-	-	(172)	
Capital issue to a minority in a consolidated company	-	-	-	-	-	-	-	34	
Dividend paid to a minority	-	-	-	-	-	-	-	(142)	
Exercise of options to Company shares	-(*	9	-	-	-	-	9	-	
Dividend declared	-	-	(139)	-	-	-	(139)	-	
Share buyback	-	-	-	-	-	(5)	(5)	-	
Balance as at June 30, 2008	13	1,583	3,095	(1,027)	220	(5)	3,879	4,175	8

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

Consolidated Statement of Changes in Equity

	Attributed to the Company's shareholders								
	Share capital	Premium on shares	Retained earnings	Adjustments for translation of financial statements of foreign operations	Other capital funds	Treasury shares	Total	Non-controlling interest	sha
	Unaudited								
	NIS millions								
Balance as at January 1, 2007 (audited)	13	1,543	2,320	-	225	(87)	4,014	2,594	
Earnings (losses) in respect of financial assets available for-sale, net	-	-	-	-	89	-	89	48	
Earnings in respect of cash flow hedges, net	-	-	-	-	22	-	22	13	
Adjustments for translation of financial statements of foreign operations	-	-	-	137	-	-	137	143	
Total revenues (expenses) charged directly to shareholders' equity	-	-	-	137	111	-	248	204	
Net earnings	-	-	617	-	-	-	617	531	
Total revenue recognized	-	-	617	137	111	-	865	735	
Cost of share-based payment	-	-	-	-	-	-	-	35	
Decrease in the holding in a subsidiary	-	-	-	-	-	-	-	787	
Acquisition of a subsidiary consolidated for the first time	-	-	-	-	-	-	-	447	
Dividend to a minority	-	-	-	-	-	-	-	(192)	
Conversion of debentures to Company shares	-	8	-	-	-	-	8	-	
Exercise of options to Company shares	-	10	-	-	-	-	10	-	
Dividend	-	-	(230)	-	-	-	(230)	-	
Balance as at June 30, 2007	13	1,561	2,707	137	336	(87)	4,667	4,406	

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

Consolidated Statement of Changes in Equity

	Attributed to the Company's shareholders								
	Share capital	Premium on shares	Retained earnings	Adjustments for translation of financial statements of foreign operations	Other capital funds	Treasury shares	Total	Non-controlling interest	sha
	Unaudited								
	NIS millions								
Balance as at April 1, 2008 (audited)	13	1,583	3,120	(674)	187	(5)	4,224	4,292	
Earnings (loss) in respect of available-for-sale financial assets, net	-	-	-	-	(38)	-	(38)	6	
Earnings in respect of cash flow hedges, net	-	-	-	-	58	-	58	43	
Adjustments for translation of financial statements of foreign operations	-	-	-	(340)	-	-	(340)	(117)	
Total revenue (expenses) charged directly to shareholders' equity	-	-	-	(340)	20	-	(320)	(68)	
Net earnings	-	-	50	-	-	-	50	116	
Total revenue (expenses) recognized	-	-	50	(340)	20	-	(270)	48	
Cost of share-based payment, net	-	-	-	-	-	-	-	24	
Decrease in the holding in a subsidiary	-	-	-	-	-	-	-	(143)	
Capital issue to a minority in a consolidated company	-	-	-	-	-	-	-	33	
Dividend paid to a minority	-	-	-	-	-	-	-	(79)	
Dividend	-	-	(75)	-	-	-	(75)	-	
Balance as at June 30, 2008	13	1,583	3,095	(1,014)	207	(5)	3,879	4,175	

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

Consolidated Statement of Changes in Equity

	Attributed to the Company's shareholders								
	Share capital	Premium on shares	Retained earnings	Adjustments for translation of financial statements of foreign operations	Other capital funds	Treasury shares	Total	Non-controlling interest	shar
	Unaudited								
	NIS millions								
Balance as at April 1, 2007 (audited)	13	1,557	2,416	(16)	200	(87)	4,083	2,729	6
Earnings in respect of financial assets available for-sale, net	-	-	-	-	126	-	126	23	
Earnings in respect of cash flow hedges, net	-	-	-	-	10	-	10	12	
Adjustments for translation of financial statements of foreign operations	-	-	-	153	-	-	153	88	
Total revenues charged directly to shareholders' equity	-	-	-	153	136	-	289	123	
Net earnings	-	-	421	-	-	-	421	370	
Total revenue recognized	-	-	421	153	136	-	710	493	1
Cost of share-based payment	-	-	-	-	-	-	-	19	
Decrease in the holding in a subsidiary	-	-	-	-	-	-	-	787	
Acquisition of a subsidiary consolidated for the first time	-	-	-	-	-	-	-	447	
Dividend to a minority	-	-	-	-	-	-	-	(69)	
Exercise of options to Company shares	-	4	-	-	-	-	4	-	
Dividend	-	-	(130)	-	-	-	(130)	-	
Balance as at June 30, 2007	13	1,561	2,707	137	336	(87)	4,667	4,406	9

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

Consolidated Statement of Changes in Equity

	Attributed to the Company's shareholders								
	Share capital	Premium on shares	Retained earnings	Adjustments for translation of financial statements of foreign operations	Other capital funds	Treasury shares	Total	Non-controlling interest	shar
	Unaudited								
	NIS millions								
Balance as at January 1, 2007	13	1,543	2,320	-	225	(87)	4,014	2,594	
Earnings in respect of financial assets available for sale, net	-	-	-	-	83	-	83	7	
Earnings in respect of cash flow hedges, net	-	-	-	-	7	-	7	4	
Adjustments for translation of financial statements of foreign operations	-	-	-	(288)	-	-	(288)	(72)	
Total revenues (expenses) charged directly to shareholders' equity	-	-	-	(288)	90	-	(198)	(61)	
Net earnings	-	-	1,280	-	-	-	1,280	908	
Total revenue (expenses)	-	-	1,280	(288)	90	-	1,082	847	
Conversion of debentures to Company shares	-	8	-	-	-	-	8	-	
Exercise of options to Company shares	-	10	-	-	-	-	10	-	
Sale of treasure shares	-	13	-	-	-	87	100	12	
Dividend	-	-	(590)	-	-	-	(590)	-	
Decrease in the rate of holding in consolidated companies	-	-	-	-	(17)	-	(17)	980	
Cost of share-based payment, net	-	-	-	-	-	-	-	114	
Acquisition of a subsidiary consolidated for the first time	-	-	-	-	-	-	-	494	
Dividend to a minority	-	-	-	-	-	-	-	(455)	
Balance as at December 31, 2007	13	1,574	3,010	(288)	298	-	4,607	4,586	

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

Consolidated Statement of Cash Flow

	The six-month period ended June 30		The three-month period ended June 30		The Dec
	2008	2007	2008	2007	
	Unaudited				A
	NIS millions				
Cash flows from operating activities					
Net profit	522	1,148	166	791	2
Adjustments required to present cash flows from operating activities (A)	976	(175)	1,044	(42)	
Cash, net, from operating activities	1,498	973	1,210	749	1
Cash flows from investing activities					
Acquisition of property, plant and equipment and other assets	(488)	(273)	(244)	(174)	
Acquisition of real estate for investing	(368)	(726)	(140)	(634)	(2
Proceeds from the sale of property, plant and equipment and real estate for investing	31	8	25	-	
Proceeds from the sale (acquisition) of financial assets, net	(281)	375	(94)	(8)	
Extension of long-term loans to associates, net	(132)	(8)	(152)	(26)	
Short-term deposits, net	(35)	(707)	(130)	(642)	
Increase in joint ventures for oil and gas exploration	(86)	(74)	(61)	(36)	
Proceeds from the sale of investments in investees	1	118	1	116	
Investments in investees	(327)	(636)	(311)	(219)	(1
Acquisition of operations and newly-consolidated subsidiaries (B)	(516)	(1,938)	-	(677)	(5
Acquisition of minority interest in consolidated companies	(29)	-	-	-	
Collection (granting) of loans to others	42	(34)	-	(21)	
Tax paid	(44)	-	-	-	
Net cash used in investing activities	(2,232)	(3,895)	(1,106)	(2,321)	(9
Cash flows from financing activities					
Short-term credit from banks and others, net	285	14	358	1	
Long-term loans received	1,770	2,510	300	961	7
Long-term loans repaid	(681)	(709)	(305)	(408)	
Issue of shares to non-controlling interest in consolidated subsidiaries	23	735	17	735	1
Dividend distributed	(224)	(336)	(64)	(250)	
Dividend distributed to non-controlling interest in subsidiaries	(142)	(138)	(79)	(64)	
Exercise of option warrants into company shares	6	6	-	-	
Sale (acquisition) of treasury shares	(5)	-	-	-	
Issue of debentures and debentures convertible into shares, net	545	2,543	-	1,155	3
Redemption of debentures and debentures convertible into shares	(326)	(216)	(249)	(156)	
Net cash provided by financing activities (used for activities)	1,251	4,409	(22)	1,974	9
Translation differences in respect of cash balances of foreign operations	(244)	(19)	(131)	(7)	
Increase (decrease) in cash and cash equivalents	273	1,468	(49)	395	1
Balance of cash and cash equivalents at beginning of period	3,082	1,928	3,404	3,001	1
Balance of cash and cash equivalents at end of period	3,355	3,396	3,355	3,396	3

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

Consolidated Statement of Cash Flow (contd.)

	The six-month period ended June 30		The three-month period ended June 30		The y Dec
	2008	2007	2008	2007	
	Unaudited				A
	NIS millions				
(A) Adjustments required to reflect cash flows from operating activities					
Income and expenses not involving cash flows:					
Depreciation (appreciation) of value of real estate for investing, net	(38)	24	(29)	24	(
Depreciation, depletion, amortization and impairment of assets	333	242	213	149	
Deferred taxes, net	(279)	(160)	(26)	(189)	(
Increase (decrease) in employee benefit liabilities, net	(7)	(1)	3	3	
Increase (decrease) in the value of loans granted, net	152	(20)	220	(10)	
Proceeds from the sale of property, plant and equipment, real estate and investments, net	(5)	(2)	(2)	(20)	(
Group's share in non-distributed earnings of affiliates and partnerships, net (1))	(54)	(117)	-	23	(
Change in fair value of financial assets and derivatives, net	(10)	28	(84)	48	
Increase in value of long-term liabilities, net	144	97	113	125	
Decrease (increase) in deferred acquisition expenses	(37)	(107)	4	(55)	(
Cost of share-based payment	39	82	9	22	
Change in financial investments of insurance companies	607	(2,862)	31	(2,059)	(2,
Investments, less revenues from the sale of financial assets available for sale in insurance companies, net	31	(318)	(71)	79	(1,
Increase in reserves and pending claims	129	2,670	979	1,608	3,
Decrease (increase) in reinsurance assets	8	(212)	(92)	(152)	(
Changes in asset and liability items:					
Increase in trade receivables	(708)	(541)	(463)	(377)	(
Decrease (increase) in other receivables	(222)	22	111	286	(
Decrease (increase) in inventories	(476)	3	(495)	(370)	(
Decrease (increase) in other assets, net	(52)	4	(47)	44	
Increase in trade payables	351	621	258	510	
Increase in other payables and credit balances	1,070	372	412	269	
	976	(175)	1,044	(42)	(
(1) Net of dividends received	32	118	32	98	

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

Consolidated Statement of Cash Flow (contd.)

	The six-month period ended June 30		The three-month period ended June 30		The y Dec
	2008	2007	2008	2007	
	Unaudited				A
	NIS millions				
(B) Acquisition of companies consolidated for the first time					
Deficit in working capital, net (excluding cash)	474	333	-	65	
Property, plant and equipment, real estate, investments and other property	(1,162)	(16,106)	-	(12,011)	(20,
Long-term liabilities	42	12,365	-	9,799	12,
Minority interest	-	447	-	447	
Decrease in investments in investees	130	1,023	-	1,023	1,
	(516)	(1,938)	-	(677)	(5,
(C) Significant non-cash operations					
Acquisition of property, plant and equipment on credit	3	7	1	6	
Liability in respect of divestiture of investments	9	8	9	8	
Dividend and earnings to pay to non-controlling interest in consolidated companies	70	63	70	63	
Dividend declared	75	130	75	130	
Dividend and profits to receive form consolidated companies	-	88	-	88	
Exercise of options to shares	3	4	-	-	
Conversion of debentures to company shares	-	8	-	3	
Conversion of debentures into shares of consolidated subsidiary	-	-	-	-	
Acquisition of an investee by issuing shares of the subsidiary ion the USA	-	-	-	-	
Investment in an investee against the repayment of a loan	-	75	-	-	

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

Consolidated Statement of Cash Flow (contd.)

	The six-month period ended June 30		The three-month period ended June 30		The y Dec
	2008	2007	2008	2007	
	Unaudited				A
	NIS millions				
(D) Further information on cash flows					
Cash paid during the period for:					
Interest	813	656	419	529	1,
Taxes on income	212	110	118	58	
Cash received during the period for:					
Interest	106	79	48	41	
Dividend	34	89	28	72	

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

NOTE 1: – GENERAL

A. First-time adoption of IFRS

These financial statements were prepared according to International Financial Reporting S (IFRS), in condensed format, as of June 30, 2008 for the six- and three-month periods then this date (consolidated interim financial statements). Regarding some of the notes, such as in about agreements, liabilities and contingent claims, these financial statements should be conjunction with the Company's annual financial statements as of December 31, 2007 and then ended, (the last financial statements) prepared according to generally accepted auditing in Israel (Israeli GAAP).

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

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

See Note 11 for further details of reconciliation of accounting under Israeli GAAP and IFRS.

B. Format for the preparation of the interim consolidated financial statements

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

C. Working capital deficit

As of June 30, 2008 the Group has a working capital deficit of NIS 690 million, mainly due to short-term loans taken to finance long-term investments, which are repayable in the next y management of the Company and its subsidiaries estimates that these loans are convertible term loans or short-term loans can be received to continue the financing of their investm repaying their liabilities (see also Note 3A'6).

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies described below were implemented by the Compar preparation of these financial statements on first-time adoption of IFRS. The accounting poli 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 in property, financial derivatives and instruments, liabilities for share-based payments an presented at cost under IFRS 1.

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

Consolidated financial statements

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

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

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

Acquisition of non-controlling interests is entered against goodwill, which is calculated as the c between the consideration paid and the amount of the acquired share of the non-controlling i the acquisition date. Negative goodwill generated with said acquisition is recognized in the s of income. Upon the sale or issue of shares to the non-controlling interest, the difference bet consideration for the sale and the exercised equity value is recognized in the statement of inco

The non-controlling interest in a subsidiary with a deficit in shareholders' equity shares the the subsidiary up to the level of the loans and liabilities (including accrued interest on these lo the liabilities for granting the loans.

The financial statements of the Company and its subsidiaries are prepared at the same date the same periods. The accounting policy in the financial statements of the subsidiaries i uniformly and consistently with the accounting policy in the Company's financial statements.

The financial statements for pension and provident funds were not consolidated with the reports since the companies managing these funds do not own their assets and 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 of the Company.

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

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

B. Functional currency and foreign currency (contd.)

1. Functional currency and reporting currency (contd.)

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

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

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

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

When a foreign operation is disposed of, in part or in full, the relevant amount in th currency translation reserve (FCTR) is transferred to profit or loss as incurred.

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

Foreign currency differences for a loan in foreign currency designated as a hedg investment in a foreign operation (before tax) are recognized in equity, as des subsection (e) above. When the net investment is disposed of, these translation di are recognized in profit or loss.

2. Foreign currency transactions

Transactions in foreign currency (other than the functional currency) are accounted f recognition at the exchange rate on the transaction date. Monetary assets and denominated in foreign currencies are translated into the functional currency at the rate on the balance sheet date. Exchange rate differences are recognized in profit or l monetary assets and liabilities denominated in foreign currencies and measured at fair retranslated to the functional currency at the exchange rate at the date that the fair v determined.

3. CPI-linked financial instruments

Assets and liabilities linked to the consumer price index in Israel (CPI) are adjusted ac the relevant index, at each reporting period, according to the provisions in the ag Linkage differences deriving from this adjustment are recognized in profit or loss.

C. Cash equivalents

Cash equivalents are considered as highly liquid investments including short term bank dep can be withdrawn within three months from the date of their deposit and which are not res attachments.

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

D. Short term deposits

Short term bank deposits can be withdrawn after three months from the date of their dep 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 opini Company's management, are unlikely to be collected. In addition, the Group enters a for groups of customers that are estimated collectively for impairment basec characteristics of their credit risk. Impaired receivables will be derecognized w determined that these debts are uncollectible.

2. (a) Provisions in respect of premiums receivable in general insurance are calculated, according to the extent of the arrears In respect of loans that are secured by over real estate assets and other loans, the provision was calculated based on t of the arrears, plus a general provision, which reflect the assessment of the subsi the risks involved.

   (b) The subsidiaries set up provisions for doubtful debts in respect of reinsurers' deb collection is doubtful on the basis of individual risk estimates.

   In addition, for determining the reinsurers' share in outstanding claims and in i reserves, the insurance subsidiaries take into account, among other things, an as of the likelihood of collection from the reinsurers, while the reinsurers' share, as m is computed on an actuarial basis. The share of those reinsurers who are in difficulties is computed according to the actuary's recommendation, which takes a factors into account. When reinsurers encounter difficulties, they may raise arguments that relate to recognition of the debt. In such cases, the insurance su take into account, when preparing the provisions, the reinsurers' willingness to ma agreements.

F. Inventory

Inventory is stated at the lower of cost or net realizable value. The cost of inventory includ costs of purchase, conversion and other costs incurred in bringing items to their present loc condition. Net realizable value is the estimated selling price during the regular course of busi 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 moving stock accordingly.

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

F. Inventory (contd.)

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

G. Buildings and land held for sale

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

H. Financial instruments

According to IAS 39, financial instruments are recognized at the date of initial recognition at with directly attributable transaction costs, with the exception of investments recorded at fair v changes in the statement of income and for which transaction costs are recognized in profit or

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

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

1. Financial assets at fair value through profit or loss

The Group has financial assets measured at fair value through profit and loss tha financial assets that are held for trading and any financial asset that is designated 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 principall purpose of selling in the short term, constitute part of the portfolio of identified instruments managed together to achieve profits in the short term, or they are a deriv is not designated as a hedging instrument. Profits or losses from held-for-trading inv are charged to the statement of income at the date they are incurred.

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

Derivatives, including embedded derivatives that were separated, are classified as trading unless they are intended for use as instruments for effective hedging. If a instrument contains one or more embedded derivatives, the full hybrid instrument designated at the date of initial recognition only as a financial asset measured at through profit or loss.

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

H. Financial instruments (contd.)

2. Loans and receivables

The Group has loans and receivables that are non-derivative financial assets with determinable payments that are not quoted in an active market. After initial recogniti and receivables are measured at amortized cost by the effective interest method, ta account transaction costs and less impairment provisions. Profit and loss are recogniz statement of income when the loans and receivables are derecognized or if impa recognized, or as a result of systematic amortization.

3. Available-for-sale financial assets

The Group has available-for-sale financial assets that are non-derivative financial assets d on initial recognition as available for sale or are not classified into one of the three c described above. Subsequent to initial recognition, available-for-sale financial assets are at fair value. Profit or loss as a result of fair value changes, with the exception of exch differences attributed to financial debt instruments recognized in profit and loss under fina recognized directly in equity under capital reserve for unrealized profits, net. At the derecognition of the investment or in the event of impairment losses, the cumulative gain o was recognized in equity is charged to the statement of income. Interest income or exp investments in debt securities are recognized in profit or loss according to the effectiv method. Dividends received for investments in equity instruments are recognized in profit the date of payment.

4. Fair value

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

5. Interest–bearing loans, debentures and credit

Interest-bearing loans, debentures and credit are first recognized at fair value les attributable transaction costs (for example, costs of raising loans). After initial re interest-bearing loans, debentures and credit are recognized at amortized cost, u effective interest rate, which takes into account the directly attributable transaction co and loss are recognized in the statement of income when the instrument is derecognize 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 liabilitie held for trading and any financial liability that is designated on initial recognition as c measured at fair value with fair value changes in profit or loss.
Financial liabilities are classified as held for trading if they were acquired principally for the of selling in the short term. Profit or loss for liabilities held for trading is recognized in profit a

Derivatives, including embedded derivatives that were separated, are classified as trading unless they are intended for use as instruments for effective hedging. If a contains one or more embedded derivative, the full hybrid instrument could be designa date of initial recognition only as a financial asset measured at fair value through profit

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

H. Financial instruments (contd.)

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

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

7. Compound Financial Instruments

Convertible debentures issued in currency other than the Company's functional cu convertible debentures linked to the CPI, contain two components: the convertible comp the debt component, while the convertible component is also classified as a liability. The c component is first calculated at the recognition date as a financial derivative at fair valu difference between the consideration received for the convertible debentures and the fai the conversion component is recognized as the debt component. Direct transactions allocated between the liability conversion component and the liability debt component, bas allocation of the consideration for each component, as described above. The amount al the debt conversion component is recognized immediately in profit or loss.

Subsequent to initial recognition, the conversion component is accounted for as a derivative and is recorded at its fair value at every balance sheet date. Changes in fair recognized in profit and loss under financing. Subsequent to initial recognition, component is accounted for as described above for interest-bearing loans and credit.

8. Issue of a block of securities

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

9. Derecognition of financial instruments

Financial assets

A financial asset is derecognized when the validity of the contractual rights to receive c from the financial asset expires.

Financial liabilities

A financial liability is derecognized when the liability is removed, cancelled or expired.

10. Treasury shares

The Company's shares held by the Company or a subsidiary were recognized at the c by the Company's equity. The profit or loss from acquisition, sale, issue or cance treasury shares is recognized 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 allocates put options to the non-controlling shareholders for pa their holdings in subsidiaries during a specific period. Non-controlling interests are cla financial liabilities on the day of allocation. The Group recognizes financial liabilities r by the estimated present value of the consideration when exercising the put optior same time the non-controlling interests are accounted as if purchased at that time by tł Changes in the amount of the financial liabilities in subsequent periods, with the exc time value, are recognized in goodwill. If the options expire in the subsequent pe transactions are accounted for as the sale of the liabilities. If the option expires, the accounted for as sale of the investment in the consolidated company.

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

(a) Assets in investment portfolios of policies participating in investment profits:

These assets, which include marketable and non-marketable financial instrum recognized at fair value through profit or loss, for the following reasons: T portfolios under management, separate and identified, whose statement at f significantly reduces an accounting distortion of financial asset-financial liability r Furthermore, the management is conducted according to fair value and the performance is measured according to fair value, in accordance with a docume management strategy, and the information about the financial instruments is re the management (the relevant investments committee) internally on the basis of fa

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

These assets, which include designated debentures (Hetz agreements), ot marketable debentures, commercial certifications, and loans and debit balances are classified as other payables and recognized in the balance sheet as non-m debt assets.
Non-marketable shares are classified as available-for-sale financial assets.

(c) Marketable assets which are not included in investment portfolios against prof policies (nostro) that do not include embedded derivatives or do not constitute d (including investment funds):

These assets are classified as available-for-sale financial assets.

(d) Derivatives and financial instruments that include embedded derivatives separation

These assets will be assigned to the group of fair value through profit commencing on the transition date (excluding derivatives designated as effective derivatives).

(e) Financial assets and liabilities of certain liability certificates

Marketable and non-marketable financial assets and liabilities of liability certificates ir 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 every balance sheet date.

1. Assets recorded at amortized cost

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

2. Assets available-for-sale

When there is objective evidence of impairment, the amount of the loss is measur difference between the cost (less payment of principle and amortization) and the fair v the impairment recognized in the past to the statement of income. This loss is transfe equity to the statement of income. Cancellation of the loss from impairment in r financial instruments is not recognized in the statement of income. Reversal of the in for liability instruments is recognized in the statement of income if the increase in fai the instrument can be objectively related to an event occurring after the impairment recognized in the statement of income.

J. Derivative financial instruments

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

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

The fair value of forward currency exchange contracts is based on the exchange rates for with similar maturity dates. The fair value of IRS contracts and of transactions to fix gas and prices are based on the market prices of similar instruments.

At the beginning of the agreement, the group documented the type of hedging it chose to i for accounting reporting and the risk management objectives and strategies for this Documentation included the identification of the hedging instrument, the hedged item or tra the nature of the hedged risk and how the Company assesses the actual efficiency of the instrument, compared with the expectations from the hedging instrument to effectively hedg the risk by offsetting the impact of the changes in fair value of cash flows. Hedging effecti assessed routinely in each reporting period.

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

J. Derivative financial instruments (contd.)

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 c shareholders' equity while the non-effective portion is immediately recognized in the stat income.

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

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

K. Leasing

Classification of a lease as a finance lease or an operating lease is based on the substan 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 anc incident to ownership. At commencement of the lease term, the asset is measured at of the fair value of the asset or the present value of the minimum lease payments. Lia lease payments are recognized at present value while lease payments are allocated the finance expense and the repayment of the liability for the lease using the effectiv method.

Subsequent to initial recognition, the asset is accounted for in accordance with the a policy applicable to that asset.

2. Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the rewards incident to ownership. Lease payments are recognized as an expense in profi in a direct line over the lease term.

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

L. Business combinations and goodwill

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

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

When divesting a cash generating unit, the difference between the consideration and the n with the cumulative translation differences and unamortized goodwill balances are recogniz statement of income. Profit or loss from divesting part of the cash generating unit includes the goodwill measured according to the proportional share divested from the cash generating unit

Acquisition of subsidiaries that are not business combinations

Under IFRS 3, when acquiring subsidiaries and operations that do not constitute a business a in IFRS 3, the consideration for the acquisition is only allocated between the recognized as liabilities of the acquiring company, according to the proportion of their fair value at the acquis and without attributing any amount to goodwill or deferred taxes, with the participation of the n any, according to its share in the net fair value of these recognized assets at the acquisi When non-controlling interests in subsidiaries are acquired, the difference between the am and the amount of the acquired share in the non-controlling interest at the acquisition date is to assets and liabilities as aforesaid.

M. Investment in investees

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

The equity method of accounting is used to record investment in an investee. Jointly-controlle are also accounted for by the equity method (investments in investees). Under the equity a method, the investment in investees is recorded at cost and is subsequently adjusted to r 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 acquis and the Group's share in the net fair value of the identified assets, identified liabilities and c liabilities of the investee. Subsequent to initial recognition, goodwill is measured at cost a amortized systematically. Goodwill is assessed to assess impairment as part of investm investee.

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

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

N. Investment property

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

Land rights held by the lessor (the Group) in operating lease from the Israel Land Administ classified as investment property at fair value.

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

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

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

O. Property, plant and equipment

Property, plant and equipment are recorded at cost with the addition of direct purchase c cumulative depreciation and impairment losses and do not include expenses for ongoing mai The cost includes spare parts and accessories that can only be used in the context of mac equipment.

The cost of self-constructed assets includes the cost of materials, direct labor and financing well as additional cost that can attributed directly to bringing the asset to the position and whereby it can operated according to the management's intentions, and the costs of disma 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 d 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	
Office furniture and equipment	6-33	
Leasehold improvements	Throughout the rental period, including the option periods agreements whereby it is expected that the option will be or throughout the life of the improvements, whichever is lo	

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) inc initial estimate of the cost of dismantling and removing the item and restoring the site on v located, for which the Company was made liable when the item was purchased or as a res use of the item during a particular period. The liability is first measured at fair value and chan liabilities deriving from time are recognized in the statement of income. The asset is amortize period of the statement of income according to the amortization method determined for that as

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

The Group recognizes the costs of periodic maintenance on a fixed asset item (particularl facilities) as part of the book value of a fixed asset item, as incurred, when it is expected that be an inflow of financial benefits to the Group, and the cost of the items can be measure These costs are amortized over the period until the next service (approximately four years). maintenance costs are recognized in the statement of income as incurred.

Depreciation of property, plant and equipment ends at the date the asset is classified as hel and the date the asset is derecognized, whichever is earlier. An asset is derecognized at th sale or when no further financial benefits from the use of the asset are expected.

P. Property for building

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

Q. Credit costs for qualified assets

A qualifying asset is an asset that takes a substantial period of time to prepare for its intend sale. This includes property, plant, and equipment and investment property and inventory required for a substantial period to prepare it for sale.

The Group capitalizes credit costs to costs of qualified assets.

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

R. Intangible assets

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

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

The useful life of intangible assets is as follows:

	Years
Marketing rights and customer relations	10-15
Software	5-10
Brands and trademarks	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 ass there are signs resulting from events or changes in circumstances indicating that the book va recoverable. When the book value of the non-financial assets exceeds their recoverable am assets are depreciated to their recoverable value. The recoverable value is the higher of the r price and its value in use. When estimating the value of use, the expected cash flows are c according to the discounted rate before tax that reflects the specific risks for each asset. For that does not generate independent cash flows, the recoverable amount is determined for generating unit to which the asset belongs.

When assessing the impairment of fuel stations operated by a subsidiary in Israel, these sta considered as a single cash generating unit, inter alia, due to the common customer base business inter-dependency of the various stations. Nevertheless, in cases where the su management is of the opinion that certain stations do not contribute to the chain of fuel static of these stations is considered as a separate cash generating unit. In testing for the impairme stations in the USA, each cluster of stations that are managed and operated together is cons 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 cl circumstances indicate impairment.

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

S. Impairment of non-financial assets (contd.)

2. Investees accounted by the equity method

After implementing the equity accounting method, the Group determines whether it is r to recognize further loss for impairment of the investment in an investee. At every balaı date, the Group determines whether there is objective evidence of impairment in the ir in an investee. If this is required, the impairment loss is recognized in the amou difference between the fair value of the investment in the investee and its book va impairment loss is recognized in profit or loss under the Group's share in the profits (l investees, net.

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, acc which:

1. Expenses incurred in the participation in geological and seismic analyses and suı recognized in the statement of income when they are incurred.

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

3. Investments in oil and gas drillings that were proved to be dry and were abandoned, or classified as being non-commercial, or for which development programs were not s 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 the balance sheet at cost and amortized to the statement of income, based on the p volume relative to the total proven reserves for the said asset, as appraised by an expe

5. Costs accrued for development of the proved reserves of the Yam Tethys joint ven designed to provide options for the extraction, handling, collection and storage of ga costs, which include engineering planning, development drillings, and acquisi establishment of production facilities and pipes for the delivery of the gas onshore, are the balance sheet at cost and amortized to the statement of income based on the p 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 f gas drilling, including increasing the Group's share in joint ventures, are accounte aforesaid.

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

U. Taxes on income

Income tax in the statement of income includes current taxes and deferred taxes. The tax r current or deferred taxes are recognized in the statement of income, unless they refer recognized directly in equity. In these cases the impact of the tax is also recognized under equ

1. Current taxes

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

U. Taxes on income (contd.)

2. Deferred taxes

Deferred taxes are recognized for temporary differences between the amounts incluc financial statements and the amounts recognized for tax purposes, except for a limite of exceptions. Deferred taxes that are attributed to items recognized directly in equity recognized in equity

Deferred tax balances are calculated according to the tax rates that are expected to ap these taxes are recognized in the statement of income or shareholders' equity, based c laws in force at the balance sheet date. The deferred tax balances in the statement c reflect the changes in these balances in the reporting period, with the exception of attributed to items recognized directly in equity.

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

Deferred tax assets and deferred tax liabilities are reported in the balance sheet as nc assets and long-term liabilities, respectively. Deferred taxes are offset if there is enforceable right that permits offsetting a current tax asset against a current tax liabilit 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 t deferred taxes are not recognized 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 sha payment, in consideration for capital instruments (hereinafter: equity settlements) and settlements based on the increased value of the Company's shares (hereinafter: cash-settlem

Equity settlements

The cost of equity settlements for employees is measured at the fair value of the equity instru 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 in shareholders' equity over the period during which the implementation and/or service terı and end on the date on which the relevant employees become entitled to compensation (he the vesting period). The accrued expense recognized for equity-settlements in each report until the vesting date reflects the progress of the vesting period and the Group's best estim number of equity instruments that will eventually vest.
Expenses for grants that will not vest eventually are not recognized, with the exception of g vesting that is dependant on market conditions and that are accounted as vested grants reg the market conditions, provided that all execution terms are met.

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

V. Share-based payments (contd.)

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

Cash settlements

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

W. Liabilities for employee benefits

The Group has a number of severance benefit plans. The plans are usually financed by dep 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, vaca convalescence pay and payments to National Insurance and are recognized as expe the service provider. A liability is recognized for the amount expected to be paid und term or profit-sharing plans if the Group has a present legal or constructive obligation t amount as a result of past service provided by the employee and the obligatio estimated reliably.

2. Severance benefits

The Group has defined deposit plans in pursuant to Section 14 of the Severance According to these plans, the Group makes fixed payments without having a constructive obligation to make any further payments, even if the amounts accumula fund are insufficient to pay all the employee benefits related to the employee's serv current period and the prior periods. Deposits in a defined deposit plan are recogniz expense at the deposit date parallel to receiving the services from the employee, and provision is required in the books.

In addition, the Group has a defined benefit plan for severance pay pursuant to the S Pay Law. By law, employees are entitled to compensation if they are dismissed or w retire. The liability for severance pay is presented on the basis of the actuarial val projected unit credit. The actuarial calculation takes into account future payroll cost rate of employees leaving the company, based on the assessment of the payment tir amounts are presented on the basis of capitalization of the future projected ca according to the interest rates of government bonds payable close to the liability perio to severance.

The Company deposits amounts for its liabilities to pay compensation to some of its e in pension funds and insurance companies (hereinafter: the plan assets).

Actuarial profits and losses are recognized in the statement of income as incurred.

The liability for employee benefits reported in the balance sheet represents the presen the defined benefit liability less the fair value of the assets of the plan.

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

W. Liabilities for employee benefits (contd.)

3. Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pens is the amount of future benefit that employees have earned in return for their servi current and prior periods. That benefit is discounted to determine its present value, ar value of any related assets is deducted. The discount rate is the yield at the reportin government bonds that have maturity dates approximating the terms of the Group's ob The calculation is based on the expected actuarial value of the projected credit unit. profits or losses are recognized in the statement of income as they are incurred.

X. Recognition of revenues

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

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

1. Revenue from the sale of goods

Revenue from the sale of goods is recognized once all the significant risks and returi from ownership of the goods have been assigned to the buyer, and the seller r maintains the continuing management involvement. The transfer date is usually the ownership is transferred.

2. Revenue from the sale of apartments

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

3. Revenue from rent

Revenue from rent is recognized according to the straight line method over the rent Revenue from rent that demonstrates a steady increase in rental fees over the contract recognized according to the straight line method provided there is certainty as to the 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 me

5. Revenue from royalties

Revenue from royalties is recognized on a cumulative basis, according to the nature a of the agreement.

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

X Recognition of revenues (contd.)

6. Revenue from dividends

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

7. Reporting of gross or net revenues

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

8. Income from insurance businesses

   (a) Premiums

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

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

   2) General insurance premiums are accounted for as income based on monthl Insurance premiums usually refer to an insurance period of one year. Gros from premiums and changes in unearned premium are accounted for und premiums, gross.

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

      Since in the motor vehicle property branch of insurance the insurance co effect only after payment of the insurance premium, the premium is accoun the date of payment.

      Insurance premiums in respect of policies that come into effect after the bala date are recorded as a prepaid premium.

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

      Income included in the financial statements is after cancellations requ policyholders and after cancellations and provisions due to non-payme premiums, subject to the law and net of participation of the policyholders in th

   (b) Management fees and commissions

   1) Management fees for performance-based insurance contracts

      Management fees are calculated pursuant to the directives of the Supervisor the yield and accumulated savings of the policyholders in participating policie

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

X Recognition of revenues (contd.)

8. Income from insurance business (contd.)

(b) Management fees and commissions (contd.)

1) Management fees for performance-based insurance contracts (contd.)

The variable management fees are computed as a percentage of the annual (from January 1 to December 31) attributed to the policy, less the fixed ma fees collected from that policy. Only positive variable management fee collected, and net of negative amounts accumulated in the preceding years. During the year, the variable management fees are recorded on a cumulativ accordance with the real monthly yield if it is positive. In months when the re negative, the variable management fees are reduced to the amount of the c variable management fees collected since the beginning of the year. Negative which a reduction of the management fees was not made during a current ye deducted for the purpose of computing the management fees from the positi the subsequent year.

2) Management fees of non-insurance subsidiaries

Income from the management of pension funds and provident funds is reco the basis of the receipts from the members.

Income from the management of provident funds and income from the mana customer portfolios are recognized on the basis of the managed asset balanc Income from general insurance commission in insurance agencies is reco incurred.
Income from life assurance commissions are recognized on the basis of th payment of the commissions according to agreements with the insurance co less provisions for refunds of commissions due to expected cancellations of policies.

3) Net profits (losses) from investments and other financing income.

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

Dividends from investments that are not accounted using the equity me recognized at the record date.
Income from investments includes the profits or losses realized in respect of for-sale financial assets. Profits and losses from the sale of investments are as the difference between the proceeds from the sale, net, and the c amortized cost and are recognized at the time of the sale.

Income from investments includes profits or losses from revaluation of financ measured at fair value through the statement of income.

Income from investments is recognized in the life assurance branch ba separate accounting system. See Note 25 below.
Income from investments is recognized in the statement of income and th insurance branch, according to investments held against liabilities in general and against capital and surpluses of the insurance subsidiaries during the yea

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

X Recognition of revenues (contd.)

9. Customer discounts

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

The discounts received from customers at the end of the year, and the custome undertake to meet certain goals, are included in the financial statements when the prop purchases with the discounts are made.

Discounts from customers that are conditional on the customer's meeting certain goals meeting an annual volume of purchases (quantity or financial) and increase in the v purchases compared to prior periods, are included proportionally in the financial sta according to the volume of the customer's purchases from the suppliers in the reportin only when it is likely that the goals will be achieved and the amounts of the discoun estimated reasonably. The estimation of meeting the goals is based, inter alia, experience and the Company's relationship with the customers and the forecasted v 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 sales point. In addition, the sales cost includes losses for inventory impairment and write provisions for slow-moving inventory.

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

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

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

Z. Earnings per share

Earnings per share are calculated by dividing the net earnings attributable to the C shareholders by the weighted number of ordinary shares during the period. Basic earnings include only shares that actually existed during the period, while potential ordinary shares are only in the calculation of the diluted earnings per share if they dilute the earnings per share. In the functional ordinary shares that were converted during the period are included in th earnings per share only up to the conversion date, and from that date onwards they are incluc basic earnings per share. The Group's share in the profits of subsidiaries is calculated accor share in the earnings per share of that subsidiary multiplied by the number of shares he Group.

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

AA. Provisions

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

Environmental protection

Environmental liabilities represent an estimate of the costs entailed in examining and reme contaminations created. The provision is recorded when in the management's opinion it is lik liability has been created, the amount of which can be reasonably estimated. Environmental represent an estimate of the costs entailed in examining and remedying the contaminations cr

The management's assessment is based on in-house and independent estimates contaminations and the existing relevant remediation technology, and a review of a environmental regulations. Environmental liabilities accrue mostly no later than upon complet remedial review. The provision in respect of these liabilities is adjusted as additional infor obtained or the circumstances change. The costs of purchasing the equipment required for th remediation of environmental hazards are recorded as property, plant and equipment.

BB. Advertising costs

Advertising costs are charged to the statements of profit and loss as incurred.

CC. Use of estimates

The preparation of financial statements requires the management to make judgments, estim assumptions, including actuary estimates and assumptions that affect the reported amounts and liabilities and the disclosure in respect of contingent assets and liabilities and the inc expense amounts in the reporting period. Actual results may differ from these estima significant estimates in the financial reports are based on actuary assessments and independ assessments.
The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting are recognized as incurred.

DD. Insurance contracts

IFRS 4 *Insurance Contracts* allows the insurer to continue with its accounting policy for i contracts by deviating from implementation of IAS 8 *Accounting Policies, Changes in A Estimates and Errors* when determining accounting policy related to insurance contracts, e five exceptions. IAS 8 determines, inter alia, the accounting policy for a transaction or event there is no specific international standard or interpretation.

1. Life assurance:

   (a) Recognition of revenues – see section X(8) above.

   (b) Life assurance reserves

   Life assurance reserves are computed according to the Supervisor's directives (re and circulars), generally accepted accounting principles and accepted actuarial The reserves are computed according to the relevant coverage data, such as th the policyholder, number of years of coverage, type of insurance and sum of insur Life assurance reserves and the reinsurers' share therein are determined on the annual actuarial assessments carried out by the actuaries of the insurance subsidi

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

DD. Insurance contracts (contd.)

1. Life assurance: (contd.)

(c) Life assurance reserves for policies subject to semi-annual linkage and the assets these reserves are adjusted on a cumulative basis to the known index on the reporting

(d) Directives of the Supervisor regarding reserves for annuities

In February 2007 the Supervisor issued a circular relating to method for c reserves for annuities in life assurance policies. The circular provides updated dire calculating the provisions in view of the improved life expectancy, which that monitoring of the adequacy of the reserves in insurance policies that enable ap payment and supplementation of an annuity.
Accordingly, the Company immediately supplements the reserve, to the extent neces respect to policies in which annuities are currently being paid or when the policyh reached retirement age. Regarding other policies, where profits are expected, the supplemented alongside the receipt of the expected income, over the policy period.

(e) Deferred acquisition costs

Deferred acquisition costs of life assurance policies (DAC) sold commencing from J 1999 include commission for agents and acquisition supervisors and other expenses the acquisition of new policies, including part of the general and administrative expe DAC is amortized at equal annual rates over the policy period but not more than 15 y DAC relating to cancelled policies are written off on the cancellation date.
Deferred acquisition costs for policies that were issued up to December 31, computed according to the Zillmer deduction method by the actuaries of the i subsidiaries, based on a percentage of the premium or of the amount at risk acc the various insurance programs. The amortization rate of Adif policies is 10% p and for Endowment policies, over the term of the policy.

(f) Outstanding claims

Outstanding claims, net of the reinsurers' share therein, are computed on an case basis, according to the valuation of insurance subsidiaries' experts, base notifications regarding the insurance events and the sums insured.
The provisions for long lasting payment claims with respect to disability insura long-term care (LTC) insurance, the direct and indirect expenses deriving from well as the provisions for incurred but not yet reported claims (IBNR) are incluc the insurance reserves.

(g) Investment contracts

Receipts in respect of investment contracts are not included in the item c premiums but are directly recorded under liabilities in respect of life assura investment contracts. Surrenders and maturities of these policies are not includ statement of income but are deducted directly from liabilities for insurance cont investment contracts.
In respect of these contracts, the life assurance business statements wil investment income, management fees collected from the policyholders, chang reserve in respect of the share of the reinsurers in investment income, commi agents, and general and administrative expenses.

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

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

DD. Insurance contracts (contd.)

2. General insurance

(a) Recognition of revenues – see section X(8) above.

(b) Payments and changes in liabilities in respect of insurance contracts include, settlement and direct handling costs of claims paid and outstanding claims that during the reported period, as well as an adjustment of the provision for outstandi 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

(d) Liabilities for insurance contracts and deferred acquisition expenses

The reserve for unexpired risks and outstanding claims, including the reinsurers the reserve and in the outstanding claims, and the deferred acquisition costs i insurance, are computed pursuant to the Supervision of Insurance Business Re (Methods of Calculating Provisions for Future Claims in General Insurance) 5764 amended, the Supervisor's directives in this respect and generally accepted 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 i contracts and is composed as follows:

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

2) Pursuant to the directives of the Supervisor, the reserves include, if nec retention, in the motor vehicle property, comprehensive motor veh comprehensive residential branches, a provision in respect of the anticip (premium deficiency), which is computed on the basis of an actuarial valuatio

(f) Outstanding claims

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

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

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

DD. Insurance contracts (contd.)

2. General insurance

(f) Outstanding claims (contd.)

3) Excess of income over expenses

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

The excess is comprised from premiums, acquisition costs, claims and p investment income at an annual rate of 3%, all net of the reinsurers' share insurance branch and the respective underwriting year. The excess accumu its release, from the beginning of the insurance, net of the unexpired risk re net of outstanding claims calculated as aforesaid (hereinafter: the accrual), is 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 liability sectors, but no less than a real return of 3% per year. Accordi instructions of Insurance Circular 1-1-2008, following the expected chan principles relating to recognition of revenues from investments due to the tra international standards, the insurance company is required to change the m computing income from investments accrued to excess income over exp comply with a fixed rate of 3% per year, irrespective of the yield actually ac the investments. The impact of the change as of January 1, 2007 is not mater

(g) Deferred acquisition costs

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

(h) Business that is received from the Israeli pool for motor vehicle property insurar Association of Insurance Companies in Israel (the Pool), from other insurance co (including co-insurance) and from underwriting agencies, is reported accordin accounts received up to the balance sheet date with the addition of the relevant p based on the insurance subsidiaries' rate of participation in them.

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

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

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

DD. Insurance contracts (contd.)

3. Health insurance

(a) Recognition of revenues – see section X(8) above.

(b) Health insurance reserves

Life assurance reserves are computed according to the Supervisor's directives (re and circulars), generally accepted accounting principles and accepted actuarial The reserves are computed according to the relevant coverage data, such as tl the policyholder, number of years of coverage, type of insurance and sum of insur Health insurance reserves and the reinsurers' share therein are determined on th 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 ir the direct and indirect expenses deriving from them, as well as the provisions fo 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 is offset by the income from the premium.

(e) The reserve for unexpired risks is recognized under liabilities in respect of i contracts includes, when necessary, a provision in respect of the anticipated loss 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 a the general and administrative expenses related to the issuance of polices, of the unearned insurance premiums on retention.

2) Deferred acquisition costs in health insurance include expenses for examinations, underwriting and marketing and administrative and general e The deferred acquisition costs are amortized at equal rates over the peri policy, but for no longer than six years. Deferred acquisition costs relating to policies are written off on the cancellation date.

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 standard applies to companies whose shares are traded, or are in the process of listin stock exchange. The standard is effective for annual periods beginning on or after J 2009. Early adoption is permitted. The provisions of the standard will be applied retroa restatement, unless the information required by the provisions is unavailable and c obtained practically.

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

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

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

2. IAS 23 (revised) *Borrowing Costs*

Under IAS 23 (revised), an entity is required to capitalize borrowing costs that ar attributable to the acquisition, construction or production of a qualifying asset. A qualify is an asset that takes a substantial period of time to prepare for its intended use or 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, 2(adoption is permitted.

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

3. IAS 1 (revised) *Presentation of Financial Statements*

According to IAS 1, a separate statement is required for comprehensive income. This includes the net profit taken from the statement of income, all items recognized directly ir the reporting period and are not a result of transactions with shareholders as sharehold comprehensive income). Alternately, the other comprehensive income items can be prese the items in the statement of income in one statement that will be called the sta comprehensive income, which will replace the statement of income, with suitable attributior the Group and the non-controlling interests. Only items charged to shareholders' equity, w result of transactions with shareholders as shareholders will be presented in the sta changes in equity. The last row will also be transferred from the statement of comp 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 res change in accounting policy applied retrospectively, restatement or reclassification, a sheet is also required at the beginning of the period of the comparative information in change was made.

IAS 1 (revised) is effective for annual periods beginning on or after January 1, 2 restatement for comparative information. Early adoption is permitted.

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

4. IFRS 3 (revised) *Business Combinations* and IAS 27 (revised) *Consolidated and Financial Statements*

The revised IFRS 3 and IAS 17 (hereinafter: the standards) are effective for annua beginning on or after January 1, 2010. Early adoption of both standards together is per 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 company, represents the difference between the cost of the acquisition and the fa the net identifiable assets acquired. Under the standards, for each business co the company can elect to measure the goodwill on the basis of its full fair value an according to the proportionate share of the acquired asset.

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 Financial Statements* (contd.)

   - Contingent consideration in business combinations is measured at fair value. C fair value of the contingent consideration, which do not constitute adjustments acquisition in the measuring period, will not be recognized as goodwill ac Contingent consideration is usually considered as a financial derivative unde presented at fair value with changes in profit and loss.
   - Direct acquisition costs attributed to a business combination are recognized in pro as incurred. The requirement to charge it as part of the business combination con cost is removed.
   - A transaction with a minority, whether a sale or an acquisition, is accounted for as transaction and therefore is not recognized in profit or loss or does not affect the goodwill, respectively.
   - The losses of a subsidiary, even if they result in a deficit in the shareholders' eq subsidiary, are allocated between the parent company and the non-controlling even if the minority is not a guarantor or does not have a contractual liability to su subsidiary or to make further investment.
   - At the date of the loss of control in a subsidiary, the balance of the holding, revalued at fair value against profit or loss from the sale. This fair value will ser basis for its cost for subsequent accounting.

   The standards will be applied from now onwards and will affect the future acquisi transactions with the minority.

5. IFRS 2 (revised) *Share-Based Payment*

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

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

   The Group estimates that the revised standard is not expected to have a material eff financial statements, the outcome of its operations and its cash flows.

6. IAS 19 (revised) *Employee Benefits*

   Under IAS 19 (revised), other long-term benefits include employee benefits that are s but are expected to fall due more than 12 months after the end of the period in which earned, such as benefits for accrued vacation and sick days. Therefore, from now these benefits will be recognized in the financial statements according to actuarial calc future salary and discounted present value. The standard is effective for accountin beginning on or after January 1, 2009. Early adoption is permitted.

   The Company estimates that the revised standard is not expected to have a material its financial statements, the outcome of its operations and its cash flows.

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

7. IAS 28 (revised) *Accounting for Investment in Associates*

Under IAS 28 (revised), impairment of an investment in associates is calculated for investment. Accordingly, the recognized impairment loss is not allocated specifica goodwill in the investment, but is allocated to the entire investment. Therefore impairment loss recognized in the past can be cancelled if the required conditions e revised standard may be applied retroactively or from now onwards, for accountin beginning on or after January 1, 2009. Early adoption is permitted.

The Company estimates that the revised standard is not expected to have a material its financial statements, the outcome of its operations and its cash flows.

8. IAS 38 (revised) *Intangible Assets*

Under IAS 38 (revised), advertising, marketing or sales promotion costs are recogniz expense when the company has access to the advertising products or when the s these activities are supplied to the company. Therefore, these activities include proc catalogs and advertising brochures. In addition, the presumption is cancelled accordinç it is uncommon for amortization based on the production unit method for an intangible a a defined useful life to be lower than amortization based on the straight line method. amortization based on production units is permitted without this restriction. The st effective for accounting periods beginning on or after January 1, 2009. Early ac permitted.

The Company estimates that the revised standard is not expected to have a material its financial statements, the outcome of its operations and its cash flows.

9. IAS 40 (revised) *Investment Property*

Under IAS 40, investment property under construction or development for future investment property will be accounted for as investment property when the fair value r applied and can be measured reliably. The revised standard may be applied from now for accounting periods beginning on or after January 1, 2009. Early adoption is permitte

The Company estimates that the revised standard is not expected to have a material its financial statements, the outcome of its operations and its cash flows.

10. IFRS 1 (revised) *First-time Adoption of IFRS and IAS 27 (revised) Consolidated and Financial Statements*

Under the revised standards, a concession for retrospective adoption of IFRS standards w to the opening balance according to IFRS 1 at the transition date to first-time adoption of IF separate financial statements (solo financial statements). According to the concession financial statements, the cost of the investment in subsidiaries, jointly-owned compa affiliates can also be determined, apart from on the basis of the historic cost or fair value, to deemed cost based on the book value of the investment as presented under GAAF words, according to the equity method. This choice can be made for each separate inve: addition, a dividend for investments in these companies will be recognized in the financial statements as revenue, without distinction of whether distributed for earnings before or after the acquisition of the investment. The standard will be applied in the financial statements as described above on the transition date on or after January 1, 2(adoption is permitted. The revised standard has no affect on the consolidated statements.

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

11. IFRIC 13 *Customer Loyalty Programs*

IFRIC 13 (hereinafter: the interpretation) is effective for accounting periods beginning c July 1, 2008, with retrospective application in comparative information for prior peric adoption is permitted. The interpretation applies to purchase benefits and customer i (such as club points, credit points and purchase coupons), which the company awarc of a sales transaction to encourage the customer to make a future purchase. Subje conditions, the customer is able to exercise the benefit and receive, free of charge discount, a product or service.

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

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

12. IFRIC 15 *Agreements for the Construction of Real Estate*

IFRIC 15 (hereinafter: the interpretation) provides guidance on how to determine wl agreement for the construction real estate is within the scope of IAS 11 *Construction* or IAS 18 *Revenue.* When the agreement is specifically for the establishment of an a combination of assets, so that the purchaser is able to determine the specifications changes, the agreement is in the scope of IAS 11, therefore revenue will be re according to the percentage of completion method. However, when the purchaser is participate in determining the specification, or is restricted, the agreement is for the sa estate and is within the scope of IAS 18. The interpretation is effective for annual a periods beginning on or after January 1, 2009, with retrospective application. Early a permitted.

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

13. IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

According to IFRIC 16 (hereinafter: the interpretation), risk for foreign currency excha can only be hedged in relation to the Company's functional currency and not its pre currency. In addition, risk for change in the exchange rate can be hedged in relati functional currency of each subsidiary in the group, even if it is indirectly controlled b company in the group. The hedging instrument can be held by any company in the gı interpretation is effective for annual accounting periods beginning on or after January Early adoption is permitted.

According to the Group's assessment, adoption of the new interpretation is not ex| 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 Re holds about 17.3% of the share capital of Carmel Beach Resort 89 Ltd (hereinafte Beach). Carmel Beach engages in the establishment and operation of a hotel and a hotel.

   In January 2008 Delek Real Estate purchased the holdings of other shareholders c Beach in the company, and upon completion of the transaction Delek Real Estate ho of Carmel Beach's share capital. Delek Real Estate paid NIS 12.3 million in considerati acquisition of the shares. Following the share acquisition, Delek Real Estate entere agreement with a bank, according to which Delek Real Estate will purchase from the entire debt of Carmel Beach in the amount of NIS 397 million, in consideration for million on the signing date and certain future payments that are contingent on appre the value of the investment in Carmel Beach. Under the agreement, Delek Real guarantees for the bank debts of Carmel Beach debts were cancelled (guarantee u million).

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

   In the Hof Carmel acquisition, the acquisition costs were temporarily attributed to the a acquired as part of the business combination.

   As part of the temporary attribution, goodwill of NIS 43 million was recorded. In th quarter of 2008 Delek Real Estate recorded impairment of goodwill amounting to NIS 2

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

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

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

      1) Dankner will transfer to Delek Real Estate several assets and activities that the residential real estate sector.
      2) Delek Real Estate will transfer to Dankner two residential real estate projects
      3) Kardan Real Estate will distribute all shares owned by it in GTC Real Es (hereinafter: GTC) to its shareholders, as dividend in kind.

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

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

A. Real estate operations (contd.)

2. (contd.)

(d) In addition, Kardan Israel granted Delek Real Estate a put option, according to Kardan Real Estate securities are not issued to the public, Delek Real Estate ma Kardan Israel to purchase the shares Delek Real Estate holds in Kardan Real Es exercise notice will be provided over 90 days, commencing four years from com the transaction. In addition, under certain conditions, Kardan Real Estate may no Real Estate of the postponement of the period for exercising the put option by one

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

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

3. In January 2008 Delek Real Estate purchased an additional 3.53% of the issued and paid capital of the its subsidiary Delek Global Real Estate Ltd. (DGRE) for £1.5 million (NIS 1 Following the acquisition Delek Real Estate held 85% in DGRE. The excess value of the equity amounted to NIS 18 million and was recognized as income in the statement of income

4. As described in Note 9J(1)(G) to the annual financial statements, in 2007, a foreign s which owns roadside service stations in the UK operating under the Road Chef brand, management contract according to which it transferred the absolute responsibilit management of Road Chef to a third party for a period of 5 years.

Commencing from the beginning of 2008, the subsidiary and the third party o accordance with an updated agreement. The main points of the update to the agreeme on May 2008 and effective from January 1, 2008 are as follows:

(a) The third party is responsible for the management and operation of service station

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

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

(d) The third party was granted the full authority to decide on the management and operations of the road service operations. For this purpose, the third party receive authority from the board of directors and shareholders to carry out its task. In add RoadChef management is obligated to transfer all the information and reports it s 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 te earlier under the provisions in the agreement.

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

A. Real estate operations (contd.)

4. (contd.)
Under the abovementioned agreement, as the third party bears all the risks and surp deriving from the operation of the roadside service and as a subsidiary is the owner of th stations, the subsidiary is entitled to receive a fixed annual amount from the third party. Cor from the first quarter of 2008 the service station assets are accounted for as investment pr to December 31, 2007 the assets are recognized under property, plant and equipmen addition, the revenues and expenses relating to the roadside services of Road Chef are no in the statement of income and only the fixed amount is included under income.

5. In May 2008, the Phoenix Holdings Ltd (hereinafter: the Phoenix) and a subsidiary of D Estate established a special purpose company (SPC) (hereinafter: the foreign SI equally by the two companies.

   On May 30, 2008 the foreign SPC acquired three loans from an international bank tota million for € 58 million (NIS 320 million). The loans are backed by a second ranking profitable real estate assets in Germany and Switzerland (hereinafter: the assets). T are repaid using the rental fees from the assets.

   According to the loan conditions, interest is paid every quarter and most of the payments are made at the end of the loan period (2012).

   Costs of the transaction for acquisition of the loan amount to € 0.7 million (NIS 4 millior The transaction for acquisition of the loan was completed in July 2008, after fulfilme contingent conditions defined in the agreement.

6. As of June 30, 2008 Delek Real Estate has a consolidated working capital deficit of N billion due, inter alia, to the liability to repay a loan of NIS 1 billion ($300 million) rece subsidiary held 75% by Delek Real Estate and 25% by Delek Petroleum to fin acquisition of MSA (see note 9(1)(E) to the annual financial statements). The loan i September 30, 2008 (hereinafter: the MSA loan). The balance of the working capital due to short- and long-term liabilities payable in the coming year and which were finance long-term investments. Some of the liabilities are backed by rental agreer profitable real estate assets and others are renewable loans.

   Delek Real Estate is carrying out activities to repay its share of the MSA loan, inc engagement with a foreign investment house to raise finances for the MSA loan, ag with financial institutions in Israel to receive additional loans, negotiations for the sale Delek Real Estate holdings in MSA to a subsidiary and negotiations for the loans by I noted that some of these activities are subject to approval from various entities.

   In the opinion of Delek Real Estate and the Company, implementing part of these together with the financial means held by Delek Real Estate and the Group, repayment of the MSA loan.

   Therefore, the managements of Delek Real Estate and the Group estimate that the Group raise the financing sources required to repay the MSA loan. In addition, Delek Real Estate that it will continue to raise finances to for the balance of the working capital deficit.

7. In 2008, the Company acquired additional Delek Real Estate shares for NIS 9 comprising 6% of its issued and paid up capital. The acquired excess equity amount 41 million and is recognized as revenue in the statement of income.

   In addition, in June 2008 Delek Real Estate issued ordinary shares to the public c 0.8% of its issued and paid up capital. The loss to the Group resulting from the dr percentage of the holding amounted to NIS 8 million. Subsequent to this transa percentage of the Group's holding in Delek Real Estate is 68.8%.

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

B. Fuel products sector in Europe

1. In January 2008 a subsidiary, Delek Benelux B.V. (hereinafter: Delek Benelux) acq additional 55% of the share capital of the joint venture, Schreurs Oilemaatsch (hereinafter: Schreurs). Subsequent to this acquisition, Delek Benelux owns all the Schreurs. The cost of the additional acquisition amounted to €12 million. Furthe February 2008, Delek Benelux acquired another 50% of the share capital of anc venture, De Groot Verschuur Holding BV (hereinafter: DGV). Subsequent to this ac Delek Benelux owns all the shares in DGV. The cost of the additional acquisition am €12 million.The joint ventures operate 140 stations.

   The consideration of €34 million for these acquisitions, with the additional contributio acquisition attributed to the previous investment in the joint venture shares (€26 amounted to €60 million and is temporarily attributed to recognized assets and liabilit 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	(64)	(63)
Deferred taxes	(6)	(1)
Total	31	15
Goodwill created upon acquisition	29	
Total acquisition cost	60	

2. Delek Europe options plans

   1) In April 2008, a chairman was appointed to Delek Europe's board of directors. A the employment agreement of the chairman of the board it was decided, inter alia months after the agreement comes into effect, and provided the agreement is not after six months, to grant the chairman options that are exercisable into 2.75% Europe B.V. shares (a wholly owned subsidiary of Delek Europe holding Delek shares, hereinafter: DEBV). The options are exercisable in five equal parts con from December 31, 2008 until June 30, 3012. The exercise price for these optio fixed in accordance with the equity of DEBV as at March 31, 2008, with the addit interest between installments (subject to adjustments for dividend).The optio granted subject to the approval of the DEBV board of directors.

      It was also agreed that one month after approval of the financial statements for Delek Europe will sell to the chairman (or DEBV shall allocate) shares equivalent DEBV shares, provided the agreement is not cancelled after six months.

      The price per share will be fixed in accordance with Delek Europe's initial ir agreement in DEBV with the addition of annual interest of 7%. In addition, the cha be required to put up his relative share in the shareholders loans to DEBV.

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

B. Fuel products sector in Europe (contd.)

2. Delek Europe options plans (contd.)

1) (contd.)
It was also agreed that should Delek Europe or Delek Benelux, or another affili fuel operations in Europe, issue any securities on the stock exchange, the chairm entitled to convert his shares in DEBV in to shares of this issue, in accorda financial values. Furthermore, it was agreed that the chairman will have the purchase up to 3% of any subsidiary that may be established in the future, in r certain new investments in return for the relative amount paid or invested in company.

The fair value of the options and shares on their allotment date is estimated at million.

In the opinion of the management of Delek Petroleum, based on the unde between the parties, it is not likely that the chairman's eligibility for the option a plans will be consolidated and therefore expenses in this respect were not record financial statements.

2) In May 2008, Delek Benelux board of directors approved the allocation of 45,0 warrants without consideration to the CEO of Delek Benelux (hereinafter: the CEO). T warrants may be exercised into 2.5% of Delek Benelux shares. Over a maturity peri years, the option warrants are exercisable until October 31, 2011 or 90 days termination of the agreement with the CEO. The exercise price for each ordinary €71.66 (based on the value of Delek Benelux at €129 million) for the first tra subsequently the exercise price for each additional tranche will be the price of the fir with the addition of 5% interest that will accrue until the relevant purchase date Benelux, Delek Europe, DEBV or any other company in the Delek Group operat Benelux countries, issues its shares in any market, the CEO will be granted the right the shares allocated to him into to shares in the Company as aforesaid, in such wa benefit component deriving from the shares will be retained and the CEO will keep th benefits, provided that any taxes applicable with respect to the conversion will be bor CEO. Upon termination of the agreement with the CEO, for any reason whatsoever the termination of the advance notice period (hereinafter: the final date), in the event t Benelux is a private company, Delek Benelux will purchase all the unexercised optio will be exercisable by the final date (hereinafter: the exercisable options) and all the sh by the CEO, as set forth in the agreement. In the event that Delek Benelux is a public the shares deriving from the exercise will be subject to a lock-up period that will be re compliance with the conditions of the relevant legislature, and afterwards may be sc to Delek Benelux's first refusal, as set forth in the agreement. For exercising the warrants the CEO will be entitled to receive a loan at annual interest of 5% whi secured only by a non-recourse lien on the shares. The loan will be repaid at the earli sale of the shares, distribution of dividends in respect of the shares, termination of 90 the end of the advance notice period.

The fair value of the options is estimated at €2 million (NIS 11 million). As of June a liability of €1 million (NIS 4 million) was included for this allocation.

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

C. Oil and gas exploration and production

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

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

The table below includes a description of the fair value of Elk's recognized assets and liab 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 Group's revenues in the reporting period was not material.

D. Insurance and finance operations

1. In April 2008, a Phoenix subsidiary acquired 49% of the share capital of Gama Mar and Clearing Ltd. (Gama) for NIS 64 million. The existing agreement grants Phoenix a option for an additional 2% of Gama's share capital. The option exercise period will be

2. Subsequent to the balance sheet date, in August 2008, a transaction was complete acquisition of the operations of Shekel Group Insurance and Financial Managemer Phoenix Insurance in consideration for NIS 128 million.

E. Refinery operations in the USA

1. At the end of 2007 and the first half of 2008 Delek USA entered into a number agreements to hedge margins of gasoline distillates produced by diluting etha transactions are for periods of up to two years. According to these transactions, Dele entitled to receive a refinery margin in a predefined amount derived from its right to re cash value of a defined amount of raw materials and it is obligated to pay the cash v defined amount of refinery product. The fair value of these agreements on June reflects a liability of $13.2 million. The transactions are not recognized as accounting h the changes in fair value are recognized in profit or loss.

2. In the first half of 2008, Delek USA entered into a number of swap agreements to h refinery margin of diesel oil. The fair value of these agreements on June 30, 200 liabilities of $22.3 million ($14.2 million net of tax). The transactions were recog accounting hedging and loss net of tax recognized directly in shareholders' equity.

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

F. Fuel operations in Israel

Subsequent to the date of the balance sheet, in July 2008 Delek Israel allotted to institution shares constituting 1% of its issued and paid up capital in consideration of NIS 20 mil proceeds for the Group as a result of the allocation is expected to amount to NIS 9 million.

G. Automotive operations

In June 2008 Delek Investments sold 930,000 of the shares of a subsidiary, Delek Au Systems Ltd. (Delek Automotive), comprising 1% of its issued and paid up share c consideration of NIS 50 million. As a result of the transaction, the Group's holding in Delek Au dropped to 54.2%. The income before tax from the transaction amounted to NIS 42 million.

NOTE 4: – INVESTMENTS IN OIL AND GAS PRODUCTION

A. In the six-month period ended on June 30, 2008 a subsidiary (DES) included expenses amo NIS 44 million for its share in the costs of a number of drillings in the North Sea area, Ru Vietnam which the operator decided were to be abandoned.

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

C. Further to Note 13(D)(1) to the annual financial statements, subsequent to the balance shee agreement was signed between the Yam Tethys partners and the Israel Electric Corporati According to the agreement, the option period granted to IEC to purchase additional an natural gas will be extended until December 31, 2008.

NOTE 5: – DEBENTURES AND SUBORDINATED DEEDS

A. In March 2008 Delek Real Estate issued a new series of Debentures (Series 25) in the scope o shekels, graded A+. The debentures are unlinked, bear annual interest of 7.3% and are paya equal annual payments on September 3 in 2011 and 2012. The interest will be paid in se payments. Delek Real Estate undertook to comply with certain financial criteria for the debentures

Subsequent to the balance sheet date, in August 2008 Delek Real Estate expanded De (Series 25) in a private offering to an institutional customer in consideration of NIS 20 mi terms of the issued debentures are the same as the terms for debentures (Series 25) describe

B. On February 14, 2008, Phoenix Insurance raised NIS 200 million by issuing subordinated Bank Hapoalim and to other organizations stipulated in the notes, for a period of 6 years interest of 4.6%. The principle and interest are linked to the CPI. The principle will be paid in quarterly installments from May 2010. The interest will be paid in quarterly payments from Ma

C. Subsequent to the balance sheet date, in July 2008 Delek Petroleum issued debentures (Ser H) amounting to NIS 419 million.

Series G debentures amounting to NIS 265 million, linked to the CPI and bearing annual i 4.75% are payable in semi-annual payments beginning from December 20, 2008. The d principle is payable in ten equal installments on December 20 and June 20 in each of the ye 2010 to 2011 and each of the years from 2013 to 2016 (the last payment is on June 20, 2016)

Series H debentures amounting to NIS 154 million, non-linked and bearing annual interest of payable in semi-annual payments, beginning from December 20, 2008. The debenture pr payable in five equal installments on June 20 and December 20 in each of the years 2011, 2014 (the last payment is on June 20, 2014).

NOTE 6: – CONTINGENT LIABILITIES

There are contingent claims against certain investees for significant sums that might reac hundred million or even of billion shekels. In some cases, it is not possible to assess their ou this stage, and therefore no provision was recorded in the financial statements as set forth b Notes 25A and 38H to the annual financial statements).

A. Several law suits amounting to several hundred million shekels have been filed agair Biochemical Industries Ltd. (hereinafter: Gadot) and others, for bodily injury and damage to with regard to Gadot's activity in the Kishon River area (for details, see Gadot's financial sta which are available to the public).

Most of these suits are currently in the very early stages. In some cases, proceedings are ye and in others proceedings have only reached the stage of preliminary proceedings. In sor cases, evidentiary sessions are yet to be held and in most cases, the parties have not yet sub of the opinion papers and affidavits. Furthermore, in these cases there are serious factual dis there are many facts that need to be decided and are unknown to Gadot. More aforementioned proceedings are very complex and problematic for the reason, inter alia, tha the suits pertain to ongoing events that occurred over decades, in which a very large number are involved, including the State and local authorities, so that it is not possible to as responsibility and the share of any one entity involved in the suits and it is difficult scien determine the degree of causal connection between the discharge of industrial waste wate damages claimed by the plaintiffs.

In the estimate of the Group's management, based on the assessment of the management and the opinion of legal counsel, considering all of the uncertainties existing in the entirety cases and because of the complexities and inherent difficulties therein, the chance aforementioned suits and proceedings cannot be assessed at this stage and therefore pro their regard have not been included in these financial statements.

B. Several lawsuits were filed against HOT Cable Communication Systems Ltd. (hereinafter: previous years, including motions to recognize some of them as class actions, amo substantial sums (several hundred million NIS). In part, these suits pertain to the followin failure to meet the conditions of the Council for Cable and Satellite Broadcasting pertaini broadcasting of a specific channel and claims for the alleged breach of copyrights of various p and breach of agreements to purchase various broadcasting rights. The management estimates, based on the opinion of its legal counsel, that for most of the claims it is likely application to recognize the claim as a class action will be rejected and therefore no provisi made in this respect in HOT's financial statements. For further information see the financial st of HOT as of June 30, 2008, which are available to the public.

C. In March 2006, a motion was filed to approve a class-action suit against the consolidated comp Israel and against other petroleum companies. The plaintiffs claim that Delek Israel chargec persons the full service charge, which may not be charged to a vehicle carrying a disabled tag i with self-service pumps. The applicants are suing the entire group of defendants in the amount million (the share of Delek Israel according to the applicant's estimation is. 27%) for financial dam consideration for non-financial damages without proof of harm, at the discretion of the court. In the parties applied for approval of the compromise agreement whereby it was agreed, inter alia fuel companies will provide disabled customers with full service at the self-service pumps. In the of the Group's management, based on the assessment of the management of Delek Israel and th of legal counsel, it is likely that the compromise agreement will be approved.

D. In November 2006 three motions to approve class actions were filled against Delek Israel, thi and also against the former deputy CEO of Delek Israel, Mr. Yisrael Chelouche. The applica that Delek Israel, together with the other defendants, acted, inter alia, in a fraudulent, mislea negligent manner and violated their statutory duty. The motions and claims were filed foll investigation by the Israel Police concerning the dilution of fuels at several gas stations Delek Israel fuels and in view of possible damages that may have incurred as a result of motions amount to NIS 1.4 billion.

NOTE 6: – CONTINGENT LIABILITIES (CONTD.)

D. (contd.)

In all these proceedings, Delek Israel filed motions for summary dismissal, motions to try proceedings before the same judge and motions to extend the deadline for the submis response to the motion for approval until after the hearing on the summary dismissal. T granted the motion to try all three proceedings before the same judge and instructed the refrain from submitting responses to the motions for approval or to the motions for summary until the date of the hearing.

In the third quarter of 2007, one motion, in the amount of NIS 90 million, was stricken off by a and the two remaining motions were combined into one. Following combination of the two mo amount of the motion for approval as a class-action was reduced to NIS 554 million. Sim 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 a opinion of its legal counsel, that considering the preliminary stage of the motions, and considerin vague nature of the factual arguments raised in the motions for approval, the chances of these pro 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 was filed against Delek Israel and oth companies (hereinafter: the defendants). According to the claimants, the defendants u collected service fees without the appropriate price marking. The defendants estimate t motion is approved as a class action, the overall sum of the suit (against all the defendants) least NIS 491 million.

The Group's management estimates, based on the assessment of Delek Israel managemen opinion of its legal counsel, that it is most likely that the motion will be dismissed and provisions have not been made in the financial statements.

F. In November 2005, a motion for recognition of a class action suit was filed against the s Delekol Ltd. (hereinafter: Delkol) and two other Delek companies. The plaintiff's suit amour 450 and the sum of the suit against Delkol if the suit is recognized as a class action, amour 1.664 billion, plus compensation for mental distress in the amount of NIS 27.5 million.

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

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

The Group's management estimates that, based on the assessment of Delkol managemen opinion of the legal counsel, it is highly likely that the motion will be dismissed and the provisions have been made for this lawsuit in the financial statements.

G. Subsequent to the balance sheet date, on August 21, 2008 an application was received fo action in the amount of NIS 150 million against Delek Israel and a number of other fuel co The share of Delek Israel in the amount is 23% according to its share in the fuel market, as a the applicants.

NOTE 6: – CONTINGENT LIABILITIES (CONTD.)

G. (contd.)

According to the statement of claim, beginning from January 1, 2007, it is forbidden for bu including Delek Israel, to produce and print invoices on perishable chemical paper, notwithstanding the ban, Delek Israel allegedly continues to produce invoices on perishable p not on durable paper, similar to half of the fuel stations. This prevents businesses from dedu tax expenses for fuel purchases.

After preliminary study of the statement of claim, and in the opinion of Delek Israel's legal co Company has strong counterclaims against the application.

H. As described in Note 38(H)(b) of the annual financial statements, several lawsuits have b against Phoenix, its investees and others, including motions to recognize some of them actions and which amount to significant sums (several hundred million shekels). Some of relate to: high insurance premiums that were collected unlawfully, damages at the time of i events for reduced amounts and more. For most of these claims, no provisions were include financial statements because, inter alia, in the estimation of the Group's management, bas assessment of the management of Phoenix and the opinion of its legal counsel, Pho defensive claims that are likely to result in dismissal of the most of the claims.

Furthermore, in 2008, several other motions were filed against the Phoenix Insurance and o against a subsidiary of Phoenix to recognize class action suits amounting to NIS 700 millio claims were filed recently, in these initial stages it is not possible to estimate the chances motions and therefore no provisions were included in the financial statements.

I. As described in Note 38(H)(b)(15) of the annual financial statements, in 2006 and 2007 two m recognize class action suits were filed against subsidiaries of Republic, following a hurric applicants allege that the subsidiaries are in breach of their insurance policies because the pay insurance claims as appropriate and did not apply the law properly on various Furthermore, several claims for financial and declarative remedies were filed against subsi Republic, for unspecified amounts, in the aftermath of Hurricane Katrina.

Based on information that is available at this stage, the management of Republic estimate results of the claim will not have a material impact on its financial position or the resu operations and therefore no provision was made in the financial statements.

J. Further to Note 25(A)(5) to the annual financial statements, on June 24, 2008 Delek Re announced that following negotiations with Jelmoli Holdings AG (hereinafter: Jelmoli), th reached a final agreement according to which Delek Real Estate, a foreign subsidiary (DG Blenheim will pay Jelmoli 21.5 million Swiss francs (NIS 6.5 million) (hereinafter: the agreed In addition they will lift their claim for the return of the advanced payment of 10 million Swi (NIS 33 million) given to Jelmoli when the agreement was signed.

Following the agreement, Delek Real Estate included (including the share of the foreign s DGRE) an additional provision of 11.75 million Swiss francs (NIS 39 million) in the financial st as of June 30, 2008, which it estimates is sufficient to cover its liabilities under the agreement.

The expense recognized in the statement of income for the six- and three-months periods June 30, 2008 amounted to NIS 49 million and NIS 41 million, respectively.

NOTE 7: – SHAREHOLDERS' EQUITY

A. In the six month period ended June 30, 2008, 13,560 option warrants (Series 3) were exer 13,560 ordinary shares of the Company in consideration of NIS 6 million. Subsequent to the the Company's issued and paid-up share capital consists of 11,686,363 ordinary shares of value each.

B. In January 2008 the Company acquired 6,310 of its shares on the TASE for NIS 5 million. In subsequent to the balance sheet date in June 2008, the Company acquired an additiona shares for NIS 48 million.

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

On May 29, 2008, the Group announced the distribution of a dividend to its shareholders tot 7.5 million (NIS 6.4 per share). The dividend was paid in July 2008. Subsequent to the sheet date, on August 28, 2008 the Group announced the distribution of a divider shareholders totaling NIS 2 million (NIS 2.2 million per share).

NOTE 8: – TAXES ON INCOME

In the first quarter of 2008, the management of DGRE resolved to sell, over the next two year the investment properties it owns in Europe. The overall value of the investment properties ar NIS 3.231 billion.

DGRE intends to sell the investment properties by selling the shares of its investees 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 cor change in the management's estimate with respect to the expected exercise date for these p DGRE adjusted the provisions for deferred taxes. The adjustment is due to the use of the applicable to the capital gains from the sale of properties and/or shares which are low countries in which the properties and/or the shares will be sold, compared to the tax rates a on current revenues (according to which the provisions for deferred taxes were calculated in under the assumption that the investment properties were long-term holdings). Therefore, i quarter of 2008, DGRE recorded revenue of £23 million (approximately NIS 162 million) fro adjustment.

Notes to the Interim Consolidated Financial Statements

NOTE 9: – INFORMATION REGARDING BUSINESS SECTORS

A. Revenues:

	The six-month period ended June 30		The three-month period ended June 30		The y Dec
	2008	2007	2008	2007	
	Unaudited				A
	NIS millions				
Fuel operations in Israel	3,019	2,182	1,622	1,182	
Fuel stations and convenience stores in the USA	3,729	3,393	1,952	1,997	
Refinery operations in the USA	5,652	4,528	2,929	2,528	
Fuel stations and convenience stores in the Europe	7,555	-	3,917	-	
Automotive	2,879	2,335	1,317	1,160	
Real estate	782	1,074	392	977	
Oil and gas exploration and production	205	154	91	74	
Insurance operations abroad	747	687	367	306	
Insurance operations in Israel	2,113	4,262	1,799	2,485	
Other segments	366	233	193	104	
Total in statement of income	27,047	18,848	14,579	10,813	4

B. Segment results *):

	The six-month period ended June 30		The three-month period ended June 30		The y Dec
	2008	2007	2008	2007	
	Unaudited				A
	NIS millions				
Fuel operations in Israel	182	67	104	52	
Fuel stations and convenience stores in the USA	57	54	39	37	
Refinery operations in the USA	198	540	131	400	
Fuel stations and convenience stores in the Europe	138	-	96	-	
Automotive	516	327	246	172	
Real estate	551	234	214	200	
Oil and gas exploration and production	74	22	30	15	
Insurance operations abroad	49	91	(18)	25	
Insurance operations in Israel	93	470	62	281	
Other segments	49	16	32	1	
Adjustments **)	(104)	(69)	(51)	(31)	
Total in statement of income	1,803	1,752	885	1,152	

*) Represents operating income of the segment
**) Including expenses not attributed to segments.

NOTE 10: – MINIMAL SHAREHOLDERS' EQUITY REQUIRED OF AN INSURER

The information below regarding the equity of Phoenix is in accordance with Insurance Su Regulations (Minimal Equity Capital Required of an Insurer) 5758-1998, including the amenc 2004 (hereinafter: the regulations).

	June 30, 2008	
	Shareholders' equity	Basic
	NIS millions	
Amount in accordance with the regulations	1,384 (2)	
Minimum amount required in accordance with the regulations (1)	1,712	1,'
Surplus (3)	(328)	(1,(

1) Including subordinated notes in the amount of NIS 571 million
2) The amount of equity required, including, inter alia, capital requirements for:

	June 30 2008
	NIS millio
Deferred acquisition costs in life assurance and health insurance	697
In respect of the amount at risk in the case of death, on retention	181
Unknown assets as defined in the regulations (mainly loans and advance payments to agents)	90
	968

3) A. Insurance Circular of March 6, 2008 prescribes that insurance companies req approval from the Supervisor to distribute a dividend exceeding half of the earn regular operations.

B. Distribution of a dividend from capital surpluses is subject to liquidity requirem compliance with Investment Regulations.

C. In October 2007 and April 2008, draft amendments were published to the Supervision o Services (Minimal Equity Required from an Insurer) (Amendment) Regulations, 5767-20

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

1) Assets held against liabilities that are not performance-dependent
2) Catastrophe risks in general insurance business
3) Credit risks as a percentage of assets according to the extent of the risk cha of the various assets
4) Operational risks

The new capital requirements are expected to materially increase the minimum margin, however it is not possible to assess the effect until the final draft of the re The capital is to be increased in three equal annual portions by the end of 2010.

4) The capital requirements in 2007 were based on financial statements prepared acc Israeli GAAP and therefore comparative data is not presented. It is noted that Insurance met these capital requirements.

5) Pursuant to the control permit issued to the Group, no more than 50% of the annual Phoenix may be distributed as dividend for a period of three years from the date of th This restriction will only apply if the shareholders' equity of Phoenix Insurance falls bel of the equity under the provisions of the Control of Insurance Law, or any other regulat that may replace these provisions.

NOTE 11:- RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS

Further to Note 1 above, these interim financial statements are the first interim financial state the Group prepared under IFRS. The Group first adopted IFRS for 2008 and therefore the date for reporting under IFRS is January 1, 2007. The Group prepared an opening balanc transition date from which reporting under IFRS commenced.

Prior to adoption of IFRS, the Group prepared its financial statements according to Israeli G. last interim financial statements of the Group under Israeli GAAP were prepared for Septe 2007 for the nine and three months then ended. The first annual financial statements according to IFRS will be as of December 31, 2008 and for the year then ended.

Accordingly, the Group presents the following reconciliation between Israeli GAAP and IF January 1, 2007 (the transition date to IFRS), December 31, 2007 and the year then ended June 30, 2007 and the six- and three-month periods then ended.

Under IFRS 1, application of IFRS for the opening balance as of the transition date shall be r (from now onwards).

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

Concessions for retrospective application of IFRS adopted by the Company

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

Business combinations

The Group did not retroactively apply IFRS 3 *Business Combinations*. Therefore, goodwill an cost generated by business combinations that occurred prior to January 1, 2007 for subsidiaries, affiliates and proportionally-consolidated companies were not accounted for un 3, but under Israeli GAAP.

Translation differences from business activity

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

Allocation of financial instruments that were recognized in the past

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

Share-based payment

IFRS 2, *Share-based Payment*, was not applied for capital instruments granted and vested p transition date. Regarding share-based payment transactions that are paid in cash, the chose not to apply IFRS 2 for liabilities paid prior to the transition date

Assets and liabilities of subsidiaries

A subsidiary, Delek Real Estate, adopted IFRS commencing from the third quarter of 200 transition date to IFRS is January 1, 2006. In addition, certain subsidiaries of Delek Real Es always applied IFRS

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

NOTE 11:- RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (CONTD.)

A. Adjustments to balance sheets

		January 1, 2007				June 30, 2007				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(14)	IFRS	Israeli standard	Effect of transition to IFRS	Sorting of insurance company items(14)
		Audited				Unaudited				Audited		
	Section	NIS millions										
Cash and cash equivalents	9	881	(38)	1,085	1,928	2,323	(36)	1,109	3,396	2,323	(35)	794
Short-term investments	10	815	-	-	815	1,600	(74)	-	1,526	1,097	(95)	-
Short-term investments in insurance companies	9	-	(87)	1,731	1,644	-	(87)	2,425	2,338	-	-	2,989
Trade receivables		2,352	(20)	-	2,332	3,047	(15)	-	3,032	3,382	(11)	-
Insurance premiums to collect		-	-	821	821	-	-	1,007	1,007	-	-	890
Other receivables and debit balances	9,10,15	557	(65)	133	625	542	(52)	285	775	829	(189)	446
Reinsurance assets		-	-	1,314	1,314	-	-	1,653	1,653	-	-	1,544
Inventory	5,9	1,477	14	-	1,491	1,393	114	-	1,507	2,074	167	-
Deferred acquisition expenses in insurance companies		-	-	241	241	-	-	319	319	-	-	370
		6,082	(196)	5,325	11,211	8,905	(150)	6,798	15,553	9,705	(163)	7,033

*) Reclassified

NOTE 11:- RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (CONTD.)

		January 1, 2007				June 30, 2007				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(14)	IFRS	Israeli standard	Effect of transition to IFRS	Sorting of insurance company items(14)
		Audited				Unaudited				Audited		
	Section	NIS millions										
Non-current assets												
Investments in other financial assets	10	-	1,421	-	1,421	-	1,278	-	1,278	-	1,171	-
Investments in securities in insurance companies		-	-	23,581	23,581	-	-	26,067	26,067	-	-	25,914
Long-term loans, deposits and receivables	9,10	903	(191)	-	712	1,459	(220)	-	1,239	1,173	(90)	171
Investment in investees and others	1,7,9,10	2,815	(57)	633	3,391	2,653	(199)	792	3,246	3,531	(127)	767
Investment property	1,9	3,230	727	50	4,007	13,711	1,788	193	15,692	15,446	2,644	351
Land for construction	5,9	477	37	13	527	432	42	-	474	463	(12)	-
Investments in oil and gas exploration and production	7	969	(46)	-	923	1,021	(38)	-	983	998	(115)	-
Reinsurance assets		-	-	1,453	1,453	-	-	1,271	1,271	-	-	1,227
Property, plant and equipment, net	2,7,9	3,077	(94)	411	3,394	7,400	(6)	432	7,826	8,560	(371)	932
Deferred acquisition expenses in insurance companies	2	-	-	837	837	-	-	714	714	-	-	716
Deferred expenses, net (mainly in respect of operational leasing)		25	63	-	88	9	63	26	98	59	315	60
Goodwill	4,9	566	(58)	960	1,468	1,196	248	936	2,380	2,060	145	967
Other intangible assets, net		93	(25)	915	983	161	(17)	878	1,022	398	3	895
Deferred taxes	16	57	30	46	133	178	(137)	75	116	268	5	48
		12,212	1,807	28,899	42,918	28,220	2,802	31,384	62,406	32,956	3,568	32,048
Insurance business assets	13											
Cash and cash equivalents		1,115	(31)	(1,084)	-	1,038	72	(1,110)	-	826	-	(826)
Investments		26,018	78	(26,096)	-	29,387	181	(29,568)	-	29,981	98	(30,079)
Property, plant and equipment		330	(238)	(92)	-	344	-	(344)	-	871	76	(947)
Amounts receivable		3,880	(58)	(3,822)	-	4,273	(17)	(4,256)	-	4,239	(48)	(4,191)
Deferred acquisition costs and intangible assets		2,797	333	(3,130)	-	2,805	99	(2,904)	-	2,898	140	(3,038)
Total insurance business assets		34,140	84	(34,224)	-	37,847	335	(38,182)	-	38,815	266	(39,081)
Total assets		52,434	1,695	-	54,129	74,972	2,987	-	77,959	81,476	3,671	-

(* Reclassified

NOTE 11:- RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (CONTD.)

		January 1, 2007				June 30, 2007				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(14)	IFRS	Israeli standard	Effect of transition to IFRS	Sorting of insurance company items(14)
		Audited				Unaudited				Audited		
	Section	NIS millions										
Current liabilities												
Credit from banks and other credit providers	9	3,185	(25)	57	3,217	4,060	(21)	199	4,238	5,005	(86)	416
Liabilities to suppliers and service providers	9	1,298	(27)	-	1,271	2,091	(25)	-	2,066	2,990	(21)	-
Trade payables and credit balances	5,9,10,16	908	35	761	1,704	1,734	138	899	2,771	2,151	67	681
Dividend declared		86	-	-	86	130	-	-	130	160	-	-
Insurance reserves and pending claims		-	-	4,176	4,176	-	-	5,194	5,194	-	-	5,089
		5,477	(17)	4,994	10,454	8,015	92	6,292	14,399	10,306	(40)	6,186
Long-term liabilities												
Loans from banks and others	9,10	4,880	169	1,312	6,361	14,537	(260)	1,137	15,414	16,226	(306)	1,241
Debentures convertible to Company shares		8	-	-	8	1	-	-	1	1	-	-
Debentures convertible to shares of consolidated subsidiaries	3	301	(4)	-	297	257	14	-	271	208	-	-
Other debentures and subordinated notes		4,221	-	506	4,727	7,547	(18)	1,311	8,840	8,964	-	1,314
Option warrants and conversion component in convertible debentures	3	-	47	20	67	-	51	19	70	-	41	8
Financial derivatives	10	-	42	-	42	-	475	281	756	-	769	314
Liabilities in respect of employee benefits, net	6	16	(4)	67	79	73	(30)	69	112	111	(4)	76
Insurance reserves and pending claims – insurance operations		-	-	23,559	23,559	-	-	25,142	25,142	-	-	25,714
Other liabilities	1,2	337	6	444	787	616	186	156	958	876	324	408
Deferred taxes	16	399	296	445	1,140	1,527	966	430	2,923	1,594	1,152	471
		10,162	552	26,353	37,067	24,558	1,384	28,545	54,487	27,980	1,976	29,546

(* Reclassified

NOTE 11:- RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (CONTD.)

		January 1, 2007				June 30, 2007				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(14)	IFRS	Israeli standard	Effect of transition to IFRS	Sorting of insurance company items(14)
		Audited				Unaudited				Audited		
	Section	NIS millions										
Insurance business liabilities	13											
Insurance reserves and pending claims		27,841	(101)	(27,740)	-	30,381	(44)	(30,337)	-	30,914	(31)	(30,883)
Long-term liabilities		2,253	371	(2,624)	-	2,925	380	(3,305)	-	3,354	309	(3,663)
Other liabilities		1,022	(39)	(983)	-	1,090	105	(1,195)	-	1,190	(4)	(1,186)
		31,116	231	(31,347)	-	34,396	441	(34,837)	-	35,458	274	(35,732)
Equity capital attributable to company shareholders												
Share capital		13	-	-	13	13	-	-	13	13	-	-
Premium on shares		1,543		-	1,543	1,557	4	-	1,561	1,557	17	-
Capital funds		14	211	-	225	115	358	-	473	(188)	198	-
Treasury shares		-	(87)	-	(87)	-	(87)	-	(87)	-	-	-
Balance of earnings		1,777	543	-	2,320	2,382	325	-	2,707	2,475	535	-
Dividend declared after the balance sheet date		100	(100)	-	-	-	-	-	-	64	(64)	-
		3,447	567	-	4,014	4,067	600	-	4,667	3,921	686	-
Non-controlling interest		2,232	362	-	2,594	3,936	470	-	4,406	3,811	775	-
Total equity capital		5,679	929	-	6,608	8,003	1,070	-	9,073	7,732	1,461	-
		52,434	1,695	-	54,129	74,972	2,987	-	77,959	81,476	3,671	-

(* Reclassified

NOTE 11:- RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (CONTD.)

B. Adjustments to statement of income

		The six-month period ended June 30, 2007				The three-month period ended June 30, 2007				The year ended December 3		
		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(14)	IFRS	Israeli standard	Effect of transition to IFRS	Sorting of insurance company items(14)
		Audited				Unaudited				Audited		
	Section	NIS millions										
General business												
Revenues	5,9	14,076	(177)	4,949	18,848	8,106	(84)	2,791	10,813	34,498	(382)	8,183
Cost of revenues	5,7,9	12,044	(211)	3,569	15,402	6,799	(114)	2,119	8,804	29,840	(409)	5,775
Gross profit		2,032	34	1,380	3,446	1,307	30	672	2,009	4,658	27	2,408
Increase in the value of investment property, net	1	-	(24)	-	(24)	-	(24)	-	(24)	-	755	-
Marketing, sale and petrol station operation expenses	5,9	505	2	410	917	280	1	162	443	1,422	6	800
Administrative and general expenses	9	296	8	392	696	127	13	187	327	652	(26)	887
Other revenues (expenses), net		-	(41)	(16)	(57)	-	(54)	(9)	(63)	-	(173)	20
Earnings from ordinary operations		1,231	(41)	562	1,752	900	(62)	314	1,152	2,584	629	741
Financing income	8	-	295	-	295	-	206	-	206	-	361	-
Financing expenses	3,5,7,8,9, 10	492	38	129	659	345	(72)	71	344	1,585	369	198
Earnings after financing		739	216	433	1,388	555	216	243	1,014	999	621	543
Earnings from exercise of investment in investees and other companies, net	4,10	220	(220)	-	-	77	(77)	-	-	593	(282)	-
Other revenues, net	3,4,10	47	(47)	-	-	12	(12)	-	-	69	(69)	-
Company share in earnings of investees and partnerships, net	1,7,10	-	159	76	235	-	46	29	75	-	338	13
Earnings before taxes on income		1,006	108	509	1,623	644	173	272	1,089	1,661	608	556
Taxes on income	16	270	18	187	475	162	38	98	298	348	97	192
Earnings after taxes on income		736	90	322	1,148	482	135	174	791	1,313	511	364
Company share in earnings of affiliates and partnerships, net		112	(112)	-	-	45	(45)	-	-	187	(187)	-
Non-controlling interest in consolidated subsidiaries, net		(267)	267	-	-	(179)	179	-	-	(451)	451	-
Net profit from ordinary business		581	245	322	1,148	348	269	174	791	1,049	775	364

NOTE 11:- RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (CONTD.)

		The six-month period ended June 30, 2007				The three-month period ended June 30, 2007				The year ended December 3		
		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(14)	IFRS	Israeli standard	Effect of transition to IFRS	Sorting of insurance company items(14)
		Audited				Unaudited				Audited		
	Section	NIS millions										
Insurance business	13											
Earnings from insurance business		494	(21)	(473)	-	275	(34)	(241)	-	527	(17)	(510)
Income from investments and others not included in insurance business		118	(22)	(96)	-	78	12	(90)	-	188	(37)	(151)
Marketing and sales expenses not included in insurance business		(20)	1	19	-	(16)	2	14	-	(41)	(1)	42
Interest expenses on long-term liabilities		(118)	2	116	-	(71)	4	67	-	(195)	10	185
Group's share in earnings of investees		63	12	(75)	-	17	6	(23)	-	78	28	(106)
Earnings before taxes on income		537	(28)	(509)	-	283	(10)	(273)	-	557	(17)	(540)
Taxes on income		203	(16)	(187)	-	111	(12)	(99)	-	191	(15)	(176)
Earnings after taxes on income		334	(12)	(322)	-	172	2	(174)	-	366	(2)	(364)
Non-controlling interest in profits of consolidated subsidiaries		(157)	157	-	-	(87)	87	-	-	(140)	140	-
earnings from insurance business		177	145	(322)	-	85	89	(174)	-	226	138	(364)
Net earnings		758	390	-	1,148	433	358	-	791	1,275	913	-
Attributable to:												
Company shareholders					617				421			
Non-controlling shareholders					531				370			
					1,148				791			

NOTE 11:- RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (C

C. Notes to the reconciliation of the financial statements

1. Investment property

Under Israeli GAAP (Standard 16) the companies in the Group chose to pres investment real estate on the basis of cost. On the transition date (pursuant to the pro IAS 40) the Group decided to present investment real estate on the basis of fair v changes in fair value recognized in the statement of income. Therefore, on the transi the Group recognized (including for its share in affiliates) a total of NIS 578 million tc earnings (after taxes). The impact on the retained earnings as of December 31, 2007 881 million.

The revenues from revaluation amounting to NIS 755 million were recognized in the s of income for the year ended December 31, 2007.

2. Leasing rights for land from the Israel Lands Administration

Pursuant to leasing agreements with the Israel Lands Administration (ILA), the G leasing rights for the certain land, generally for a period of 49 years with an option to e agreement for another 49 years (in some cases).

Under Israeli GAAP, the amounts paid for the lease rights were recognized in prope and equipment as un-depreciated land.

Under IFRS, this lease is classified under IAS 17, *Leases* as an operating lease and the amounts paid are considered advance lease fees.

Upon transition to reporting under IFRS, as of January 1, 2007 the amounts were re from the property, plant and equipment item and were recognized in deferred expens prepaid expenses for operating lease land were depreciated over the lease period (incl option for extension of the lease period if, on the agreement date, there was a re certainty that the option would be exercised). Therefore, the balance of deferred exp operating leasing increased on the transition date in the amount of NIS 67 million. The plant and equipment balance as of that date decreased by NIS 71 million. As of Dece 2007, the property, plant and equipment balance decreased by NIS 325 million and th of the deferred expenses increased by NIS 315 million. Impact of the decrease (after ta recognized in retained earnings.

3. Option warrants, convertible debentures and attribution of proceeds from block issues

(a) Convertible debentures

Group companies have debentures that are convertible into their ordinary sha conversion price is linked to the dollar exchange rate and/or to the CPI. Pursua transition provisions of Accounting Standard 22 (Standard 22) of the Israel A Standards Board, *Financial Instruments Disclosure and Presentation*, the de constitute a complex financial instrument that includes a liability component and component (the Group stated this capital component in its liabilities). Accord proceeds from the debentures issue were split into these components, Pursua provisions of Standard 22.

NOTE 11:- RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (C

C. Notes to the reconciliation of the financial statements (contd.)

3. Option warrants, convertible debentures and attribution of proceeds from block issues (

(a) Convertible debentures (contd.)

Under IAS 32, *Financial Instruments: Presentation*, because the conversion com linked to the dollar exchange rate and/or to the CPI and is not fixed in shekel t functional currency), it constitutes a financial liability component rather than component. The conversion component is measured under IAS 39, *Financial Ins Recognition and Measurement* at its fair value and changes in the fair valu component are recognized in the statement of income at each period.

Upon transition to reporting under IFRS, as of January 1, 2007, a long-term liabil 20 million was created for the conversion component against a decrease in earnings. The impact as of December 31, 2007 was NIS 5 million.

(b) Option warrants

Under Israeli GAAP, pursuant to the provisions of Accounting Standard 22 of Accounting Standards Board (Standard 22), consideration attributed to options the exercise price is linked to the CPI is presented as part of the Group's equity.

Under IAS 32, *Financial Instruments: Presentation*, these options constitute a financ because the addition to their exercise price is not fixed. Therefore, they are reco liabilities. The conversion component is measured under IAS 39, *Financial Ins Recognition and Measurement*. Therefore, the option warrants are stated at fair valu balance sheet date and changes in fair value are recognized in the statement of incom

Upon transition to reporting under IFRS, as of January 1, 2007 a long-term liabil 27 million was created, representing the fair value of the options as of the transi As of December 31, 2007, the balance of the liability was NIS 33 million. The b retained earnings decreased by the same amount.

(c) Block issue

Under Israeli GAAP, based on the provisions of Standard 22 of the Israel A Standards Board, the Group divided the proceeds from the issue of a block tha shares, options and debentures, according to the ratio between the value components of the block, based on the average of the first three trading days foll issue.

Upon transition to IFRS, under IAS 32, *Financial Instruments: Presentation,* whe block issue is issued the consideration is attributed first to financial liabilities r periodically at fair value, then to financial liabilities measured at fair value only at recognition date. The value attributed to the share component is considered instrument calculated as a residual value. The value is attributed on the bas trading day, not according to the first three trading days as previously accepted in

Impact of the transition to IFRS, resulting from the above, was not material

NOTE 11: -RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (C

C. Notes to the reconciliation of the financial statements (contd.)

4. Business combinations

(a) Under Israeli GAAP, the balance of goodwill derived from the acquisition of a co business combination, is amortized commencing from the acquisition date and e December 31, 2005. On January 1, 2006 the goodwill amortization was disc pursuant to the instructions of Accounting Standard 20 (revised) of the Israel A Standards Board, *Accounting Treatment of Goodwill and Intangible Asse Purchasing an Investee Company.*

Under IFRS 1, the Group chose the concession that allows business combination prior to the transition date not to be corrected. According to this concession, the goodwill at the transition date is set as its value under Israeli GAAP.

(b) Under Israeli GAAP, non-controlling interests when acquiring a subsidiary are c based on the book value of the assets and liabilities of the subsidiary and are re after the liabilities and before equity.

Under IFRS 3, *Business Combinations*, the Group recognizes non-controlling int of the acquisition date, for the amount of the minority share in the full value of tl and liabilities of the subsidiary on the acquisition date, against recognition of tl and liabilities in the balance sheet for that date at their full fair value. Goodw acquisition date will continue to be calculated on the basis of the difference bet acquisition cost and the Company's share in the fair value of the net assets and lia the subsidiary, as calculated according Israeli GAAP.

(c) Under Israeli GAAP, non-controlling interests are recognized in the Group's balar after the liability items and before the equity items, and in the consolidated sta income as an expense for the purpose of determining the Group's consolic earnings. Under IAS 1, *Presentation of Financial Statements*, the Group presents controlling interests in the consolidated balance sheets as part of its equity. The share will not be deducted from the net earnings of the Group.

(d) Assets and liabilities of subsidiaries

A subsidiary, Delek Real Estate, adopted IFRS commencing from the third quarte and its transition date to IFRS is January 1, 2006. In addition, certain subsidiaries Real Estate have always applied IFRS
The Group measured the assets and liabilities of these subsidiaries according to values that were included in their financial statements, according to IFRS, as state

(e) Transactions with minority shareholders

(1) Under Israeli GAAP, when purchasing shares from minority shareholders in a that the Group already controls, the Group attributed the excess of the cost identified, acquired assets and liabilities and the remainder to goodwill.
Under IFRS, the Group chose to apply the option that attributes the entire ex to goodwill.

NOTE 11: -RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (C

C. <u>Notes to the reconciliation of the financial statements</u> (contd.)

4. <u>Business combinations</u> (contd.)

(e) <u>Transactions with minority shareholders</u> (contd.)

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

Under IFRS and considering the Group's policy regarding transactions witl shareholders, there was no change in the accounting treatment. However, th of earnings recognized for the transactions was impacted by the differer amount of book value exercised. As a result, retained earning as of Dece 2007 decreased by NIS 121 million.

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

Under IFRS, options of this type are considered a financial liability measu current value of the sale price, and changes in the liability amount are recc goodwill, with the exception of time value. In addition, the Group does not inc controlling interests of these shares but does include all of the results from th shares. Retained earnings were not materially impacted by the aforer difference.

5. <u>Construction of buildings for sale and capitalized cost and inventory of buildings for sal</u>

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

Upon transition to IFRS, under IAS 18, *Revenues*, revenues from the sale of re including from a project of a contractor building apartments for sale, are recognized apartments are transferred to the buyer.

In addition, under Israeli GAAP, based on Accounting Standard 3 of the Israeli A Standards Board, *Capitalized Credit Costs*, the Group only capitalized credit costs for p whose construction period is longer than three years or that have an exceptional co period or investment amount. Upon transition to IFRS, the Group directly capitalizes credit for all projects that require a significant time to be made usable or ready fo addition, Under Israeli GAAP, advertising and sales promotion clearly identified with tl may be capitalized to project cost. Under IFRS these costs may not be capitalized.

Under Israeli GAAP, the Group deducted advance payments received from buyers balance of inventories of buildings for sale. Under IFRS, the Group recognized gross a

Retained earnings were not materially impacted by the difference.

NOTE 11: -RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (C

C. Notes to the reconciliation of the financial statements (contd.)

6. Employee benefits

Under Israeli GAAP, liability for severance pay is measured, in some cases, based on the the number of work years of the employee and the last monthly salary at each balance sl based on the shut down method. The severance pay funds are measured at their redemp at each balance sheet date.

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

The amounts are presented on the basis of capitalization of expected future ca according to the interest rates of long-term government bonds payable close to the per liabilities relating to severance. In addition, the assets in respect of employee bei measured at fair value.

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

Retained earnings were not materially impacted by the difference.

7. Functional currency

Under Israeli GAAP, the financial statements of the Company and of the investees in denominated in New Israel Shekel (NIS). Foreign investees are autonomous units financial statements are denominated in their functional currency.

Under IAS 21 *The Effects of Changes in Foreign Exchange Rates*, the Company is re set its functional currency and the functional currency of each company in the group a to the currency of the principal economic environment in which each one operates, u criteria set in IAS 21. Certain investees that operate in Israel have concluded functional currency is the US dollar because most of the revenues and expenses companies are denominated in this currency. There is no change in the functional cu foreign investees.

On transition to IFRS, the Group re-measured the assets and liabilities of su denominated in dollars, according to the provisions of IAS 21. Measurement was ch shekels and translated from their functional currency (US dollar) to the denomination (NIS).

Under the concession pursuant to IFRS 1, the Group chose to state the cumulative tr differences, as of January 1, 2007, as zero.

As a result, retained earnings decreased by NIS 56 million, as of the transition dat against a decrease in fixed asset items and investment in oil and gas exploratic December 31, 2007, retained earnings were not materially impacted by the aforem changes.

In addition, as of December 31, 2007, as a result of the transition to IFRS, the pri translation differences of investees amounted to NIS 103 million, due, inter alia, to ch the functional currencies of the investees, as described above.

NOTE 11: -RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (C

C. Notes to the reconciliation of the financial statements (contd.)

8. Financial revenues and expenses

Under Israeli GAAP, net financial expenses and revenues were presented in the sta income. Under IFRS, financial expenses and financing revenues are recognized sep the statement of income.

9. Investments in jointly controlled companies

Under Israeli GAAP, companies for which the Group has an agreement for joint cont equal holdings (50%) with another party were included in the financial statements proportionate consolidation method.

Under IFRS, the Group chose to include its investments in the investees using t method.

10. Financial instruments

Under Israeli GAAP, securities are classified into two categories: non-current inv recognized at cost, and current investments, recognized at fair value with changes in recognized in the statement of income.

Under IAS 39 *Financial Instruments: Recognition and Measurement*, accounting of instruments is based on their classification into one of the four categories below:

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

(a) Investment in marketable securities

Under Israeli GAAP, the Group classified investments in certain securities a investments. Accordingly, these investments were recognized at fair value and cl fair value were recognized in the statement of income.

On transition to IFRS, under IAS 39, *Financial Instruments: Recognition and Mea* the Group classified its investment in the securities as financial assets measur value in the statement of income. Therefore, the securities were recognized at fai of each balance sheet date and changes in their fair value were recogniz statement of income.

(b) Investment in other companies

Under Israeli GAAP, investments in other companies, in which the Company has or substantial impact, are recognized in the balance sheet at cost after dec provision for non-temporary impairment of value.

On transition to IFRS, under IAS 39, *Financial Instruments: Recognition and Mea* some of these investments are classified as securities available for sale and are at fair value. Changes in their fair value are recognized in capital reserve. T investments are classified as financial assets measured at fair value through the of income. In view of the aforementioned, as of the transition date, capital res retained earnings increased (after tax) by NIS 218 million and NIS 125 million, res As of December 31, 2007 the capital reserve balance increased by NIS 313 millio

NOTE 11: -RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (C

C. Notes to the reconciliation of the financial statements (contd.)

10. Financial instruments (cont.)

(c) Embedded derivatives

Group companies have entered into operating lease agreements, mainly in respe stations. Some of these agreements are linked to the dollar, which is not the currency of the parties to the lease agreement.

Under Israeli GAAP, the lease agreement is accounted for as one piece a separated into its components. The current lease amounts (including differences) are recognized in the statement of income as incurred.

On transition to IFRS, under IAS 39, *Financial Instruments: Recognition and Meas* these lease agreements are considered agreements that contain embedded d that should be separated from the host contract (the lease agreement). The e derivatives are separated from the lease contracts and measured separately, balance sheet date, at fair value. Changes in the fair value of the separate e derivatives are recognized in the statement of income.

In May 2008, the Israel Accounting Standards Board prescribed that the dollar is the c used currency for transactions under agreements signed up to December 31, 2006.

Therefore, the Company separated the embedded derivatives in the leasing ag only for agreements made subsequent to that date. The effect of the separation r amounts that are not material.

It is noted that in view of the adjustment note to the Company's financial st (issued prior to this decision) included separation of embedded derivatives for ag prior to December 31, 2006 and the effect of the separation resulted in material ar

(d) Derivative financial instruments

Under Israeli GAAP, the results of the hedging transaction against the gas price the agreement with Israel Electric Corp. and certain interest exchange transacti recognized in the statement of income against the corresponding items for which t was taken. Under IFRS, because these transactions were not designated as transactions on the transition date and/or do not meet criteria for a hedging tr under IFRS, the hedging transactions are measured at fair value, and changes ir value are recognized under the financial item in the statement of income.

As a result of recognizing these transactions at fair value, the retained earning transition date and for December 31, 2007 decreased (before taxes) by NIS 47 m NIS 92 million, respectively.

11. Dividend declared subsequent to the balance sheet date

Under Israeli GAAP, a dividend declared after the balance sheet date but before th approval of the financial statements is recognized in equity as a decrease in retained ear an increase in dividend declared subsequent to the balance sheet date. With the transitio the Group shall only disclose the dividend declared subsequent to the balance sheet date.

NOTE 11: -RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (C

C. Notes to the reconciliation of the financial statements (contd.)

12. Treasury shares

According to the practice in Israel, Group shares held by Phoenix in investment po profit-sharing policies were not accounted as treasury shares. Under IFRS, Group sh by Phoenix are accounted as treasury shares. As a result, the Group's equity as of the date decreased by NIS 87 million.

In 2007, the shares were sold for NIS 112 million. As a result, as of December 31, 2007 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 polici

Pursuant to the guidelines issued by the Supervisor of Insurance, these ass include negotiable and non-negotiable financial instruments, are include balance sheets prepared under Israeli GAAP, at fair value.

Under IFRS, these financial instruments are classified in the fair value grc statement of income. See also section 10(a) above.

(2) Embedded derivatives

Negotiable derivatives and financial instruments that include embedded d These instruments were all classified to the fair value class through the sta income, beginning on the transition date. Therefore, these assets will be me fair value, and the changes in fair value will be transferred to the statement of

Non-negotiable derivatives and financial instruments that include e derivatives: For these instruments, the embedded derivative and the host co separated. The host contract is measured at depreciated cost and the de measured at fair value.

(3) Marketable assets that are not included in investment portfolios of pro policies (nostro), which do not include embedded derivatives or constitute der

Pursuant to the guidelines issued by the Supervisor of Insurance, these a included in balance sheets prepared according to Israeli GAAP at market the changes in value are recognized in the statement of income.

According to international standards, these financial instruments are cla financial assets available for sale. These investments are measured at fair the changes in fair value are recognized in capital reserve, net of taxes app the sale of the investment. Decreases in fair value, which have the ch permanent impairment of value, are recognized in the statement of income.
See also section 10(b) above.

(4) Non-marketable assets that are not included in investment portfolios of pro policies (nostro)

Under IFRS and Israeli GAAP, non-marketable shares were recognized at deduction of a provision for non-temporary impairment. Under IFRS, these s classified as financial assets available for sale.
See also section 10(a) above.

NOTE 11: -RECONCILIATION OF ACCOUNTING UNDER ISRAELI GAAP AND IFRS (C

C. Notes to the reconciliation of the financial statements (contd.)

13. Insurance business (contd.)

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

Pursuant to the guidelines issued by the Supervisor of Insurance, no provisions w for contingent claims in general insurance for indirect expenses entailed in the s of claims pertaining to policies issued before the 2006 underwriting year.

On transition to IFRS and pursuant to the guidelines of the Supervisor, the entire for indirect expenses was also recognized for underwriting years prior to 2006. As as of January 1, 2007 and December 31, 2007, retained earnings decreased b million.

(c) Call options and put options in affiliates

Under Israeli GAAP, investments in call options on an investment in associates options on investments in associates are not reflected as a separate financial a separate financial liability.

Under IFRS, call options on associates held by the Group and put options for a are recognized in the balance sheet at fair value as of each balance sheet date. in the fair value of the options are recognized in the statement of income. Chang fair value of the options are recognized in the statement of income.

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

(d) For further details of the impact of the transition to IFRS on the insurance busi sections 1-10 above.

14. Insurance business

Under Israeli GAAP, the Group recognized insurance business operations separately f Group business (general business). Under IFRS, insurance operations are recognized with other Group business. It is noted that the results of insurance business as of Dece 2007, as included in this report, were reclassified in relation to the results previously rep

15. Gas and oil assets

Under Israeli GAAP, the Group presented its share in the current assets and liabilities created as part of joint ventures for oil and gas exploration and production in a separa under current assets and under current liabilities. Under IAS, the assets and liabilities o ventures were combined with the other items in the Group's balance sheet, accordin nature.

16. Deferred taxes

Under Israeli GAAP, deferred taxes were presented in the short term, in the other re item and in the other payables item. On transition to IFRS, pursuant to IAS 12, *Incom* the deferred tax balances are recognized under long term investments and respectively.

In addition, the deferred taxes balances were impacted by the effect of the ta adjustment described above.