Delek Group

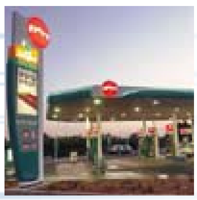
FINANCIAL STATEMENTS

UNAUDITED

AS OF MARCH 31, 2009







Delek Group

Table of Contents:

Chapter A – Description of Company's Operations
to the periodic report of Delek Group Ltd (hereinafter the Company) for 2008[1]

1. Company activity and a description of its business development

To sections 1.1.4 and 1.4

On March 31, 2009 the Company's Board of Directors announced the distribution of a dividend in the form of stocks in Delek Real Estate Ltd that are held by the Company's shareholders. The actual distribution took place on May 5, 2009, with each of the Company's shareholders receiving about 8.8 shares in Delek Real Estate for each share held in the Company. Following the distribution the Company still held about 5% of the shares of Delek Real Estate. For additional information see the Company's Immediate Reports dated March 31, 2009 (Ref. Nos. 077202-01-2009 and 077319-01-2009), with the information contained therein hereby by way of reference.

2. Oil product refining and fuel products in the USA

To section 1.7 and this section replaces section 1.7.1 in the periodic report:

On November 20, 2008 an explosion occurred at the refinery in Tyler, as a result of which a fire broke out on the site, 2 employees were killed and others were injured. The causes of the incident were investigated in parallel by several bodies, including an internal investigation conducted by the Safety and Health in the Workplace department of Delek USA, and by the American Council for Investigating Chemical Safety Risks. Delek USA believes that these investigations will continue for the foreseeable future. As at the date of this report there is no certainty as to the results of these investigations, including the possibility of fines and other enforcement measures. The explosion and fire caused damage to the saturated gas plant and to the Naphtha Hydrotreater. Operations at the refinery were halted following the explosion. As a result of the incident Delek Refining has been unable to supply its customers with the products they usually purchase from the refinery. As at the date of the report the reconstruction works at the refinery have been completed and it is operating regularly. The refinery has overall insurance cover of USD 1 billion, including damage to property and loss of profits, which are presently expected to cover most of the rebuilding expenses of the units damaged and to compensate Delek USA for loss of profits. The insurance cover does not cover the 45-day waiting period following the insurance incident. The amount of loss of profits has been calculated based on the forecast profit from the beginning of the insurance period (January 3, 2009) until the restart of operations, based upon a daily calculation using market prices, plus current losses incurred during the insurance period. As at the report date, total building costs and loss of profits during the cover period are expected to be less than the insurance amount, and at this date are estimated at about USD 140 million. As at the report date Delek USA posted revenues of about USD 81.5 million in respect of claims in accordance with Delek USA's insurance policy for damage to property and interruption to operations, as follows: USD 8.4 million during Q4 2008 for interruption to operations and USD 9.5 million for damage to property, USD 21.1 million for interruption to operations and 9.5 million for damage to property during Q1 2009, and USD 42.5 million during Q2 2009. Delek USA expects that significant additional insurance sums will be received upon completion of processing the claims. It is estimated that the deductible of Delek Refining (in respect of damage to property) will be about USD 5 million. Estimates about insurance sums to be received constitute forecasts based on the insurance policy and estimates of the insurance cover. Having said which, it is possible that the amount of the insurance claim and the amount of the deductible stated above may change significantly, for various reasons, including interpretation of the terms of the insurance policy, length of the insurance claim, the deductible, market conditions that impact on profit and revenues forecasts, the actual costs of reconstruction, etc. Similarly, the information contained in this section in respect of construction costs and the amount of insurance cover is a forecast. The information is based inter alia on estimates of building costs and on the assumption that the insurance amount claimed will be paid in full up to the insurance amount, and it is possible that such will not be the case if inter alia the said estimates or assumptions are not fulfilled.

To sections 1.7.3 and 1.8.3

On May 11, 2009 Delek USA published its financial statements to March 31, 2009. A summary of the financial information of Delek USA may be seen on its website, www.delekus.com.

[1] The update includes significant changes or new items that occurred in the Company's operations during Q1 and until close to the date of this report on subject addressed in the periodic report. The update refers to the section numbers in Chapter A (Description of the Company's Operations) in the 2008 periodic report.

To section 1.7.3

Recognition of revenues from insurance payments in the financial statements of Delek USA is net, and accordingly a comparison cannot be made with 2008, where in Q1 of that year revenues came to about USD 556.2 million. Revenues in the area of marketing in Q1 2009 came to about USD 68.5 million, compared with about USD 180.9 million in 2008. The reduction was mainly due to a significant drop in the prices of fuels and from a reduction of about 23% in the amount of fuel marketed.

To section 1.8.3

Revenues from fuels in Q1 2009 went down by about 34.7% to USD 280 million in comparison with the corresponding period in 2008. The reduction was mainly due to a reduction in the prices of fuels (on average USD 1.81 per gallon in Q1 2009, as compared with an average of USD 3.01 per gallon in Q1 2008). The reduction in the amounts of fuel sold was not material. Revenues from retail products in Q1 2009 were down about 4.6% to USD 85.9 million, as compared with the corresponding quarter in 2008, on account of the reduction in the volume of sales of various products.

3. Fuel products in Israel

To section 1.9.16

On April 8, 2009 Maalot announced that Delek Israel debentures (Series A), rated ilA+, had been placed on the negative credit watch. On May 26, 2009 Maalot announced that the rating of Delek Israel debentures (Series A) to an A rating with a stable outlook. On April 12, 2008 Delek Israel announced that Midroog Ltd (hereinafter Midroog) gave a negative outlook and a rating of Aa3 for the debentures (Series A) issued by Delek Israel. The rating was given to NIS 150 million of debentures that Delek Israel will raise by extending the series. It should be noted that in practice debentures to a value of about NIS 107 million were issued.

4. Real estate

To section 1.12.4

On March 31, 2009 the Company's Board of Directors announced the distribution of a dividend in the form of stocks in Delek Real Estate Ltd that are held by the Company's shareholders. The actual distribution took place on May 5, 2009, with each of the Company's shareholders receiving about 8.8 shares in Delek Real Estate Ltd for each share held in the Company. Following the distribution the Company still held about 5% of the shares of Delek Real Estate. For additional information see the Company's Immediate Reports dated March 31, 2009 (Ref. Nos. 077202-01-2009 and 077319-01-2009), with the information contained therein hereby by way of reference.

On May 6, 2009 Delek Real Estate published a shelf offering report based upon a shelf prospectus it had published on August 29, 2007, as amended on May 3, 2009. The shelf offering report is for a rights issue and for the registration of between 58,003,301 and 61,885,134 regular shares without a nominal value (assuming conversion prior to the determining date, namely May 12, 2009, of 157,355,752 debentures (Series C) into 4,865,670 shares and assuming the exercise prior to the determining date of 3,760,626 options granted to employees and directors into 3,760,626shares), registered in the name of Delek Real Estate. The ex date for rights was May 13, 2009, which is the next trading day after the determining date. The trading date for rights is May 24, 2009 and the latest date for exercise of the rights is May 26, 2009. The Company has exercised all its rights in an overall investment of about NIS 6 million.

Pursuant to the distribution of Delek Real Estate shares in place of a dividend, the Company's primary interest in Delek Real Estate arises from loans and warranties given when Delek Real Estate was a Group subsidiary company. The total exposure of the Company and its subsidiaries as at March 31, 2009 came to NIS 698 million, as follows[2]:

a. Loan for the NCP transaction:

According to the loan agreement dated November 3, 2003 the Company provided Delek Real Estate with a loan of NIS 160 million for the NCP transaction. The loan is indexed to the CPI plus annual interest of 7.25%. It was agreed that the loan amount be repaid to the Company by Delek Real Estate in 4 equal, annual payments of NIS 40 million each on July 7 of each year

[2] The details do not include a guarantee that expires on June 2, 2009.

from to 2006 to 2009. In addition it was agreed that the Company is entitled to require early repayment of the loan that shall not exceed (cumulatively) NIS 80 million of the loan, subject to Delek Real Estate being given 90 days prior notice. To secure this loan and in accordance with the loan agreement, Delek Real Estate gave a debenture in favor of the company, also endorsed by the subsidiary, Belron. In addition, in accordance with the agreement, the Company is entitled to set off any amount not paid by Delek Real Estate by due date against any amount or debt of Delek Real Estate with the Company. To secure the loan Delek Real Estate undertook to mortgage the shares of its subsidiary Belron Properties (1999) Ltd. With the Company's agreement, provided while Delek Real Estate was still a private company controlled by the Company, no registration was made of the said lien.

For the purpose of settling repayment of the loan, the Company and Delek Real Estate are negotiating a postponement of the last payment date of the loan (June 7, 2009), as part of a transaction whereby the Company will purchase from Delek Real Estate the property where the Company's offices are located. An agreement on this is subject to the agreement of the competent organs of the Company, in accordance with section 275 of the Companies Law.

As at March 31, 2009 the outstanding balance of the loan stood at about NIS 46 million.

b. <u>Loan of NIS 80 million as part of the preparations to refinance the Roadchef deal:</u>

On September 15, 2009 the Company made available a loan of NIS 80 million to Delek Real Estate for a period of 12 months as part of the preparations by Delek Real Estate to refinance the Roadchef deal. The loan is linked to the CPI plus annual interest of 6% for the entire loan period, and in any circumstances not less than the cost of the loan to the Company, with the possibility of early repayment at any time. Further, in the interim period of two months, which is extended by 20 additional days, until approval of the loan by the General Meeting of Delek Real Estate, the loan is made available to Delek Real Estate as a back to back transaction (the Company has taken a loan from a bank at the same terms and for the same period in order to finance the loan to Delek Real Estate). In this interim period the loan was for NIS 80 million at Bank of Israel interest + the Company's on call interest spread, and not less than the actual cost of the loan to the Company, not linked to the CPI. On December 3, 2008 the General Meeting of Delek Real Estate approved the extension of the loan period for 12 months (including the aforementioned two months and 20 days), linked to the CPI plus annual interest of 6% throughout the loan period, and in all circumstances not less than the cost of the loan to the Company, with the addition of VAT on payments for supplements for the CPI and interest, with the possibility of early repayment at any time without payment of a commission. Linkage to the CPI shall be for any rise in the CPI above that known at the date of provision of the loan. If at time of repayment of the loan the CPI shall be lower than that known at the date of provision of the loan, the CPI known at the date of provision of the loan shall be used to calculate the amount of the repayment.

As at March 31, 2009 the outstanding balance of the loan stood at about NIS 83 million.

c. <u>Loan of NIS 200 million as part of the preparations to refinance the Roadchef deal:</u>

On September 25, 2009 the Company made available an additional loan of NIS 200 million to Delek Real Estate for a period of 13 months as part of the preparations by Delek Real Estate to refinance the Roadchef deal. The loan is linked to the CPI plus annual interest of 6% for the entire loan period, and in any circumstances not less than the cost of the loan to the Delek Group, with the possibility of early repayment at any time without payment of a commission. Further, in the interim period of two months, which is extended by 20 additional days, until approval of the loan by the General Meeting of Delek Real Estate, the loan was back to back for NIS 200 million for a period of two months at Prime less 0.2%, and not less than the actual cost of the loan to the Delek Group, not linked to the CPI and unsecured. On December 3, 2008 the General Meeting of Delek Real Estate approved the extension of the loan period for 13 months (including the two months until its approval), linked to the CPI plus annual interest of 6% throughout the loan period, and in all circumstances not less than the cost of the loan to the Delek Group, with the addition of VAT on payments for supplements for the CPI and interest, with the possibility of early repayment at any time without payment of a commission. Linkage to the CPI shall apply to any rise in the CPI above that known at the date of provision of the loan. If at time of repayment of the loan the CPI shall be lower than that known at the date of provision of the loan, the CPI known at the date of provision of the loan shall be used to calculate the amount of the repayment.

As part of the loan transaction the Company the Company received from Delek Real Estate undertakings that:

1. As collateral for the loan (including supplements for changes in the CPI, interest and VAT) Delek Real Estate shall mortgage to the Company all its rights in Vitnia Ltd (overall holdings of 50%) or 32% of its rights in Roadchef (which is 32% of the overall holdings of 75%).

2. In the event of the disposal of the holdings of Delek Real Estate, in whole or in part, in the subsidiaries that own Roadchef, the loan must be repaid immediately. Money received during the loan period from MSA and its subsidiaries that own Roadchef will firstly be used for repayment of the loan.

3. Repayment of the loan and its collateral shall take precedence over all other shareholders' loans that Delek Real Estate provided and/or will provide to MSA and its subsidiaries that own Roadchef.

4. Delek Real Estate and Delek Petroleum (which hold 25% of Roadchef) will work together to dispose of their holdings in Roadchef. In the event of a disagreement between Delek Real Estate and Delek Petroleum concerning the sale of the holdings in Roadchef, Delek Petroleum shall make the decision, on condition that the terms of sale shall be identical and in due proportion to the respective holdings of each company in Roadchef.

In accordance with the aforementioned undertakings a lien on 24% of the shares of the subsidiary with holdings in Roadchef has been registered in favor of the Company. As at March 31, 2009 the outstanding balance of the loan stood at about NIS 206 million.

d. <u>Possibility to extend the loans provided to refinance the Roadchef deal:</u>

In respect of the loans stipulated in clauses (3) and (4) above, on March 26, 2009 the Company informed Delek Real Estate that it would act to obtain the required approvals so that in the event that Delek Real Estate applies to extend the loan period, since the sale of Roadchef has not yet been completed, the Company shall extend the loan period by the period until completion of the sale, and in the event that for whatsoever reason it shall not be possible to extend the loan period, the Company will then act to exercise the lien (25% of the shares of the subsidiary with holdings in Roadchef) and will not act to collect the debt in any other way until April 2010. As at this date the sales process of Roadchef is continuing, however, on account of the worldwide economic crisis a delay has occurred to the timetable that had been set for the process. In accordance with what has been stated above, and at the request of Delek Real Estate, the Company intends to act to obtain the required approvals in accordance with section 275 of the Companies Law.

e. <u>Contracts with a bank as a condition for the distribution of the shares of Delek Real Estate in lieu of a dividend:</u>

For the purpose of carrying out the distribution of shares of Delek Real Estate in lieu of a dividend, negotiations are underway with a bank to whom had been mortgaged the shares of Delek Real Estate, which is owned by the Company. As a condition for releasing the lien on the shares of Delek Real Estate and provision of its agreement to a change in the ownership in Delek Real Estate, the Company contracted with a bank on March 26, 2009 as follows:

1. The bank cancelled its lien on the shares of Delek Real Estate that is owned by the Company and granted its approval to the distribution of the shares.

2. The bank shall immediately make available to the Company a new loan of NIS 150 million. This shall be a short-term loan, up until the date of acquisition by the Company of the part of the debt of Delek Real Estate to the bank, and after the date of said acquisition the loan shall be changed into a long-term loan that shall be repaid in a single bullet payment in 2018, at Prime less 0.25%.

3. The Company has undertaken to the bank that at any time that Delek Real Estate shall pay an amount to the Company on account of the loans provided by the Company to Delek Real Estate in respect of Roadchef (capital of NIS 280 million), the Company shall purchase from the bank with any payments made a part of the rights in the debt of Delek Real Estate to the bank up to the amount paid, up to a cumulative amount of NIS 150 million. The said debt is for a loan for the acquisition of the Hof Carmel project. Under the terms of the debt, interest of Prime less 0.25% will be paid quarterly and the loan amount will be repaid in a single bullet payment on January 30, 2018. For additional details

concerning the Hof Carmel project, see section 1.12.14 of the chapter of the description of the Company's operations in its periodic report[3].

4 . The disposal of the debt by the bank to the Company shall be carried out without transferring any rights of the bank in the securities provided and/or that shall be provided in its favor to secure the debt. The Company shall be entitled to register a junior lien on the assets that secure the debt, subject to the fulfillment of several conditions.

5 . To secure the fulfillment of the Company's undertakings to the bank, it shall provide a first lien to the bank on all its rights under the loan agreements with Delek Real Estate concerning Roadchef.

6 . For details of the liens provided to the bank as part of the agreements, see section 1.21.2A in the chapter on the description of the Company's operations in the periodic report.

In accordance with the above, the lien in favor of the bank on the shares of Delek Real Estate has been cancelled, and it has provided its approval for the distribution of the shares. Similarly, a loan has been provided to the Company as stated in section (2) above.

f. <u>Loans of the Phoenix:</u>

On September 21, 2005 a framework agreement was signed between Delek Real Estate and Phoenix Insurance, which today is the controlling Shareholder of the Company (hereinafter the "Framework Agreement"). At the date of signature of the Framework Agreement the Phoenix did not control the Company.

In accordance with the Framework Agreement, Phoenix Insurance provided the Company a credit line for a period determined in the Framework Agreement (a period that was extended by agreement of the parties), of NIS 75 million (hereinafter the "Framework Sum"), against payment of a quarterly usage commission as determined in the Framework Agreement. The draw down date for the line of credit under the Framework Agreement was left to the discretion of the Company, subject to the terms of the Framework Agreement.

On August 20, 2008 the loan agreement was signed between the Phoenix and Delek Real Estate to draw down the Framework Sum (hereinafter the "Loan Agreement"). The terms of the loan are as follows: The loan amount is NIS 75 million, and the loan is linked to the CPI and bears interest at the rate as publicized by the "Sha'arei Ribit" Company at the date of signature of the Loan Agreement, all as detailed in the Loan Agreement (The "Sha'arei Ribit" Company provides interest rates less the risk and risk premium for the purposes of valuing non-negotiable assets, in accordance with the directives of the Capital Markets section of the Ministry of Finance). The amount of the loan and the interest will be paid in ten equal, consecutive annual payments commencing from the date of provision of the loan.

To secure repayment of the loan and the repayment of additional loans made available to Delek Real Estate by Phoenix Insurance in 2004 (hereinafter the "Additional Loans"), Delek Real Estate provided the Phoenix with collateral, as agreed in the Loan Agreement. In the Loan Agreement a cross collateral arrangement is stipulated between the collateral provided for the loan and the collateral provided for the Additional Loans, in accordance with the terms of the Loan Agreement.

In addition, the Loan Agreement includes financial and other stipulations as is customary in such transactions.

As at March 31, 2009 the outstanding balance of the Phoenix loans stood at about NIS 218 million.

g. <u>Collateral</u>

The Company has guaranteed part of the obligations of Delek Real Estate and its subsidiaries to banks. As at March 31, 2009 the debts of Delek Real Estate and of the subsidiaries secured by collateral of the Company came to about NIS 72 million.

h. <u>Investments of Phoenix insureds' and policyholders' monies:</u>

In addition to what has been stated above, there are investments of Phoenix insureds and policyholders in debentures of Delek Real Estate, which at March 31, 2009 came to about NIS 37.1 million.

[3] Due to a typing error, the said section on page A-241 of the periodic report was numbered as section 1.33.14.

As at March 31, 2009 Delek had a deficit in consolidated working capital of about NIS 2,248 million. Delek Real Estate's ability to meet its obligations represents a risk factor from the Company's point of view, and it is dependent on many factors including the following:

In the matter of sources of funds, Delek Real Estate's ability to obtain sources of funds for repayment of its obligations, is mainly based on an assumption of the realization of assets at their value in Delek Real Estate's books, the receipt of dividends from investee companies, advance revenues from a major tenant, and the receipt of loans and lines of credit from the banks. The receipt of monies from the disposal of assets is dependent on the applicable risk factors of Delek Real Estate not being realized. Inter alia there could be disposal of assets to relieve difficulties or not to draw on the forecast cash flow in the following circumstances: continuation of the crisis in the real estate market; a reduction in the value of Delek Real Estate's assets; a reduction in the quality of the tenants of Delek Real Estate properties; and not obtaining the agreement of partners in assets as to their disposal. The receipt of dividends from investee companies is dependent on the applicable risk factors of Delek Real Estate not being realized. Inter alia dividends might not be received from investee companies in the following circumstances: Not receiving the approvals required by the subsidiaries; and non-compliance with the requirements of the law in respect of the distribution of dividends in subsidiaries. Advance revenues from a major tenant, and the receipt of loans and lines of credit from the banks are dependent on the applicable risk factors of Delek Real Estate not being realized. Inter alia various negotiations might not result in a contract or not draw on the forecast cash flow in the following circumstances: Not reaching agreements with parties to negotiations for any reason whatsoever; deterioration of the financial situation of Delek Real Estate.

On the side of the application of funds, Delek Real Estate's commitments are based inter alia on the assumption that there will not be a call for repayment of a short-term on-call line of credit of about NIS 548 million, whose collateral at this time satisfies the providing banks. Delek Real Estate might be required to pay additional material amounts if its applicable risk factors are realized. Inter alia, Delek Real Estate might have to pay additional amounts in the following circumstances: Non-compliance with financial criteria and/or a reduction in its rating, which are likely to result in the immediate repayment of Delek Real Estate's loans and/or debentures; requirement for immediate repayment of Delek Real Estate's debentures is likely to cause the immediate repayment of other loans it has received; the requirement to repay the on-call line of credit as stated above; no extension of the loans provided to Delek Real Estate by the Company; the creation of additional obligations by Delek Real Estate.

To section 1.12.5[4]

On March 23, 2009 Delek Belron announced its intention to submit an offer to acquire all the shares of DGRE that are not held by Delek Real Estate or by Delek Belron, representing 15% of DGRE's share capital, for 50 pence (GBP 0.50) per share. On May 5, 2009 a vote of shareholders took place but the required majority to carry out the purchase offer was not obtained. It should be noted that Delek Belron announced at the same time as it published its announcement of the purchase offer, that in the event that the purchase offer does not succeed, it will continue to act to de-list DGRE from trading on AIM and to turn it into a private company. On May 15, 2009 DGRE published an announcement of the de-listing process and an invitation to a General Meeting on June 9, 2009. In order to complete the de-listing of DGRE from AIM, the approval of a 75% majority of the shareholders at a General Meeting is required (Delek Real Estate holds itself and through Delek Belron about 85.03% of the DGRE share capital). If the General Meeting approves the de-listing, it is expected to come into effect on June 17, 2009.

5. Energy

To section 1.13.3A

On April 2, 2009 Delek Drilling – Limited Partnership and Avner Oil Exploration – Limited Partnership (hereinafter "Delek Drilling and Avner"), subsidiary partnerships of Delek Energy Systems Ltd, a subsidiary of the Company (hereinafter "Delek Energy") announced that Oil Commissioner at the Infrastructure Ministry had approved the "Tamar" prospect is a commercially viable prospect and extended the period of license 309/Matan until December 1, 2009. Similarly, the Commissioner announced that if it transpires that the "Dalit 1" drilling is a commercially viable prospect, license 308/Michal shall remain valid until December 2, 2009.

[4] Due to a typing error, the said section on page A-183 of the periodic report was numbered as section 1.18.5.

On April 16, 2009 Delek Drilling and Avner published the results of production tests at the “Dalit 1” prospect, according to which it is estimated that when drilling is completed for production, it will be possible to obtain from it natural gas at the rate of 200 million sq. feet per day. Following an initial analysis of the information, it was estimated that the average potential of the natural gas reserves in the “Dalit” structure are about 500 BCF.

On April 27, 2009 Delek Drilling Limited Partnership and Avner Oil Exploration Limited Partnership, a subsidiary partnership of Delek Energy announced that the Atwood Hunter drilling rig, which had completed its work at the “Dalit 1” drill hole, had arrived at the “Tamar 2” drill hole that is in the “Matan” license and had commenced drilling, which will last about 3 months, with a budget of about USD 77 million (100%).

To section 1.13.3L

On April 23, 2009 Delek Energy announced that in the light of the announcement that the 12W drill in Vietnam was commercially viable, the National Oil Corporation of Vietnam had to decide to exercise its option to purchase 15% of the rights in the project. In the light of this exercise of the option, Delek Energy (Vietnam) LLC, a wholly owned subsidiary of Delek Energy registered in the USA has 21.25% of the rights in the project.

6. Matters affecting the general operations of the Company

To section 1.19.5

On April 8, 2009 S&P Maalot (hereinafter “Maalot”) announced the entry of debentures (Series A-H) of Delek Petroleum Ltd, a subsidiary of the Company (hereinafter “Delek Petroleum), rated ilA+ onto the negative credit watch, because the Company is on the negative credit watch. On May 26, 2009 Maalot announced a reduction in the rating of the aforementioned debentures to ilA. The rating outlook is Stable.

On May 26, 2009 Maalot announced a reduction in the rating of the debentures (Series A, E-M, V, W) issued by the Company to ilA from ilAA.. The rating outlook is Stable. Similarly, the Company will be removed from the credit watch negative, which it entered on November 30, 2008. For additional details see the Company’s Immediate Report dated May 26, 2009 (Ref No. 1220888-01-2009).

May 27, 2009

Delek Group Ltd.

Directors' Report on the State of Company Affairs for the three months ended March 31, 2009

The board of directors of the Delek Group Ltd. (the "Group" or the "Company"), hereby presents the Group's Directors' Report for the three months ended March 31, 2009.

1. Description of the Company and its Business Environment

The Group is a holding and management company which controls a large number of corporations with a range of investments in Israel and overseas in the fields of energy, infrastructures and water desalination, real estate, finance and insurance, automobiles, biochemicals and telecommunications.

During May 2009, a distribution of shares of DR was completed, as a dividend in kind to the shareholders of the Company, and from that date the Company no longer operates in real estate.

The Company's financial data and its operating results are affected by the financial data and operating results of the companies it holds and by its sale or acquisition of holdings. The Company's cash flow is affected, inter alia, by dividends and management fees distributed by its held companies, by receipts originating from the realization of its holdings in them, by its ability to raise foreign financing which depends, among other things, on the value of its holdings, and by investments made by the Group and the dividends it distributes to its shareholders.

2. Principal Operations

In November 2008, drilling commenced at the Tamar 1 site off the Haifa coast to the search for natural gas. The share of Delek Drilling and Avner in the drilling is 15.6% each. The Tamar 1 drilling descended to a water depth of 1,680 meters and reached a final depth of 4,900 meters. In February 2009, production tests were successfully completed. In the production tests, natural gas flowed at a maximum rate of 30 million cubic feet per day (Mmcf/D). The flow rate was limited by the equipment used for the tests, so that the rate of flow could not be increased beyond the above rate. Noble Energy Mediterranean Energy Ltd., the project operator ("the Operator") estimates, based on the test results, that after completion of the drilling for production, natural gas will be able to be produced at more than 150 million Mmcf/D.

After analyzing the information received during the frilling and the production tests, the Operator now believes that the average economic potential of the natural gas reserves in the structure is in the region of 5 TCF (about 142 BCM), and that the discovery is clearly of commercial proportions.

Production tests at Dalit 1 drilling were successfully completed in April 2009. In the tests, natural gas flowed at a maximum rate of 33 million Mmcf/D. The flow rate was limited by the equipment used for the tests, so that the rate of flow could not be increased beyond the above rate. The Operator estimates, based on the test results, that after completion of the drilling for production, natural gas will be able to be produced at more than 200 million Mmcf/D.

After analyzing the information received during the frilling and the production tests, the Operator now believes that the average economic potential of the natural gas reserves in the structure is in the region of 500 BCF (about 14.2 BCM), and that the discovery is clearly of commercial proportions.

On March 31, 2009, the Board of Directors of the Company announced the distribution of a dividend in kind of shares it holds of Delek Real Estate, to the shareholders of the Company. The actual distribution was made on May 3, 2009, in such a way that each shareholder in the Company received approximately 8.8 shares of Delek Real Estate in respect of each share of the Company it holds. After the distribution, the Company retained a holding of approximately 5% of the shares of Delek Real Estate.

After the balance sheet date, in May 2009, Delek US completed the reconstruction of the units that were damaged in the fire of its refinery, and the refinery has resumed operation. For details, see Section 6.1 below.

3. Results of Operations

Contribution of principal operations to profit (loss) (attributable to the Company's shareholders) (in NIS millions)

	1-3/2009	1-3/2008	4-6/2008	7-9/2008	10-12/2008	2008
Fuel operations in the US	(2)	1	45	27	(73)	1
Fuel operations in Israel	32	23	31	31	(20)	62
Fuel operations in Europe	3	11	42	10	(21)	44
Reorganization expenses(1)	-	-	-	-	(81)	(81)
Oil and gas exploration and gas production	(34)	33	(14)	40	6	65
Expenses in respect of abandoned oil drillings(2)	-	(26)	(13)	(7)	(28)	(74)
Automotive operations	54	85	105	110	(12)	288
Insurance and finance operations	49	37	(76)	(198)	(326)	(563)
Impairment of value of financial assets	5	(13)	(20)	(95)	(67)	(195)
Capital gains and others (1)	55	13	(11)	(102)	10	(89)
Profit (loss) attributable to the Company's shareholders before results of real estate operations	**162**	**164**	**89**	**(184)**	**(612)**	**(542)**
Real estate operations(2)	(5)	30	(42)	(428)	(827)	(1,267)
Profit (loss) attributable to Company shareholders	157	194	47	(612)	(1,439)	(1,809)

(1) Included in this item are non-attributed financing income, tax results and results of other operations in respect of infrastructures and investments.

(2) On March 31, 2009, the Group announced the distribution of shares of Delek Real Estate as a dividend in kind to the shareholders of the Group. The distribution was made in May 2009 and accordingly, these reports still include the financial data of Delek Real Estate.

The table below shows principal data from the Company's consolidated income statements (in NIS millions):

	1-3/2009	1-3/2008	2008
Revenue	9,524	12,484	47,894
Cost of revenue	7,600	10,478	40,938
Gross profit	**1,924**	**2,006**	**6,956**
Appreciation (impairment) of investment real estate, net	3	9	(746)
Sales, marketing and operation expenses – gas stations	857	793	3,275
General and administrative expenses	467	319	1,778
Other income (expenses), net	70	60	10
Profit from operating activities	**673**	**963**	**1,167**
Financing income, net	228	160	495
Financial expenses, net	559	850	4,042
Profit (loss) after financing	**342**	**273**	**(2,380)**
Profit from realization of investments in associates and others, net	-	-	69
Group's equity in profits (losses) of associates and partnerships, net	68	54	(375)
Profit (loss) before income tax	**410**	**327**	**(2,686)**
Income tax (tax benefit)	135	(65)	(373)
Profit (loss)	**275**	**392**	**(2,313)**
Attributable to:			
Company shareholders	157	194	(1,809)
Non-controlling interest	118	198	(504)
	275	392	(2,313)

Income from operating activities

The Group's income in the reporting period amounted to NIS 9.6 billion compared with NIS 12.5 billion in the corresponding period last year, a decrease of NIS 2.9 billion (approximately 23%). The decrease in income stems mainly from a decrease in revenues from fuel sales in Israel, the U.S. and Europe due to a global fall in fuel prices, from a decrease in revenues at the U.S. refinery due to its hur-down in the first quarter of 2009, and from a decrease in revenues at Delek Automotive.

Operating profit

Operating profit in the reporting period amounted to NIS 673 million, compared with NIS 963 million in the corresponding period last year. The decrease stems mainly from the automotive, real estate and fuels segments. For further details about operating profit, see Note 8 to the financial statements – Operating Segments.

Financing expenses, net

The decrease in the Group's financing expenses in the reporting period was affected mainly by the fall of 0.7% in the Known CPI in the reporting period compared with a rise of 0.4% in the corresponding period last year.

The Group's net financing expenses in the reporting period amounted to NIS 331 million compared with NIS 690 million in the corresponding period last year, a net decrease of NIS 359 million, derived mainly from a decrease in the financing expenses of Delek Real Estate, Delek Israel and Delek Automotive.

The Group's average debt balances in the first quarter of 2009 amounted to approximately NIS 33, and remained unchanged compared with the end of 2008.

Group's equity in profits of associates and partnerships, net

In the first quarter of 2009, the Group's equity in the losses of associates and partnerships amounted to NIS 68 million compared with a profit of NIS 54 million in the first quarter of 2008. Most of the increase comes from an increase in the profits of IDE.

4. Financial Position

The total assets of the Group at March 31, 2008 amounted to approximately NIS 94.1 billion, compared with NIS 76.7 billion on December 31, 2008. Most of the increase of approximately NIS 17.4 billion stemmed from the first-time consolidation of Excellence in the financial statements of The Phoenix.

Further to the foregoing, with regard to the distribution of shares of Delek Real Estate as a dividend in kind, below are proforma details of the balance sheet data and profit and loss data of the Delek Group, as stated in the first quarter of 2009, without the data of Delek Real Estate.

	At March 31, 2009	
	In NIS millions	
	Including Delek Real Estate	**Excluding Delek Real Estate**
Current assets	27,124	25,818
Assets held for sale	4,037	258
Non-current assets	63,005	45,712
Total active	**94,166**	**71,788**
Short-term borrowings and current maturities	6,632	4,116
Other current liabilities	22,326	21,314
Liabilities attributable to assets held for use	2,738	-
Long –term credit	26,370	14,060
Other long-tem liabilities	30,720	27,939
Non-controlling interest	3,260	2,446
Equity attributable to Company shareholders	2,120	1,913
Total passive	**94,166**	**71,788**

	Including Delek Real Estate	**Excluding Delek Real Estate**
Income	9,524	9,118
Operating profit	673	427
Pre-tax profit	410	358
Profit to majority shareholders	**157**	**162**

Below are the principal changes in assets and liabilities at March 31, 2009 compared with December 31, 2008:

Cash and cash equivalents and short-term investments

The Group has cash and short-term investment balances of approximately NIS 3.2 billion, consisting mainly of balances of NIS 0.7 billion in the Delek Group, NIS 0.5 billion in Delek Real Estate, NIS 0.3 billion in Delek Israel, NIS 0.3 billion in Delek Benelux, and NIS 0.6 billion in The Phoenix.

Total current assets

The Group's total current assets at March 31, 2009 amounted to approximately NIS 27.1 billion compared with approximately NIS 17 billion on December 31, 2008. Most of the increase is due to the first-time consolidation of Excellence.

Assets held for sale

The Group stated the assets in RoadChef, which amount to NIS 2.9 billion in this item, in view of its intention to realize the investment. In addition, Delek Real Estate classified other real estate assets in western Europe in this item, in the amount of NIS 1.1 billion.

Balance of short- and long-term financial liabilities

Total financial liabilities (to banks, debenture holders and others) at March 31, 2009 amounted to approximately NIS 33 billion, compared with a balance of NIS 31 billion on December 31, 2008. Most of the increase stems from the first-time consolidation of Excellence.

Pending claims

The Company's auditors, in their review draw attention to the lawsuits against associates. For details, see Note 6 to the financial statements.

Additional information

For further details regarding payments of principal and interest in respect of the debts of the headquarter companies, see Appendix A to the Directors' Report.

5. Sources of Finance and Liquidity

Surplus financial liabilities of the Company (in the separate statements) at March 31, 2009 totaled approximately NIS 717 million. (It is emphasized that the Delek Group shares held by the Group were taken as a financial asset in this calculation.)

Surplus financial liabilities of Delek Investments (in the separate financial statements of Delek Investments) at March 31, 2009, totaled approximately NIS 516 million. It is emphasized that the investments of Delek Investments in the shares of Menorah Holdings Ltd. and Oil Refineries Ltd. were taken as financial assets in the calculation of the surplus financial investments, net of Delek Investments.

Surplus financial liabilities (in the separate statements) of Delek Capital Ltd. and Delek Finance US Inc. (the direct parent of Republic), at March 31, 2009, amounted to NIS 2,559 million.

Surplus financial liabilities of Delek Petroleum (in the separate statements of Delek Petroleum) at March 31, 2009 amounted to NIS 329 million. This item includes the investment in RoadChef as a financial asset.

Surplus financial liabilities (in the separate statements) of Delek Europe Israel Ltd. (a wholly-owned subsidiary of the Group) at March 31, 2009 amounted to NIS 668 million.

Surplus financial liabilities (in the separate statements) of Delek Hungary (which is the direct parent of Delek US) at March 31, 2009 amounted to NIS 58 million.

Surplus financial liabilities includes obligations to banks and other credit providers (including the companies of the Group) net of cash and cash equivalents, commercial paper and bank balances.

Prior to the date of approval of the financial statements, the Company and the headquarters companies have cash balances in liquid investments of approximately NIS 650 million.

At March 31, 2009 the Company has an ongoing positive cash flow from current operations and a deficit in working capital. The Company's Board reviewed the Company's financial position and determined that there was no reasonable concern that the Company would fail to meet its existing and projected financial obligations in the two years following the date of publication of the financial statement, as they fall due. This conclusion is based, inter alia, on the Company's cash balances, including its deposits and short-term investments, on the cash receivable by way of dividends and loan repayments from associates, on the plans of the Company and associates to realize assets, and on the Company's ability to recycle loans.[1]

During March 2009, in agreements with banks, NIS 150 million in new credit was made available to the Company, and NIS 300 million of loans was refinanced.

5.1 Details of liability certificates of the Company

On May 26, 2009, Maalot S&P announced it was downgrading the rating of debentures (series E-M, V and W) issued by the Company, from AA to A with stable outlook.

On May 26, 2009, Midroog rating company announced a rating of A1 for debentures (series E-M, V and W) issued by the Company, and for a further raising of NIS 300 million of debentures which the Company is considering.

[1] This estimate is forward-looking information as defined in the Securities Law, based on the estimates and projections of the Company's management regarding the ability to repay all its liabilities alone. These estimates might not be realized, or they might be realized differently, including materially, from expectations as a result of changes in the market situation, impairment of the value of investments and a change in the cash expected to be received from associates.

6. Analysis by Segments of Operation

6.1 Fuel operations in the US

Delek US results as included in the Company's consolidated financial statements:

	1-3/2009			1-3/2008		
	Refining and marketing operations	Convenience stores and gas stations	Total	Refining and marketing operations	Convenience stores and gas stations	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	294	1,219	1,513	2,701	1,763	4,464
Gross profit (loss)	**(10)**	**171**	**161**	**66**	**170**	**236**
Operation results	44	(18)	26	44	-	44
Expenses not allocated to segments			3			-
Profit from operations			**23**			**44**
Financing expenses, net			19			18
Equity in losses of associates			-			19
Profit (loss)			**(2)**			**2**

	2008		
	Refining and marketing operations	Convenience stores and gas stations	Total
	NIS millions	NIS millions	NIS millions
Revenue	10,030	7,087	17,117
Gross profit	**139**	**834**	**973**
Operation results	42	141	183
Expenses not allocated to segments			74
Profit from operations			**109**
Financing expenses, net			76
Equity in losses of associates			31
Profit			**3**

Delek US operates a refinery with a 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 gas stations and convenience stores in eight neighboring states in the Southeast United States. In addition, Delek US holds about 35% of Lion Oil, which operates an oil refinery with a capacity of 75,000 barrels per day, in El Dorado, Arkansas. The Company's holding in Delek US at the balance sheet date is approximately 73.4%. Delek US is a listed company in the USA.

Analysis of the results of the fuel operations in the U.S.

Refining and marketing operation

On November 20, 2008, a fire broke out in Delek US's refinery in Tyler, Texas, in which two workers died. The refinery was shut down to enable a comprehensive investigation of the circumstances of the event and repair of the damage. The fire damaged two of the refinery's units. Delek US has extensive insurance cover (USD 1 million), which includes property insurance (with an excess of approximately USD 5 million), and consequential loss / business interruption insurance (with a waiting period of 45 days). Delek US estimates that beyond the above excess, most of the cost of the repairs will be covered by the insurance, subject to the insurance policy.

During the first quarter of 2009, Delek US recognized income of USD 30.6 million in respect of compensation from insurance companies. Of this sum, USD 21.1 million is in respect of claims for consequential loss, taking into account the market conditions prevailing at that time, and income of USD 9.5 million is in respect of property damage. (The income in respect of property damage is stated net in the other expenses item, in the amount of USD 1.6 million, after deduction of various expenses in respect of the fire.)

After the balance sheet date, Delek US received additional compensation from the insurance companies in the amount of USD 43 million.

In May 2009, Delek US completed the rebuilding of the unit damaged in the fire, and the refinery resumed operation. In addition, an optimization and overhaul project was completed at the refinery, which had been planned for the fourth quarter of 2009 and was brought forward to the first quarter since the refinery was in any case standing idle.

Gross loss for refinery and marketing operations in the reporting period amounted to NIS 10 million, compared with a profit of NIS 66 million in the corresponding period last year.

The financial results of the refinery segment in the first quarter of 2009 cannot be compared with the corresponding period in the prior year, due to the fire at the refinery in Tyler, which shut down the refinery for the entire first quarter of 2009.

Gas station and convenience store operation

Revenue of the gas station and convenience store segment in the reporting period amounted to approximately NIS 1,219 million, compared with NIS 1,763 million in the same period in 2008, a decrease of about 30%.

The contribution of the convenience stores and gas stations segment to the results of operations was a loss of NIS 18 million compared with last year, when the segment broke even. IN this quarter, profit from sales of fuels was approximately 11 cents per gallon, compared with 12.6 cents per gallon last year, a decrease of about 13% per gallon. The convenience stores suffered a decrease of 4.5% in product sales compared with last year, which is attributed to a lower level of sales in the food category. Including dairy products and soft drinks, in addition to an overall decline in the levels of expenditure of consumers.

Delek US is continuing its plans to upgrade its chain of stores, and at present about 20% of the stores it operates have undergone extensive overhaul, enabling Delek US to focus on sales of premium products on the one hand, and the marketing of private label products due to economies of scale on the other hand.

As part of the strategy of focusing on the core markets in the south-east United States, Delek US announced its intention to sell its operation in Virginia. At March 31, 2009, Delek has sold 24 of its 36 stores in Virginia, and this activity is stated in the balance sheet under the Assets held for sale item.

Additional information

It should be noted that there is a number of differences between the financial results of Delek US according to US GAAP as published, and their inclusion in the financial statements according to Israeli GAAP. The principal difference stems from a different accounting policy for the treatment of inventory – in the US, the cost of inventory is according to LIFO, whereas in the method applied in Israel is the average cost.

For further details about the operations of Delek US, see Note 3 to the financial statements.

6.2 Fuel Operations in Israel

Below are data from the financial statements of Delek Israel:

	1-3/2009	1-3/2008	2008
	NIS millions	NIS millions	NIS millions
Revenue	856	1,397	5,813
Gross profit	174	188	670
Operating profit	48	82	220
EBITDA	67	102	310
Financing expenses, net	1	45	109
Profit before equity in results of associates	47	38	111
Delek Israel's equity in results of associates	(1)	-	(22)
Profit	**38**	**28**	**58**
Attributable to:			
Shareholders of the Company	37	26	51
Non-controlling interest	1	2	7
	38	**28**	**58**

Delek Israel operates in the Israeli fuel product sector which includes the marketing and distribution of fuel products and lubricants, as well as the development, construction and operation of gas stations and convenience stores. At the date of approval of the financial statements, Delek Israel has 233 gas stations and 115 convenience stores.

Net sales

Sales net of government levies ("Net Sales") in the first quarter of 2009 amounted to NIS 856 million, compared with NIS 1,397 million in the first quarter of 2008.

Comparison of first quarters of the 2009 and 2008 shows a decrease of about NIS 541 million, or 39%, in Net Sales in 2009, which is explained mainly by the fall in fuel prices and by the smaller quantities sold, particularly in the direct marketing sector. It is noted that the fall in prices is partially offset by an increase in the sales of Delek Israel's convenience stores, in view of the number of stores compared with last year.

Gross profit

Gross profit in the first quarter of 2009 was NIS 174 million, compared with NIS 188 million in the same period last year.

The decrease in gross profit derives from the fact that the Delek Israel's fuel purchases are made in US dollars, which are recorded in the Cost of sales item at the average exchange rate that month, whereas sales to customers are priced at the exchange at the beginning of the month. When the exchange rate rises (as occurred this quarter), the gross profit of Delek Israel decreases, a decrease that is offset by a corresponding decrease in financing expenses. The decrease in financing expenses derives from the policy of Delek Israel to fully hedge it dollar exposure (to the date of payment of liabilities to the suppliers). The effect between the first quarter of 2009 and the first quarter of 2008 is a decrease of NIS 23 million (in the quarter, gross profit decreased by NIS 8 million compared with an increase of NIS 15 million last year). Eliminating this effect (which does not affect the profit of Delek Israel), the gross profit of Delek Israel increased by about NIS 10 million, which derived from an increase in the sales of its convenience stores, the transition of gas stations to self-service, and an increase in gross profit in the storage and issue sector.

Selling, gas station operation and general and administrative expenses

These expenses in the first quarter of 2009 amounted to NIS 126 million, compared with NIS 106 million in the same period last year.

Most of the increase is due to an increase in gas station operation as a result of the transition of the stations to self-service, and an increase in expenses for the operation of the convenience stores in view of expansion of the chain (115 stations today and 76 this time last year).

Operating profit

Operating profit in the first quarter of 2009 totaled approximately NIS 48 million compared with approximately NIS 83 million in the corresponding period last year. Most of the decrease derives from changes in the dollar exchange rate, which was offset in full by the financing expenses of Delek Israel.

Financing expenses, net

Financing expenses in the first quarter of 2009 amounted to NIS 0.5 million, compared with NIS 45 million in the same period last year. The decrease in financing expenses derives from the profit on hedging transactions for the purchase of fuels, which was offset by gross profit as explained above, the lower average interest rate in the reporting period compared with last year, and a drop of 0.7% un the CPI compared with a rise of 0.4% in the same period last year.

6.3 Fuel Operations in Europe

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

The acquisition of the fuel operations in Europe was carried out by a subsidiary – Delek Benelux BV ("Delek Benelux"). The Company consolidated the assets of Delek Benelux for the first time in the financial statements at March 31, 2007.

In January 2008 Delek Benelux acquired a further 55% of the equity capital of a joint venture known as Schreurs Oilemaatschappij BV ("Schreurs"). After this acquisition Delek Benelux holds all the shares of Schreurs. The cost of the additional acquisition is approximately 12 million euro.

In February 2008 Delek Benelux acquired a further 50% of the equity capital of another joint venture, De Groot Verschuur Holding BV ("DGV"). After this acquisition Delek Benelux holds all the shares in DGV. The cost of the additional acquisition is approximately 22 million euro.

In September 2008 Delek Benelux acquired a further 45% of the equity capital of another joint venture, Olie Maatschappij BV ("Salland"). After this acquisition Delek Benelux holds all the shares in Salland. The cost of the additional acquisition is approximately 13 million euro.

The number of gas stations operated by acquired joint ventures is 216.

Condensed balance sheet of Delek Benelux at March 31, 2009 and 2008 and December 31, 2008 (in euro millions):

	At March 31, 2009	At March 31, 2008	At December 31, 2008
Cash	59	71	43
Current assets (except for cash)	167	214	167
Investments in associates and long-term debit balances	36	43	32
Property, plant and equipment, net	228	209	228
Other assets, net	230	213	241
Short-term loans	49	49	49
Current liabilities (except for short-term loans)	220	233	200
Long-term loans	296	294	295
Other long-term liabilities	46	38	38
Equity	109*	136	129

* The decrease in equity stems from recording a liability of approximately 18 million euro from recording a negative capital fund in equity in respect of hedging transactions to replace variable interest with fixed interest.

These transactions are recognized for accounting purposes as cash flow hedging transactions, and the change in their fair value from period to period is charged to equity.

Data from the income statement of Delek Benelux

Item	1-3/2009	1-3/2008	1-12/2008
Revenue	456	656	2,776
Gross profit	53	56	223
Operating profit	(1)	7	6.5
EBITDA	9	13	54
Equity in profits of associates	0.4	1	3
Net profit	1	2	(9)

Analysis of Delek Benelux's results in the reporting periods

Revenue

Revenue in the first quarter of 2009 amounted to 456 million euro compared with 656 million euro in the corresponding quarter of the previous year. The decrease in revenue stems primarily from the sharp decline in fuel prices.

Gross profit

Gross profit in the first quarter of 2009 amounted to 53 million euro compared with 56 million euro in the corresponding quarter of the previous year, a decline of 5%. The decrease in gross profit stems primarily from the decline in demand for fuel in Europe caused by the economic crisis and it was partly offset by an increase in gross profit from convenience store sales.

Operating profit

The operating loss in the first quarter of 2009 amounted to 1 million euro, compared with a profit of 7 million euro in the corresponding periods last year.

The decrease in profit derives mainly from a decrease in gross profit as noted above, and from a one-time expense of 5 million euro in respect of amortization of goodwill, which was charged to the General and administrative expenses item.

EBITDA

EBITDA (after elimination of a onetime provision for reorganization) in first quarter of 2009 amounted to 9 million euro compared with 13 million euro in the corresponding quarter of the previous year. The decline in EBITDA in the first quarter of 2009 stems primarily from the above-mentioned decline in gross profit.

For further details in connection with the operations of Delek Benelux, see Note 3 to the financial statements.

6.4 Oil and Gas Exploration and Production

Operations in Israel are carried out by Delek Drilling Limited Partnership ("Delek Drilling") and Avner Oil and Gas Exploration Limited Partnership ("Avner") (together, "the Partnerships"), which are partners in the Yam Tethys project (together with Delek Investments) in the Tamar and Dalit drillings and in other oil rights off the coast of Israel.

During February 2009, the Partnerships announced that the Tamar 1 drilling had ended with a commercial gas discovery. The drilling operator announced that the potential average natural gas reserve in the Tamar structure is approximately 5 TCF (about 142 BCM).

During April 2009, the Partnerships announced that the Dalit 1 drilling had ended with a commercial gas discovery. The drilling operator announced that the potential average natural gas reserve in the Tamar structure is approximately 500 TCF (about 14.2 BCM).
The partners in the Partnerships each hold 15.625% of these drilling rights.

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

- Delek Energy (Vietnam) LLC ("Delek Vietnam") focuses on oil and gas exploration in Vietnam. The Company has 21.25% participation rights in the Vietnam project.
- Delek Energy Systems (Rockies) ("Delek Rockies"), a wholly-owned subsidiary of DES. Holds 100% in Elk Resources ("Elk"). Elk is a private company registered in the U.S., involved in the

production and sale of oil and gas, in the development of existing oil and gas assets and in low-risk oil and gas exploration.

– 83.49% of the rights in AreisOne LP ("AriesOne").

29.14% of the capital of Matra Petroleum Plc ("Matra"), which owns the Sokolovskoe oil discovery in Russia.

25.12% of the capital of Viking Oil and Gas International Ltd. ("VOGIL"), a private company which owns two oil tankers. Delek International and VOGIL also hold shares of Nexus Energy, a public company for oil and gas exploration and production in Australia.

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

	1-3/2009	**1-3/2008**	**2008**
	NIS millions	**NIS millions**	**NIS millions**
Revenue	90	115	460
Operating profit	34	44	155
EBITDA	61	67	273
Financing expenses (income), net	64	22	69
Group's equity in the results of Avner and other associates	(3)	7	(27)
Gas sales in BCM*	0.7	0.9	3.5

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

Analysis of the results of operations in the oil and gas segment

Revenue

In the reporting period, revenue to the segment from the sale of gas and oil, net of royalties, was approximately NIS 90 million, compared with NIS 115 million in the prior year, representing a decrease of about 22%.

The decrease in the income item in Israel derives mainly from a decrease in revenue from sales of gas in Israel due to a significant decrease in revenues from the sale of natural gas to Israel Electric Corporation ("IEC"). The Company believes that the source of the decrease is the following: decreased consumption of electricity due to the weather in the winter of 2009 and a decrease in activity in the economy; a malfunction that shut down one of the production units of IEC that operates on natural gas; a fall in the price of natural gas sold at peak demand hours and in the prices of occasional sales as a result of a global fall in the prices of oil and oil products, and a change in the fuel usage model of IEC, deriving, inter alia, from the fall in coal prices.

Operating profit

Operating profit in the reporting period amounted to NIS 34 million compared with operating profit of NIS 44 million in the prior year. In the prior period, oil and gas exploration expenses of approximately NIS 25.5 million were recorded, mainly in respect of drillings abandoned in the North Sea and in Vietnam.

Financing expenses, net

Financing expenses, net in the reporting period amounted to NIS 64 million, compared with NIS 22 million last year, i.e. an increase of NIS 42 million.

Net financing expenses include expenses in respect of a decrease in the fair value of shares available for sale of Nexus, which were purchased in the reporting period, for which the loss amounted to NIS 10 million and which was charged directly to the income statement

In addition, financing expenses increased as a result of linkage difference expenses in respect of revaluation NIS 55 million of bank loans. Conversely, borrowing costs of NIS 14 million which were capitalized for the Vietnam project decreased the financing expenses.

Most of the financing income is from hedging transactions of NIS 2 million on the prices of oil and gas, which were made by the Aries One partnership.

Equity in the results of Avner and other associates

In the reporting period, the energy segment includes losses of approximately NIS 3 million from the holdings in the associate partnership Avner, compared with profit of NIS 7 million in the prior year, a decrease of approximately NIS 10 million. It should be noted that the operating results of Avner also reflect the results of the Yam Tethys project, which were affected mainly by the factors described above. Conversely, Delek Energy recorded losses of approximately NIS 13 million in respect of its equity in the results of VOGIL and Matra. Most of VOGIL's losses stem from impairment of the investment in the Nexus shares it holds.

Events after the balance sheet date

A. After the balance sheet date, significant developments occurred in the exploration activities of the Partnerships. For details, see Note 4 to the financial statements, which include the following:

- Dalit 1 drilling, which ended in a commercial discovery.
- Tamar 2 drilling, which commenced on April 26, 2009.

B. On April 23, 2009 (after the balance sheet date), the national oil company of Vietnam ("Petro-Vietnam") notified Premier Oil Vietnam Offshore B.V., the Block 12W project operator in Vietnam that it had decided to exercise the option granted to it to purchase 15% of the rights in the project in view of the announcement of the project's commerciality, and would do so pursuant to the Production Sharing Contract ("PSC") applicable to the project. Under the terms of the PSC, purchase of the rights is in consideration of the return of the proportionate part 9125%) of past expenses of the project as defined in the PSC. The rebate will be paid partly in cash and partly out of Petro-Vietnam's share in the quantities of oil and/or gas produced in the project which is earmarked, according to the terms of the PSC, for covering reimbursement of past expenses of the partners in the project. Furthermore, under the terms of the PSC, Petro-Vietnam will become a party to the joint operation agreement with the partners in the project, whereby, inter alia, it will be debited its proportionate share of the liabilities relating to it. In view of exercise of the option, the rights of the partners in the project will be as follows: Premier Oil Vietnam Offashore B.V. – 31.875%, Santos International Operations Pty. Ltd. – 31.875%, Petro-Vietnam – 15%, the Company (through a wholly-owned subsidiary – 21.25%.

C. After the balance sheet date and up to the date of publication of this report, the decrease in revenues from sales of natural gas to IEC continued, for the reasons set out in the revenue analysis above, and because of maintenance work in IEC's production units that operate on natural gas and the increase in the gas supply by EMG.

The Partnerships estimate later in the year, after the Hagit power station and ICL start consuming natural gas and assuming no change occurs in the volume of EMG's supply, sales of their gas will increase.

Warning concerning forward-looking information – The Company's assessment as made above is forward-looking information, as the term is defined in the Securities Law, and is based on assessments of the Partnerships concerning future gas consumption of their customers. The assessment of the Partnership might not be realized if actual consumption of gas by their customers differs from those assessments.

6.5 Automotive Operations

Following are the results of the operation of Delek Automotive Systems Ltd. ("Delek Automotive"):

	1-3/2009	1-3/2008	2008
	NIS millions	NIS millions	NIS millions
Revenue	1,033	1,562	4,770
Gross profit	129	289	938
Sales, marketing and administrative and general expenses	16	20	71
Operating profit	113	270	871
EBITDA	116	274	883
Financing income (expenses)	6	(57)	(158)
Profit	**90**	**150**	**504**

The Group holds 54.97% of Delek Automotive (Delek Automotive is a public company whose financial statements are published).

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

Breakdown of vehicle sales by unit:

	1-3/2009	1-3/2008	2008
Mazda vehicles	6,169	11,108	31,537
Ford vehicles	3,325	3,335	11,634
Total vehicle sales	9,494	14,443	43,171
Delek Automotive's market share out of total vehicle sales in Israel (Ministry of Transport Licensing Bureau figures)	24%	24%	22%

The slowdown in the automobile segment caused by the economic crisis continued in this quarter and 38,653 vehicles were sold in Israel compared with 61,000 in the corresponding quarter of the previous year (according to Ministry of Licensing data). Marketing of the new Fiesta, which is enjoying great success in Europe and was Europe's best-selling car in March 2009, has just begun.

Revenue

Sales in the first quarter of 2009 amounted to NIS 1,033 million compared with NIS 1,562 million in the corresponding quarter of the previous year. The decrease in turnover stemmed from the decline in the number of vehicles sold (9,494 vehicles compared with 14,443 in the corresponding quarter of the previous year).

Sales and marketing costs

In the accounting period there was a decline in sales and marketing costs which stemmed primarily from a decline in advertising costs and volume compared with the corresponding quarter of the previous year as well as from a decline in commissions paid to sales agents**.**

General and administrative expenses

General and administrative expenses amounted to NIS 7.5 million compared with NIS 8.9 million in the corresponding quarter of the previous year. Most of the decline stemmed from a decrease in the recording of an expense for share-based payment to employees.

Financing income

In the first quarter of 2009 net financing expenses of NIS 6.5 million were generated for the Company compared with net financing expenses of NIS 57 million in the corresponding quarter of the previous year. Financing expenses in the quarter stemmed primarily from a recording of the results and fair value of hedging transactions amounting to NIS 27 million (expenses of NIS 23 million [were recorded] in the corresponding quarter of the previous year). In addition, revenue from a rise in the value of the investment in Ford Motor Co. shares amounting to NIS 5 million was attributed to the income statement (an expense of NIS 12 million [was recorded] in the corresponding quarter of the previous year). These revenues were offset primarily by a reappraisal of accounts payable balances at NIS 12 million (NIS 15 million in the corresponding quarter of the previous year) and also by financing expenses amounting to NIS 13.5 million which were paid to the banks. (The figure in the corresponding quarter of the previous year was NIS 7 million).

6.6 Real Estate Operations

Delek Real Estate Ltd. ("Delek Real Estate") is a public company whose shares are traded on the Tel Aviv Stock Exchange. At the balance sheet date, the Group holds 79.92% of the shares of Delek Real Estate. After the balance sheet date, shares of Delek Real Estate were distributed as a dividend in kind, and commencing in the second quarter of 2009, the Company will cease consolidation of the results of Delek Real Estate.

Results of operations of Delek Real Estate

	1-3/2009	1-3/2008	2008
	NIS millions	NIS millions	NIS millions
Revenue from rental and sale of apartments and hotel services	408	390	1,654
Cost of revenue	120	57	389
Sale, administrative and general expenses	36	38	160
Financing expenses, net	202	386	2,063
Appreciation (impairment) of investment property and other revenue, net	7	31	(923)
Expenses in respect of Jelmoli	-	7	49
Equity in profits (losses) of associates	3	21	(383)
Income tax (tax benefit)	34	(146)	(330)
Profit attributed to shareholders of Delek Real Estate	1	26	(1)
Other total profit	214	(288)	(3,253)

The results of Delek Real Estate were affected mainly by the following factors:

A. Revenue from leasing, apartment sales and hotel services and cost of revenues increased mainly due to the increase in income from apartments delivered.

B. Financing expenses were affected by the following factors in the reporting period: (1) Delek Real Estate has CPI-linked liabilities of approximately NIS 3,146 million. The effect of the fall of 0.7% in the Known CPI in the reporting period compared with a rise of 04% in the corresponding period in 2008, required the recording of financing income of approximately NIS 22 million. (2) Financing income of approximately NIS 21 million was recognized in respect of SWAP transactions, compared with NIS 59 million in the corresponding period in 2008. Swaps serve mainly to fix interest on loans but are not considered to be accounting hedging.

Material events during the reporting period

1) On January 15, 2009, a foreign company, DGRE, completed the sale of all its holdings (75%) in a property in mid-town Stockholm, Sweden, known as Repslagaren 37.

The carrying value of the building at September 30, 2008 was SEK 217 million. The property was sold at a value of SEK 235 million (about NIS 110.5 million), from which the sum of SEK 18 million was deducted for making adaptations and improvements, while the seller received an additional SEK 4 million by virtue of a check that credited the seller with receipt of the rent in respect of the entire first quarter of 2009, and in all a total of approximately SEK 221 million (about NIS 104 million). The balance of the loan in respect of the property is SEK 145.17 million ("the Bank Loan"). The original cost of purchase of the property in April 2004 was SEK 185.5 million. The total part of DGRE in the receipts from sale of the property (before tax), net of expenses, investments in the property and repayment of the Bank Loan, is estimated at SEK 54 million (about NIS 25.5 million).

2) After the balance sheet date, on May 6 2009, Delek Real Estate published a shelf offering report for a rights issue and the listing of securities under a shelf prospectus published by Delek Real Estate on August 29, 2007 and as amended on May 3, 2009 (""Shelf Prospectus" and "Rights Issue", respectively). Subsequently, on May 6, 2009, Delek Real Estate published a Shelf Proposal report for the purchase of 58,003,301 ordinary shares of unspecified par value ("the Additional Shares"). The Additional Shares offered under the Prospectus and Proposal report will have equal rights from every aspect to the existing ordinary shares of Delek Real Estate ("the Existing Shares").

The Additional Shares are offered to the shareholders of Delek Real Estate who are listed in the shareholders register of Delek Real Estate on May 12, 2009 ("the Effective Date"), in such a way that in respect of every 20 shares, a shareholder will be entitled to purchase one unit of the following composition and price:

9 ordinary shares at a minimum price of NIS 2.07 per share – total NIS 18.63.

The contribution of the exercised rights amounted to approximately NIS 119.9 million.

<u>Distribution of shares of Delek Real Estate an arrangement with a bank</u>

For the distribution of shares of Delek Real Estate, negotiations were held with a bank in whose favor the shares of Delek Real Estate owned by the Company were charged.

As a condition for release of the charge on the shares and its consent to a change in the control of Delek Real Estate, the Company entered into the following agreements with the bank on March 26, 2009:

a. The bank cancelled the existing charge in its favor on the Delek Real Estate shares owned by the Company, and gave its approval for distribution of the shares.

b. The bank will provide the Company, immediately, with a new loan of NIS 150 million. The loan will be short term, to the date of purchase of part of the debt of Delek Real Estate to the bank by the Company, and after the debt purchase date, the loan will become a long-term loan (for repayment in one payment in 2018), at prime minus 0.25% interest.

c. The Company undertook to the bank that on any date when Delek Real Estate repays the Company a sum on account of the loans that the Company extended to Delek Real Estate in the matter of RoadChef (principal – NIS 280 million), the Company will purchase from the bank with any such amount, part of the rights in Delek Real Estate's debt to the bank, in the same amount as is repaid, up to a cumulative sum of NIS 150 million.

d. Sale of the debt by the bank to the Company will be without transfer of any of the rights of the bank in securities given and/or that will be given in its favor to secure the debt. The Company may record a junior charge on the assets securing the debt, subject to fulfillment of a number of conditions.

e. To secure fulfilment of the Company's obligations to the bank, the Company will endorse by way of a senior lien in favor of the bank, all its rights under the loan agreements of Delek Real Estate in respect of RoadChef.

On March 31, 2009 the Company's board of directors announced the distribution to Company shareholders of a dividend in kind of the shares it holds in Delek Real Estate. The actual distribution too place on May 3, 2009, in such a way that each Company shareholder received 8.8 shares of Delek Real Estate fore ach share it holds in the Company. After the distribution, the Company remains with a holding of 5% of the shares of Delek Real Estate.

6.7 Insurance and Finance Operations

Most of the holdings of The Phoenix in the insurance and finance segment 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 The Phoenix Holdings Ltd. At the reporting date, the Company holds approximately 55% of the shares of The Phoenix Holdings Ltd. and all the shares of Republic, which is an elementary insurance company operating in the U.S.

1) The Phoenix Holdings Ltd. ("The Phoenix")

<u>The Phoenix Insurance – Equity requirements at March 31, 2009</u>

The equity of The Phoenix Insurance at March 31, 2009, as defined in the Supervision of Insurance Business (Minimum Solvency Margin Required of an Insurer) Regulations, 5758-1998 and its amendments ("the Equity Regulations") is approximately NIS 453.5 million higher than the minimum equity required under the aforesaid regulations.

Investments in associates which must be stood against capital surpluses in accordance with directives of the Supervisor, are NIS 303.3 million (which are non-distributable surpluses).

Following are the principal data from the consolidated financial statements of The Phoenix, in which the Group has a 55% holding (in NIS millions).

	1-3/2009	1-3/2008	1-12/2008
Profit (loss) from life insurance and long-term savings operations	79.0	(29.4)	(143.5)
Profit (loss) from general insurance operations	21.7	0.4	(303.4)
Profit from health insurance operations	35.5	18.4	80.4
Profit from financial services operations	46.7	-	-
Total profit (loss) from segments of operation	**182.9**	**(10.6)**	**(366.5)**
Change in liability for option to acquire an associate	-	28.2	(5.7)
Revenue less expenses not attributed to segments of operation*	(27.5)	16.5	(232.5)
The Phoenix's equity in the net results of associates	26.5	29.7	44.0
Profit (loss) before income tax	**181.9**	**63.8**	**(560.7)**
Income tax (tax benefit)	68.4	(4.8)	(172.3)
Profit (loss) for the period	**113.5**	**68.6**	**(388.4)**
Profit (loss) for the period attributable to shareholders of the Phoenix*	**106.7**	**65.9**	**(387.8)**

The results in the reporting period from the segments in which The Phoenix operates were a profit of approximately NIS 182.9 million, compared with a loss of NIS 10.6 million in the first quarter of 2008. The principal factors for the transition to profit in the reporting period compared with the previous year in the segments of operation are the improvement in underwriting results, a significant rise in investment profits, and the consolidation of the finances segment in the financial statements commencing from the reporting period.

In the reporting period, the results in the income statement showed a profit of approximately NIS 113.5 million, compare with a profit of NIS 68.6 million in the first quarter of 2008, an increase of about 65.5%. The increase in profit is mainly from an increase in profit from areas of operation noted above.

Total profit in the reporting period amounted to approximately NIS 266.3 million, compared with a profit of NIS 50.8 million in the same period last year. The increase in total profit compare with the increase in profit in the income statement is due to realizations, as noted above.

Material events during and after the reporting period:

a. On March 19, 2009, Standard & Poor's Maalot Ltd. ("Maalot") announced the lowering of the rating for The Phoenix Insurance subordinated deeds to 'ilAA-' from 'ilAA' and determined a negative rating outlook for the ratings of The Phoenix Insurance. In addition, Maalot announced the lowering of the rating for the debentures of The Phoenix Holdings to 'ilA' from 'ilAA' and determined a negative rating outlook for the ratings of The Phoenix Holdings.

b. On March 19, 2009, it was decided to appoint Mr. Eyal Lapidot as CEO of The Phoenix and of The Phoenix Insurance, and to enter into an employment agreement with him, effective from June 1, 2009.

c. On March 29, 209, the Company invested NIS 200 million in The Phoenix insurance, in consideration of an allotment of shares, in order to increase the equity of The Phoenix Insurance.

d. For the matter of a settlement agreement with regard to the Excellence transaction, see Note 3 to the financial statements.

Analysis of life insurance and long-term saving

Life insurance

In the reporting period, the results of life insurance sector were a profit of approximately NIS 76 million, compared with a loss of NIS 28.8 million in the first quarter of 2008. The transition to profit is mainly the result of an increase in revenues from investments (see analysis of the capital market in section d. above). I addition, a decrease was recorded in commissions paid and in general and administrative expenses, which also contributed to the improvement in profit.

Premiums earned in the reporting period amounted to approximately NIS 663.2 million, compared with NIS 638.7 million in the same period in 2008, an increase on 3.8%.

Redemptions in the reporting period amounted to approximately NIS 171.1 million, compared with NIS 166.7 million in the same period in 2008, an increase of about 2.7%.The rate of redemptions compared with average life insurance reserves, gross, at March 31, 2009 and March 31, 2008, is approximately 0.81% and 0.74% respectively.

Pension and provident funds

At the reporting date, the volume of assets in The Phoenix Pension and Provident Fund Management Ltd. ("The Phoenix Pension") amounted to approximately NIS 2,347 million, compared with NIS 1,941 million on March 31, 2008. The Phoenix Pension's pre-tax profit in the reporting period amounted to approximately NIS 2.6 million, compared with a pre-tax losst of NIS 0.3 million in the corresponding period in 2008..

At the reporting date, the volume of assets in The Phoenix Provident Fund Management Ltd. ("The Phoenix Provident") amounted to approximately NIS 710 million, compared with NIS 632 million on December 31, 2008. The Phoenix Provident's pre-tax profit in the reporting period amounted to approximately NIS 0.4 million, compared with a pre-tax loss of NIS 0.3 million in the same period in 2008.

Analysis of the general insurance segment

Revenue from premiums earned in the reporting period amounted to approximately NIS 436.8 million, compared with NIS 406.5 million in the corresponding period of the prior year, an increase of approximately 7.5%.

Profit from general insurance sector in the reporting period amounted to approximately NIS 21.7 million compared with a profit of NIS 0.4 million in the first quarter of 2008, mainly due to the improvement in underwriting profit, mostly from compulsory vehicle and vehicle property insurance. See also analysis of areas of operation, below.

Losses from investments in the reporting period amounted to approximately NIS 24.9 million, compared with loss from investments of NIS 2.5 million in the corresponding period last year. The losses from investments in the current period derive mainly from losses from currency hedging, which were charged to the income statement in accordance with accounting principles, while profits from the rise in the value of currency in the same amount on investment assets in respect of this hedging were charged to a capital fund and will be reflected only in total profit.

Health insurance segment

Revenues from premiums earned in the health insurance segment in the reporting period amounted to approximately NIS 236.6 million, compared with NIS 203.8 million in the corresponding period last year, an increase of 16.1%. Most of the increase is attributable to a contract signed at the end of the prior year relating to relocation health insurance.

Profit in the reporting period amounted to approximately NIS 35.5 million, compared with NIS 18.4 million in the corresponding period of the priors year, an increase of approximately 92.9%. The increase in profit derives mainly from improved profitability in all areas, as a result of increased revenue from investments and a decrease in the claim rate.

Financial services segment

Activity in this segment is through Excellence, whose results were consolidated in the financial statements of The Phoenix commencing from the reporting period, when the Call option came into force.

In the reporting period, financial services posted a profit of approximately NIS 46.7 million, According to the financial statements of Excellence, total assets under management by the Excellence group at March 31, 2009 amount to NIS 35.5 billion, compared with NIS 32.2 billion on December 31, 2008, an increase of 10.2%.

During the first quarter of 2009, a trend has been apparent of an increase in assets under management in most of the areas of operation of the Excellence group. The transition to positive yield and the recovery in the capital market that characterized the first quarter of the year, enabled Excellence to grow or to maintain the status quo in all its areas of operation. Despite the increase in volume of assets, the rate of management fees in most areas is still low compared with the first quarter of 2008, due to the public's preference for management in more solid channels and an intensification in competition – a trend that typified 2008. In addition, part of the increase in volume of assets derives from an increase in the volume of the pension funds managed by the Group.

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

Delek Finance is a holding company which holds 99.5% of the share capital of Republic Companies Inc. ("Republic"), a company which holds insurance companies and agencies and deals primarily in property and other general insurance, chiefly in the states of Texas, Louisiana, Oklahoma Mississippi, Arkansas and New Mexico.

Following are the results of the operations of Republic as they are included in the Group's results:

	1-3/2009	**1-3/2008**	**2008**
	USD millions	**USD millions**	**USD millions**
Premiums earned in retention	97	94	375
Revenue from investments and others, net	11	10	25
Total revenue	**108**	**104**	**400**
Increase in insurance liabilities less reinsurance	61	48	289
Commissions and other acquisition costs	29	28	111
General and administrative expenses	8	10	36
Goodwill write-down expenses	-	-	4
Expenses in respect of employee benefits	-	-	13
Financing expenses	2	3	9
Total expenses	**100**	**89**	**462**
Profit (loss) before income tax	**8**	**15**	**(62)**
Profit (loss)	**6**	**10**	**(44)**

Analysis of Republic's operating results

Revenue from premiums (gross) in the reporting period totaled USD 198.2 million compared with USD 183.4 million in the corresponding period of the previous year, an increase of about 8.1%.

The rise in revenues from premiums stems from a growth in all Republic's areas of operation, including growth in premiums from private and commercial insurance, and continued growth in the insurance services sector (provision of insurance services to other insurance companies).

Results in the reporting period were badly affected by the losses caused by a relatively large number of events of fire events in private properties (which are explained by the increasing motivation to defraud insurance companies because of the economic crisis), losses in employers' liability insurance and vehicle insurance and a decline in revenues in the investment portfolio caused by low market yields. No exceptional losses were recorded as a result of weather damage in the first quarter of 2009, which is in accordance with expectations for this period.

Earned premiums (retention) in the reporting period amounted to USD 97.2 million compared with USD 94 million in the corresponding quarter of the previous year, an increase of 3.4%.

Republic's equity as included in the Group's financial statements at March 31, 2009 amounted to USD 307 million (December 31, 2008 – USD 284 million) and Republic's net profit in the reporting period as included in the Group's financial statements amounted to USD 6 million.

Additional information

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

6.8 Additional Activities

1) Infrastructures

The Company operates in infrastructures through IDE Technologies Ltd. and Delek Infrastructures., which coordinates the development and operating activities of power stations in Israel and in Brazil. The contribution of these operations to the profit of the Group in the first quarter of 2009 amounts to approximately NIS 40 million.

2) Biochemicals

Gadot, a manufacturer of food supplements and chemicals for the food, health supplements, detergents and toiletries, is a public company in which the Group holds 64.11% at the balance sheet date.

Gadot manufactures crystalline fructose, citric acid, citric acid salts, phosphoric acid salts, and specialty citric-acid-based salts. Most of Gadot's sales are in European and North American markets, and among its customers are some of the world's leading multinational companies in the food and detergent industries.

The contribution of the biochemicals segment to the profit of the Group in the first quarter of 2009, amounted to a profit of approximately NIS 12 million, compared with a loss of NIS 4 million in the first quarter of 2008.

3) Communications

Hot Cable Communications Systems Ltd. ("Hot"), is a public company in which the Group holds 15.97% at the balance sheet date.

The investment in Hot is stated in the Group's statements on the basis of the equity method. The contribution made by telecommunications operations to the Group's net profit in the first quarter of 2009 amounted to approximately NIS 3 million, compared with a profit of approximately NIS 10 million in the previous year.

The balance of the investment in Hot at March 31, 2009 is approximately NIS 281 million.

7. Market Risk Exposure and Management

A.

1) The activities of the Company focus mainly on holdings of shares of its subsidiaries and their management. The investments are long term, and therefore no hedging is implemented against these holdings.

   Risk management in the subsidiaries and associates is determined and carried out directly by the associates. Some of the companies are public and trade on the stock exchange, and therefore proper disclosure is made on this subject in their financial statements.

2) The market risk management officer for currency in the Company and in some of the associates is Mr. Ido Adar, MBA. For the past four years, Mr. Adar has served as Treasurer of the Company, prior to which he served as head of the Treasury and Insurance department at 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 ("Investees").

2) In the reporting period no material changes occurred in the Company's market risk exposure and management policy, including the effects of sensitivity tests in relation to the Group's report on this subject for the year ended December 31, 2008.

8. Buy-back of securities

During the reporting period, the Company bought back 5,504 of its own shares in consideration of approximately NIS 0.8 million.

After the balance sheet date a subsidiary purchased 22,462 of the Company's shares in consideration of approximately NIS 9.7 million.

After the balance sheet date the Company bought back 5,459 of its own shares in consideration of approximately NIS 2 million.

9. Dividend

A. On March 31, 2009, the board of directors of the Company resolved to distribute shares of Delek Real Estate to the Company's shareholders. The dividend was distributed in May 2009.

B. On May 27, 209 the Board of Directors of the Company resolved to distribute a dividend from the profits of the first quarter of 2009, in the amount of approximately NIS 72 million.

10. Critical Accounting Estimates

There has been no change in the reporting year compared with the periodic report of 2008

11. Process for approval of the financial statements

No changes occurred in the reporting period compared with the Periodic Report for 2008.

Sincerely,

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

Appendix A to the Directors' Report

Breakdown of payments of principal and interest of debentures and loans from banks of the Group companies at March 31, 2009 (in NIS millions).

Delek Group – Headquarters

		Q2-Q4/ 2009	2010	2011	2012	2013	2014 onwards	Total
Debentures	Principal	33	80	344	423	456	3,096	4,432
	Interest	185	213	208	193	172	627	1,598
	Total	218	293	552	616	628	3,723	6,030

The Delek Group also has on-call loans amounting to approximately NIS 387 million.

Delek Investments and Assets

		Q2-Q4/ 2009	2010	2011	2012	2013	2014 onwards	Total
Bank loans	Principal	64	234	109	88	3	44	542
	Interest	16	16	10	5	2	6	55
	Total	80	250	119	93	5	50	597

Delek Investments also has on-call loans amounting to approximately NIS 118 million.

Delek Finance US

		Q2-Q4/ 2009	2010	2011	2012	2013	2014 onwards	Total
Bank loans	Principal	8	177	320	415	-	-	920
	Interest	37	34	25	12	-	-	108
	Total	45	211	345	427	-	-	1,028

Delek Petroleum

		Q2-Q4/ 2009	2010	2011	2012	2013	2014 onwards	Total
Debentures (1)	Principal	-	27	115	-	115	165	422
	Interest	25	25	21	16	14	11	112
Bank loans	Principal	10	72	46	18	-	-	146
	Interest	2	4	1	1	-	-	8
	Total	37	128	183	35	129	176	688

(1) The debentures do not include debentures which have been raised in the past and given as a loan (BTB) to Delek Israel.

(2) The bank loans do not include approximately NIS 6 million of commercial paper.

DELEK GROUP LTD.

Interim Consolidated Financial Statements as of March 31, 2009

Unaudited

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Auditor's report for the shareholders of Delek Group Ltd.

Introduction

We have reviewed the accompanying financial information of Delek Group Ltd. and its subsidiaries ("the Group"), including the condensed interim consolidated balance sheet as of March 31, 2009, and the condensed interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months then ended. The board of directors and the management are responsible for preparation and presentation of the interim financial information in accordance with IAS 34 - Interim Financial Reporting. Our responsibility is to express an opinion on the interim financial information for the period based on our review.

We did not review the condensed interim financial statements of consolidated companies, the consolidated assets of which represent approximately 11% of the total consolidated assets as of March 31, 2009, and the consolidated revenue of which represent approximately 7% of the total consolidated revenue for the three months then ended. Furthermore, we did not review the condensed financial information of equity-accounted investees the investment in which amounted to NIS 707 million as of March 31, 2009, and the Company's share in their profits amounted to NIS 54 million for the three months then ended. The condensed interim financial information of those companies was reviewed by other accountants, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial information of such companies, is based on the reviews of the other accountants.

Review scope

We conducted our review in accordance with Accounting Standard no. 1 – Review *of Interim Financial Information Performed by the Independent Auditor of the Entity*, established by the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with accepted accounting principles in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review of other accountants, nothing has come to our attention that causes us to believe that this financial information is not prepared, in all material respects, in accordance with IAS 34.

Additionally, based on our review, nothing has come to our attention that causes us to believe that this financial information is not prepared, in all material respects, in accordance with the disclosure provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports) -1970, insofar as these regulations are applicable to the consolidated insurance companies.

Without qualifying our opinion, we call attention to Note 6(A) to the financial statements with respect to lawsuits filed against investees.

Tel Aviv
May 27, 2009

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Consolidated Balance Sheets

	March 31 2009	March 31 2008	December 31 2008
	Unaudited	Unaudited	Audited
	NIS millions		
Current assets			
Cash and cash equivalents	2,513	3,124	1,895
Performance-based cash and cash equivalents in insurance companies	683	280	605
Short-term investments in the financial sector	10,886	-	-
Short-term investments in insurance companies	2,168	2,517*)	1,995
Other short-term investments	704	1,094	1,039
Financial derivatives	127	143	129
Trade receivables	2,867	3,682	2,596
Insurance premium collectible	1,144	954*)	936
Other receivables	1,340	993*)	1,057
Taxes receivable	37	183	292
Reinsurance assets	1,803	1,504	1,677
Inventory	2,411	2,206	2,482
Deferred acquisition expenses in insurance companies	441	360	390
	27,124	17,040	15,093
Assets held for sale	4,037	-	4,183
	31,161	17,040	19,276
Non-current assets			
Financial investments of insurance companies	24,513	25,497*)	22,821
Long-term loans, deposits and receivables	1,677	1,178	1,382
Investments in other financial assets	1,271	1,054	1,187
Investment in investees	2,580	3,792*)	2,860
Investment property	14,288	21,207	13,460
Land held for construction	449	534	496
Investments in oil and gas exploration and production	1,757	1,171	1,478
Reinsurance assets	1,442	1,058	1,476
Fixed assets, net	6,904	5,767*)	6,164
Deferred acquisition expenses in insurance companies	727	738*)	737
Advance expenses (primarily for operating lease)	393	339	313
Structured debentures	1,080	-	-
Goodwill	3,454	3,252	2,873
Other intangible assets, net	2,091	1,386*)	1,692
Deferred taxes	379	267*)	441
	63,005	67,240	57,380
Total assets	94,166	84,280	76,656

*) Reclassified

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

Consolidated Balance Sheets

	March 31 2009	March 31 2008	December 31 2008
	Unaudited	Unaudited	Audited
	NIS millions		
Current liabilities			
Credit from banks and others	6,632	5,190	6,868
Trade payables	2,297	3,158	1,901
Other payables	4,329	3,294*)	3,493
Index-linked certificates and deposit	10,291	-	-
Taxes payable	94	91	136
Dividend declared	-	64	-
Financial derivatives	181	208	171
Insurance reserves and contingent liabilities	5,134	4,930	4,742
	28,958	16,935	17,311
Liabilities for assets held for sale	2,738	-	2,733
	31,696	16,935	20,044
Long term liabilities			
Loans from banks and others	16,700	18,439*)	15,021
Debentures convertible into shares of subsidiaries	108	205	107
Structured debentures	1,065	-	-
Other debentures	9,562	9,896*)	9,262
Option warrants and the convertible component of debentures	149	10	134
Financial derivatives	1,459	834	1,217
Liabilities for employee benefits, net	226	193*)	207
Insurance reserves and contingent liabilities	25,285	24,996	23,944
Provisions and other liabilities	710	1,424*)	620
Deferred taxes	1,826	2,787*)	1,737
	57,090	58,784	52,249
Equity attributed to Company shareholders			
Share capital	13	13	13
Share premium	1,583	1,583	1,583
Retained earnings	1,201	3,147	1,044
Adjustments for translation of financial statements of foreign operations	(455)	(732)	(928)
Other capital reserves	(116)	220	(89)
Treasury shares	(106)	(5)	(105)
	2,120	4,226	1,518
Minority interest	3,260	4,335	2,845
Total equity	5,380	8,561	4,363
	94,166	84,280	76,656

*) Reclassified

May 27, 2009			
Date of approval of the financial statements	Gabriel Last Chairman of the Board	Asi Bartfeld CEO	Barak Mashraki CFO

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

Consolidated Statements of Income

	Three months ended March 31		Year ended December 31
	2009	**2008**	**2008**
	Unaudited		**Audited**
	NIS millions (Except for net earnings (loss) per share)		
Revenue	9,524	12,484*)	47,894
Cost of revenue	7,600	10,478	40,938
Gross profit	1,924	2,006	6,956
Appreciation (depreciation) of investment property, net	3	9	(746)
Selling, marketing and gas station operating expenses	857	793*)	3,275
General and administrative expenses	467	319*)	1,778
Other revenue, net	70	60	10
Earnings from ordinary operations	673	963	1,167
Financing revenue	228	160	495
Financing expenses	559	850*)	4,042
	342	273	(2,380)
Gains from realization of investments in investee and other companies, net	-	-	69
Group's share in profits (losses) of investees and partnerships, net	68	54	(375)
Income (loss) before income tax	410	327	(2,686)
Income tax (tax benefit)	135	(65)	(373)
Net income (loss)	275	392	(2,313)
Attributable to:			
Company shareholders	157	194	(1,809)
Minority interest	118	198	(504)
	275	392	(2,313)
Net earnings (loss) per share attributable to Company shareholders (NIS)			
Basic net earnings (loss)	13.84	16.62	(155.99)
Diluted net earnings (loss)	12.86	15.25	(163.48)

*) Reclassified

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

Consolidated Statements of Comprehensive Income

	Three months ended March 31		Year ended December 31
	2009	2008	2008
	Unaudited		Audited
	NIS millions		
Net income (loss)	275	392	(2,313)
Other comprehensive profit (loss)			
Profit for available-for-sale assets, net	234	(88)	(427)
Profit for cash flow hedges, net	(171)	(57)	(149)
Adjustments for translation of financial statements of foreign operations	584	(656)	(1,011)
Company's share in other comprehensive profit (loss) of affiliates	39	(66)	(81)
Revaluation of existing investment upon gaining control	-	-	20
Other comprehensive profit (loss), net	686	(867)	(1,648)
Total comprehensive profit (loss)	961	(475)	(3,961)
Attributable to:			
Company shareholders	603	(310)	(2,818)
Minority interest	358	(165)	(1,143)
	961	(475)	(3,961)

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders								
	Equity	Premiums on shares	Retained earnings	Adjustments for translation of financial statements of foreign operations	Other capital reserves	Treasury shares	Total	Minority interest	Total equity
	Audited								
	NIS millions								
Balance at January 1, 2009 (audited)	13	1,583	1,044	(928)	(89)	(105)	1,518	2,845	4,363
Total comprehensive profit (loss)	-	-	157	473	(27)	-	603	358	961
Acquisition of treasury shares	-	-	-	-	-	(1)	(1)	-	(1)
Acquisition of minority rights	-	-	-	-	-	-	-	(44)	(44)
Cost of share-based payment, net	-	-	-	-	-	-	-	1	1
Consolidation of an affiliate	-	-	-	-	-	-	-	107	107
Dividend to a minority	-	-	-	-	-	-	-	(7)	(7)
Balance at March 31, 2009	13	1,583	1,201	(455)	(116)	(106)	2,120	3,260	5,380

*) As of March 31, 2009, the reserve balance includes NIS 120 million for assets available for sale.

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders								
	Equity	Premiums on shares	Retained earnings	Adjustments for translation of financial statements of foreign operations	Other capital reserves	Treasury shares	Total	Minority interest	Total equity
	Audited								
	NIS millions								
Balance at January 1, 2008 (audited)	13	1,574	3,017	(339)	331	-	4,596	4,587	9,183
Total comprehensive profit (loss)	-	-	194	(393)	(111)	-	(310)	(165)	(475)
Exercise of options to Company shares	-*)	9	-	-	-	-	9	-	9
Acquisition of treasury shares	-	-	-	-	-	(5)	(5)	-	(5)
Dividend	-	-	(64)	-	-	-	(64)	-	(64)
Cost of share-based payment, net	-	-	-	-	-	-	-	4	4
Acquisition of minority rights	-	-	-	-	-	-	-	(29)	(29)
Issue of capital to a minority in a subsidiary	-	-	-	-	-	-	-	1	1
Dividend to a minority	-	-	-	-	-	-	-	(63)	(63)
Balance at March 31, 2008	13	1,583	3,147	(732)	220	(5)	4,226	4,335	8,561

*) Represents an amount of less than NIS 1 million.

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders								
	Equity	Premiums on shares	Retained earnings	Adjustments for translation of financial statements of foreign operations	Other capital reserves	Treasury shares	Total	Minority interest	Total equity
	Audited								
	NIS millions								
Balance at January 1, 2008	13	1,574	3,017	(339)	331	-	4,596	4,587	9,183
Total comprehensive loss	-	-	(1,809)	(589)	(420)	-	(2,818)	(1,143)	(3,961)
Exercise of options to Company shares	-*)	9	-	-	-	-	9	-	9
Acquisition of treasury shares	-	-	-	-	-	(105)	(105)	-	(105)
Dividend	-	-	(164)	-	-	-	(164)	-	(164)
Decrease in the holding in subsidiaries	-	-	-	-	-	-	-	82	82
Cost of share-based payment, net	-	-	-	-	-	-	-	54	54
Acquisition of minority rights	-	-	-	-	-	-	-	(408)	(408)
Dividend to a minority	-	-	-	-	-	-	-	(327)	(327)
Balance at December 31, 2008	13	1,583	1,044	(928)	(89)	(105)	1,518	2,845	4,363

*) Represents an amount of less than NIS 1 million.

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

Condensed Statements of Cash Flows

	Three months ended March 31		Year ended December 31
	2009	2008	2008
	Unaudited		Audited
	NIS millions		
Cash flows from operating activities			
Net income (loss)	275	392	(2,313)
Adjustments to reconcile cash flows from operating activities (a)	351	(104)	3,992
Net cash flows from operating activities	626	288	1,679
Cash flow from investing activities			
Acquisition of property, plant and equipment and other assets	(559)	(244)	(926)
Acquisition of investment property	(7)	(228)	(429)
Proceeds from the sale of property, plant and equipment and investment property	374	6	444
Proceeds from the sale (acquisition) of financial assets, net	88	(187)	(614)
Repayment (grant) of loans to associates, net	30	20	(433)
Short-term investments	(4)	96	10
Increase in joint ventures for oil and gas exploration	(123)	(25)	(228)
Proceeds from the sale of investments in investees	6	-	80
Investment in investees	(19)	(16)	(241)
Acquisition of operations and companies consolidated for the first time (b)	164	(516)	(709)
Acquisition of minority rights in subsidiaries	(7)	(11)	(361)
Collection (providing) of loans to others	(5)	30	(25)
Tax paid	-	(44)	(44)
Payments for cancelled investment	-	-	(38)
Net cash used for investing activities	(62)	(1,119)	(3,514)
Cash flow from financing activities			
Short-term credit from banks and others, net	524	(73)	1,390
Long-term loans received	672	1,470	2,986
Long-term loans repaid	(1,049)	(376)	(2,694)
Issue of shares to a minority in subsidiaries	-	-	56
Dividend paid	-	(160)	(324)
Dividend paid to a minority in subsidiaries	(6)	(63)	(457)
Exercise of options into Company shares	-	6	6
Acquisition of treasury shares	(1)	(5)	(105)
Issue of debentures and convertible debentures, net	-	545	980
Repayment of debentures and convertible debentures	(91)	(77)	(468)
Net cash flows from financing activities	49	1,267	1,370
Translation differences for cash balances of foreign operations	85	(114)	(151)
Increase (decrease) in cash and cash equivalents	698	322	(616)
Loss in respect of assets available for sale	(2)	-	(5)
Balance of cash and cash equivalents at the beginning of the period (including performance-based balance)	2,500	3,082	3,121
Balance of cash and cash equivalents at the end of the period (including performance-based balance)	3,196	3,404	2,500

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

Consolidated Statements of Cash Flows

	Three months ended March 31		Year ended December 31
	2009	2008	2008
	Unaudited		Audited
	NIS millions		
(a) Adjustments to reconcile statement of cash flows from operating activities:			
Income and expenses not involving cash flows:			
Depreciation (appreciation) of investment property, net	(3)	(9)	746
Depreciation, depletion, amortization and impairment of assets	222	120	1,023
Deferred taxes, net	25	(253)	(659)
Increase (decrease) in employee benefit liabilities, net	(1)	(10)	25
Increase in the value of loans provided, net	(17)	(68)	(105)
Proceeds from the sale of property, plant and equipment, real estate and investments, net	(9)	(3)	(102)
Group's share in losses (profits) of partnerships and affiliates (1)	(66)	(54)	485
Net change in fair value of financial assets and derivatives	(49)	74	1,037
Increase in value of long-term liabilities, net	41	31	346
Increase in deferred acquisition expenses	(21)	(41)	(30)
Cost of share-based payment	5	30	59
Change in financial investments of insurance companies, net	(1,232)	576	4,070
Investments, less proceeds from the sale of available-for-sale financial assets in insurance companies, net	(646)	66	(365)
Increase (decrease) in reserves and outstanding claims in insurance companies	1,870	(850)	(2,162)
Decrease (increase) in reinsurance assets	30	100	(266)
Proceeds from early redemption of debentures	(10)	-	(55)
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(377)	(245)	1,038
Decrease (increase) in other receivables	3	(333)	190
Decrease (increase) in inventory	134	19	(264)
Decrease (increase) in other assets, net	43	(3)	(57)
Increase (decrease) in trade payables	402	93	(1,336)
Increase in other payables	7	656	374
	351	(104)	3,992
(1) Net of dividends received	2	-	110

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

Consolidated Statements of Cash Flows

		Three months ended March 31		Year ended December 31
		2009	2008	2008
		Unaudited		Audited
		NIS millions		
(b)	Acquisition of companies consolidated for the first time			
	Working capital, net (excluding cash)	116	474	485
	Short-term finance investments	(9,453)	-	-
	Long-term finance investments	(2,057)	-	-
	Property, plant and equipment, real estate, investments and other property	(877)	(1,162)	(1,436)
	Short-term finance liabilities	8,944	-	-
	Long term liabilities	2,998	42	56
	Minority right	107	-	-
	Decrease in investments in investees	386	130	186
		164	(516)	(709)
(c)	Significant non-cash activities			
	Credit acquisitions of fixed assets	14	3	16
	Liability for divesture of assets	1	10	1
	Dividend and earnings to pay to a minority in subsidiaries	5	6	11
	Dividend declared	-	64	-
	Dividend and profits to receive from affiliates	-	-	26
	Exercise of options for Company shares	-	3	3
	Acquisition of minority interests in an investee in return for investment property and available-for-sale asset	40	-	-
	Investment in oil and gas assets	130	-	129

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

Consolidated Statements of Cash Flows

	Three months ended March 31		Year ended December 31
	2009	2008	2008
	Unaudited		Audited
	NIS millions		
(d) Cash and cash equivalents			
Cash and cash equivalents at the beginning of the period			
Cash and cash equivalents	1,895	2,776	2,815
Performance-based cash and cash equivalents in insurance companies	605	306	306
	2,500	3,082	3,121
Cash and cash equivalents at the end of the period			
Cash and cash equivalents	2,513	3,124	1,895
Performance-based cash and cash equivalents in insurance companies	683	280	605
	3,196	3,404	2,500
(e) Additional information on cash flows			
Cash paid during the period for:			
Interest	492	336	1,617
Income tax	56	94	319
Cash received during the period for:			
Interest	83	74	144
Dividend	5	7	105

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

NOTE 1 – GENERAL

These financial statements were prepared in condensed format as of March 31, 2009 for the three months then ended ("the interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2008 for the year then ended, and their accompanying notes ("the annual financial statements").

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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

The interim consolidated financial statements were prepared in accordance with generally accepted accounting principles for the preparation of interim financial statements as prescribed by IAS 34 – *Interim Financial Reporting* and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970, insofar as these regulations are applicable to the consolidated insurance companies.

The main accounting policy and calculation methods applied in the preparation of these interim consolidated financial statements are consistent with those applied in the preparation of the annual financial statements, except for the following:

IAS 1 – *Presentation of Financial Statements* (revised)

In accordance with the amendment to IAS 1, a separate statement is required for comprehensive income. This statement includes the net profit taken from the statement of income, all items charged directly to equity in the reporting period and are not a result of transactions with shareholders as shareholders (other comprehensive income) and the effect of tax on these items, which is also charged directly to equity, with suitable attribution between the Company and the minority interests. Alternately, the other comprehensive income items can be stated with the items in the statement of income in one statement that will be called the statement of comprehensive income, which will replace the statement of income, with suitable attribution between the Company and the minority interests. Only items recognized in shareholders' equity, which are a result of transactions with shareholders as shareholders (such as raising capital and distribution of a dividend), will be presented in the statement of changes in equity. The Company elected to present the comprehensive income in a separate statement.

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

The amendment is effective from January 1, 2009 with retrospective application in comparative figures.

IFRS 8 – *Operating Segments*

IFRS 8 addresses the presentation of operating segments and replaces IAS 14. In accordance with the standard, the entity adopted the management approach when reporting on the financial results of the operating segments. The segment information is the information used internally by the management to assess segment results and make operating decisions.

Following first time application of the standard and in accordance with the management's analysis, the fuel operations in the US are presented as one segment without dividing the refinery operation and the marketing operations of stores and convenience stores. The Group also included the operation results of the affiliates as part of the segment profit.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

A. Format for the preparation of the interim consolidated financial statements (contd.)

IAS 40 – *Investment Property* (revised)

The amendment provides that investment property under construction or development for future use as investment property will be accounted for as investment property when the fair value method is applied and is reliably determinable. When the fair value is not reliably determinable, the investment property is measured according to cost during the construction period until either construction is completed or its fair value becomes reliably determinable, whichever earlier.

The amendment is effective prospectively from January 1, 2009. First time application of the amendment does not have a material effect on the financial statements.

IFRS 2 – *Share Based Payment* (revised)

The amendment provides that vesting conditions are restricted to service and performance conditions and the removal of a grant that includes conditions other than vesting conditions, by the Company or by another party, will be accounted for by accelerating the vesting period and not by forfeiture.
Vesting conditions are restricted to service and performance conditions Conditions that are not service or performance conditions will be accounted for as conditions that are not vesting conditions and therefore they are calculated in the fair value estimate of the granted instrument.

The amendment is effective from January 1, 2009. First time application of the amendment does not have a material effect on the interim financial statement

IAS 28 – *Accounting for Investment in Associates* (revised)

In accordance with the amendment to IAS 28, an investment in an affiliate shall be tested for impairment with respect to the overall investment. Accordingly, an impairment loss recognized on the investment shall not be specifically allocated but to the overall investment and therefore it will be possible to reverse the full amount of an impairment loss that was recognized if certain conditions are met.

The amendment is effective prospectively from January 1, 2009. First time application of the amendment does not have a material effect on the interim financial statements.

IAS 38 – *Intangible Assets,* (revised)

In accordance with the amendment to IAS 38, advertising, marketing or sales promotion costs are recognized as an expense when the company has access to the advertising products or when the service for these activities is supplied to the company. Therefore, these activities include production of catalogs and advertising brochures. In addition, the presumption is cancelled according to which it is uncommon for amortization based on the production unit method for an intangible asset with a defined useful life to be lower than amortization based on the straight line method. Therefore amortization based on production units is permitted without this restriction.

The amendment is effective from January 1, 2009. First time application of the amendment does not have a material effect on the interim consolidated financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

A. Format for the preparation of the interim consolidated financial statements (contd.)

IFRIC 15 – *Agreements for the Construction of Real Estate*

The interpretation provides guidance for examining whether transactions for the construction of real estate is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue.* When the agreement is specifically for the establishment of an asset or a combination of assets, so that the purchaser is able to determine the specifications and the changes, the agreement is in the scope of IAS 11. Therefore revenue will be recognized according to the stage of completion. However, when the purchaser is unable to participate in determining the specification, or is restricted, the transaction is for the sale of real estate and is within the scope of IAS 18.

The interpretation is effective retrospectively from January 1, 2009. First time application of the interpretation does not have a material effect on the interim consolidated financial statements.

IFRIC 16 - *Hedges of a Net Investment in a Foreign Operation*

The interpretation prescribes that risks for exchange rate fluctuations can only be hedged in relation to the company's functional currency, and not its presentation currency. In addition, exchange rate risks can be hedged in relation to the functional currency of each subsidiary in the group, even if it is indirectly controlled by another company in the group. The hedging instrument can be held by any company in the group.

The interpretation is effective prospectively from January 1, 2009. First time application of the interpretation does not have a material effect on the interim consolidated financial statements.

B. Liability for index-linked certificates

A liability for index-linked certificates is a compound financial instrument that includes a host contract and an embedded derivative (index-linked certificates).

The host contract is recognized initially at fair value less transaction costs. In subsequent periods, the host contract is measured at amortized cost. Changes in the amortized cost of the host contract are recognized in profit or loss. The amortized cost is calculated using the effective interest method, taking into account the transaction costs, and with full reference to the period of the index-linked certificates constituting their expected lifespan, inter alia, in view of the Group's ability to renew trading of any index-linked certificate that was redeemed, at any time. The embedded derivative with economic characteristics and risks that are not closely related to the economic characteristics and risks of the host contract is initially recognized at fair value and remeasured in subsequent periods at fair value. Changes in fair value are recognized as incurred in profit or loss.

In accordance with IAS 39, the host contract and embedded derivative are accounted for separately and each is measured separately. IAS 39 does not require separate presentation of each of the components of the hybrid instrument. In accordance with IAS 39, if an instrument can be resold at any time for cash, the effect of separating an embedded derivative and the accounting treatment for each component is measurement of the hybrid instrument at the repayment amount at the balance sheet date.

In the Group's opinion, presentation of the components of the index-linked certificates together is the most appropriate reflection of the economic character of the liability for index-linked certificates, since this presentation reflects (before accounting of the issuance costs) the amount that the Group could require for payment to holders of index-linked certificates, which may be redeemed at any time.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

C. Liability for structure debentures, debentures and long-term loans

Debentures issued and loans received are initially recognized at fair value, less transaction costs. In subsequent periods, the debentures and loans are presented at amortized cost. Any difference between the consideration (less transactions costs) and the redemption value is recognized in profit or loss over the debenture or loan period, as relevant, using the effective interest method.

D. Liability for short sale of securities

Liabilities for a short sale of securities are classified as financial liabilities measured at fair value through profit and loss. Therefore, these liabilities are initially recognized at fair value when the attributable transaction expenses are recognized in profit or loss. These liabilities are measured subsequent to initial recognition at fair value in profit or loss.

E. Recognition of revenue

1. Revenue from underwriting and distribution

Revenue from underwriting and distribution commission is recognized when the issuance and distribution is carried out, after fulfillment of the terms in the agreement with the company and/or issuer.

2. Revenue from brokerage fees

Revenue from trading fees is recognized on completion of the transactions.

F. Disclosure of new IFRSs in the period prior to adoption

IAS 1 – *Presentation of Financial Statements*

The amendment to IAS 1 provides a guideline for the examination of whether the liability component of a convertible instrument should be classified as current or non-current. The amendment clarifies that the liability conditions that allow the counterparty to require the entity to settle in shares at any time is not relevant to its classification as current or non-current. The standard is effective retrospectively for accounting periods commencing on or after January 1, 2010.

The Company estimates that the amendment is not expected to have a material effect on its financial position and results of its operations.

IAS 17 – *Leases*

The amendment to IAS 17 addresses classification of leases of land and buildings. The amendment deletes specific guidance regarding classification of leases of land. As a result, leases of land are no longer classified as an operating lease when the title is not expected to pass to the lessee at the end of the lease term. Classification of a lease as operating or finance is based on the general instructions in IAS 17 addressing classification, taking account of the fact land normally has an indefinite economic life.

The amendment is applied prospectively for financial statements commencing from January 1, 2010. Early adoption is permitted. For retrospective application, when adopting the amendment, classification of the land lease is reassessed based on the information available when signing the lease. If there is a change in classification of the lease, the instructions of IAS 17 are effective retrospectively from the date of the lease If, however, information necessary to apply the amendment retrospectively is not available, the amendment can be applied prospectively based on the information available at the adoption date of the amendment, and the asset and liability related to a land lease that was reclassified as a finance are recognized at their fair values at that date. Any difference between the fair value of the asset and the fair value of the liability is recognized in retained earnings.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

F. Disclosure of new IFRSs in the period prior to adoption (contd.)

The Company is examining the effect of the amendment on the financial statements, however at this stage, it is unable to assess its results.

IAS 36 – *Impairment of Assets*

The amendment to IAS 36 ("the amendment") clarifies the unit of accounting for purposes of goodwill impairment testing. The amendment clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes. The amendment is applied prospectively for accounting periods commencing on January 1, 2010. Early application is permitted.

The Company estimates that the amendment is not expected to have a material effect on its financial position and results of its operations.

IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*

The amendment to IAS 5 clarifies the required disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations. In accordance with the amendment, the disclosures required in respect of non-current assets or disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The amendment is applied prospectively for accounting periods commencing on January 1, 2010. Early application is permitted.

NOTE 3 – BUSINESS COMBINATIONS AND INVESTMENTS IN INVESTEES

A. Real estate operations

1. In October 2008, the board of directors of the Company resolved to distribute most of its shares in Delek Real Estate to the Company's shareholders, subject to receiving the required approvals by virtue of the covenants of the Company and Delek Real Estate towards third parties.

   On March 31, 2009, after receiving these approvals, the board of directors resolved to distribute the majority of Delek Real Estate shares held by the Company as a dividend to the shareholders of the Company. The effective date was set for April 30, 2009 and the distribution date was May 3, 2009. Subsequent to the distribution, the Group holds 5% of Delek Real Estate's issued and paid up share capital. The balance of the investment is expected to be accounted by the equity method.

   Following the distribution, the shareholders' equity of the Group is expected to be reduced by the amount of the distributed investment. The balance of the Group's investment in Delek Real Estate as of March 31, 2009 is NIS 142 million. In addition, the Company and its subsidiaries extended loans and/or guarantees to Delek Real Estate amounting to NIS 695 million as of March 31, 2009 (including investments of profit-sharing policies of The Phoenix in debt securities of Delek Real Estate).

   In this context, it is noted that loans that the Company extended to Delek Real Estate with a balance of NIS 335 million on March 31, 2009, which is included in abovementioned amount, on March 26, 2009, the Company informed Delek Real Estate that it would take action to obtain the necessary approvals so that if Delek Real Estate requests an extension of the loan, because the sale of RoadChef was still incomplete, the Company would be able to extend the term of the loan until the sale is completed and that if, for any reason, it is not possible to extend the term of the loan, the Company will act to exercise the lien (25% of the shares in the subsidiary that holds RoadChef) and will not act to collect the loan in any other manner until April 2010.

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

A. Real estate operations (contd.)

1. (contd.)
It is further noted that, in view of the expected distribution, it is expected that there will be a significant decrease in the balances of the Group's assets and liabilities. The consolidated balance of the assets and liabilities of Delek Real Estate as of March 31, 2009 amounts to NIS 23 billion.

2. In their review, the auditors of Delek Real Estate call attention to the global economic crisis and its implications on Delek Real Estate and the plans of Delek Real Estate, which include, inter alia, the sale of assets to repay its liabilities.

As of March 31, 2009, Delek Real Estate had a consolidated working capital deficit of NIS 2,248 million, due mainly to long- and short-term liabilities taken for financing long-term investments which will fall due in the coming year. The working capital deficit of Delek Real Estate and its subsidiaries (excluding RoadChef, DGRE and Delek Productive Assets, whose cash flows are managed separately and which have independent resources estimated by Delek Real Estate as expected to yield cash flows of sufficient size to repay the liabilities of those companies), amounts to NIS 1,050 million.

As described in Note 13(E)(1)(b) to the annual financial statements, the global financial crisis has an effect on Delek Real Estate, reflected in various factors, including stricter conditions for receiving financing for repaying the liabilities of Delek Real Estate. In addition, the crisis could cause a decrease in the demand for profitable assets and a decrease in occupancy rates and rental. This could have an additional adverse effect on the results of Delek Real Estate, its equity and the fair value of its assets, as well as the ability of Delek Real Estate to meet financial covenants in agreements with credit providers and to raise capital.

In view of the ongoing economic crisis, Delek Real Estate continues to consider ways to confront the crisis and is intensifying its efforts to sell assets and increase its liquidity balance, in accordance with the plans described in Note 13(E)(1)(b) to the annual financial statements. In addition, on May 6, 2009, Delek Real Estate announced an offer to its shareholders for issuance of rights. The offer was accepted and as of the approval date of the financial statements, Delek Real Estate raised NIS 120 million from its shareholders (of this amount, NIS 60 million was invested by the Group).

The ability of Delek Real Estate to meet its obligations in a period of up to at least one year from the date of the financial statements, including repayment of principle and interest to the debenture holders and the banks, in the amount of NIS 556 million, is contingent of the realization of its plans, as set forth in Note 13(E)(1)(b) to the annual statements, which include, inter alia, the sale of assets, receipt of credit from banks, advance rental payments from a tenant and postponement of repayment of the loan to the Group. As the realization of Delek Real Estate's plans is not solely dependent on the company, it is possible that its plans will not be realized in full and/or on the planned dates, as they are contingent on reaching agreements with third parties in respect of the terms of the transactions included in the management's plans.

Taking into consideration the possible sources available to Delek Real Estate, and notwithstanding the fact that Delek Real Estate's plans to raise financial sources in 2009 are dependent on agreements with third parties, the management of Delek Real Estate estimates that it has sufficient resources to repay its liabilities in a period of at least one year from the date of the financial statements.

This estimate of Delek Real Estate is based on the large number of assets held by Delek Real Estate and the quality of these assets (from the aspect of location, tenants and long-term lease agreements), the large number of unencumbered assets and collateral held by banks, allowing them to continue to extend revolver loans in the current scope, the ability of investees to generate cash flows from their operating activities which serve as a source for distribution of dividends, and the postponement of repayment of the NIS 300 million loan from the Group.

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

A. Real estate operations (contd.)

3. In January 2009, a subsidiary of Delek Real Estate acquired 17 million par value debentures (Series D) of Delek Real Estate in consideration of NIS 9 million. As a result of the acquisition, a profit of NIS 10 million was generated for Delek Real Estate, which was recognized in financing revenue.

B. Insurance and finance operations

1. In accordance with the agreements between The Phoenix Investments and Aharon Biram, Gil Deutsch and Esther Deutsch, the controlling shareholders of Excellence (the "sellers") and Bank Mizrahi, on April 9, 2006, The Phoenix Investments completed an acquisition of 40% of the shares of Excellence for NIS 322.5 million in cash (including legal fees and other direct costs involved in the acquisition in the amount of NIS 365,000). Subsequent to the acquisition, The Phoenix Investments and the sellers became the joint controlling shareholders in Excellence. Under the agreement, as of January 1, 2009, Phoenix Investments has a call option and as of February 1, 2009 the Sellers have a put option for Phoenix Investments to acquire additional 40% of the sellers' shares and these options will expire on January 31, 2010.

   For further information relating to notification by Phoenix Investments of termination of the agreement, including the put option, see details below. In the event that the court rules, contrary to the opinion of Phoenix Investments and the Company, that the termination of agreement is not valid and that the put option is exercisable, then under the agreement, in the event that the option is exercised, the consideration for the option shares is calculated according to the proportionate part of the formula set forth in the agreement, which include the equity and profits of Excellence.

   In addition, the agreement set forth adjustments to profit and equity to be included in the calculation of the consideration. The Phoenix published particulars of the exercise formula in an immediate report on November 6, 2008.

   As of March 31, 2009, the estimated consideration based on this formula is NIS 600 million (as of December 31, 2008, NIS 571 million).

   It is noted that the estimated consideration does not take into account all of the adjustments to Excellence's profit and equity as set forth in the formula, which The Phoenix Investments and The Phoenix believes this should be taken into account when calculating this estimate. This is without the aforesaid disputed information, which was not received by the date of the publication of the financial statements and which are liable to materially affect the estimated amount of the consideration.

   It is further noted that the directors appointed by The Phoenix Investments and serving at Excellence objected to the approval of the financial statements of Excellence as of March 31, 2009 and December 31, 2008, due to various disagreements related to the accounting treatment of the figures in the statements of Excellence. Furthermore, the Phoenix Investments is involved in legal proceedings in which or with regard to which, these disagreements will be discussed. It is clarified that The Phoenix estimates that the aforesaid disputed amounts are not material to the equity of The Phoenix.

   For the purpose of determining the fair value of the Excellence shares as of December 31, 2008 in accordance with IFRS, the board of directors of The Phoenix Investment subsequently decided to base their evaluation on the value assessment of the independent external assessors who are experts in assessing value and who have the required knowledge and experience ("the evaluation"). According to the evaluation, the value of Excellence shares (100%) as of December 31, 2008, is NIS 988 million. Based on the evaluation, the value of Excellence shares deriving from the exercise of the put option is NIS 404 million. The difference between this amount and the current value of the estimated consideration according to the put option of NIS 571 million (see section A above) is NIS 167 million and was recorded as a provision for an onerous contract in the financial statements of 2008.

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

B. Insurance and finance operations (contd.)

1. (contd.)

In accordance with IFRS, commencing from January 1, 2009, the date for exercising the call option, The Phoenix Investments was required to consolidate Excellence in its financial statements, in view of the potential voting rights that are exercisable and that confer on The Phoenix Investments control in Excellence, notwithstanding The Phoenix's notice of annulment of the agreement, as described below.

Following the consolidation of the financial statements of Excellence, The Phoenix Investments recorded a liability for payment for the option to purchase the shares on an investee on March 31, 2009, in the amount of NIS 600 million, in accordance with the aforesaid estimated consideration.

The effect of the consolidation of Excellence on the net profit attributable to the shareholders of The Phoenix for the first quarter of 2009, compared to continued application of the accounting policy applied up to the balance sheet as of December 2008, in other words, non-consolidation of Excellence and update of the provision for the onerous contract, was reflected in a decrease of NIS 15 million in the net profit attributable to the shareholders of The Phoenix in the first quarter of 2009.

On January 25, 2009, The Phoenix Investments notified the sellers that it was cancelling the option rights set forth in the agreement, in view of the fundamental breach. On March 1, 2009, The Phoenix Investments announced the annulment of the entire agreement in view of additional fundamental breaches. For details see Note 13(E)(6)(a) to the annual financial statements. On March 8, 2009, the sellers filed a statement of claim in the Tel Aviv-Jaffa District Court (CC 1266/09) (the claim) against The Phoenix Investments and against Dr. Ehud Shapira, the chairman of the board of directors of the Phoenix and Asaf Bartfeld, a director at The Phoenix and CEO of the Group (hereinafter together: "the plaintiffs"). Accordingly, as part of the claim, the court was requested to declare that the agreement is valid and to order The Phoenix Investments, inter alia, (a) to meet all its obligations under the provisions of the agreement, and (b) to pay the sellers the put option share price in accordance with the payment mechanism set up in the agreement. The amount of the claim, based on the expert opinion on behalf of the sellers, is NIS 751 million. Alternately, the court is requested to order the defendants to pay fulfilment compensation for termination of the agreement and also for loss of earnings which may have been created for the sellers from the investment of the consideration had they been paid on the dates as set forth in the provisions of the agreement. Together with filing the claim and as a part thereof, the sellers filed a motion for a temporary injunction and an injunction for restricted use of the assets, in which it asked the court to order temporary liens up to an amount of NIS 676 million on the assets and/or rights and/or cash of The Phoenix Investments, as specified in the motion, all in order ensure implementation of the court's ruling with regard to the statement of claim ("the injunction motion"). The injunction motion emphasized that the lien order is not requested for any asset and/or right of The Phoenix Insurance, which is a wholly-owned subsidiary of the Company and a sister company of The Phoenix Investments and certainly the motion for the attachment order does not refer to any of the rights of the policyholders insured by The Phoenix Insurance. In the hearing of the injunction motion held on April 2, 2009, the court enforced the agreement between the parties whereby The Phoenix Investments would not dispose of any of its assets, of any kind whatsoever, including payment to the shareholders, without written notice of 21 days to the attorneys of the sellers, and if there is a disagreement, the motion will be heard in the court before the transaction is conducted, with the exception of transactions in an amount of up to NIS 250,000. In addition, the sellers shall not conduct any transaction in their shares in Excellence, without 21 days written notice to the attorneys of The Phoenix Investments, and if there is a disagreement, the motion will be heard in the court.

On March 26, 2009, the sellers filed a motion to amend the statement of claim such that the amount would be NIS 814 million ("the amendment motion"). Subsequent to the approval of the court, on May 24, 2009, the plaintiffs filed an amended statement of claim.

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

B. Insurance and finance operations (contd.)

1. (contd.)

Taking into account, inter alia, the fact that the disputes between The Phoenix Investments and the sellers with regard to the agreement, including the option rights, were transferred to the court for ruling in the frame of the lawsuit and the early stage of the legal proceedings, and all aspects of the facts as well as the legal framework of the lawsuit, at this stage, and based on the opinion of the legal consultants, The Phoenix cannot estimate the outcome and the implications of the legal process.

In the afternoon of May 24, 2009, there was significant progress in the negotiations between the sellers and The Phoenix Investments "the negotiations" with regard to the settlement of the disputes included in the lawsuit and the possibility that The Phoenix Investments will acquire the plaintiff's share in Excellence (40.88% of the capital of Excellence) ("the plaintiff's shares"). In accordance with the outline of the negotiations, The Phoenix Investments will acquire one half of the plaintiffs' shares (20.44% of the capital of Excellence) for NIS 340 million, and the second half of the plaintiffs' shares in four equal parts (5.11% of the capital of Excellence in each part) over the next four years, in accordance with the price formula determined in the agreement, and in each of the four years, the payment for each part shall not fall below NIS 70 million, all with the required adjustments.

The parties intend to complete the negotiations as soon as possible, although it is not certain that they will result in an agreement.

2. As aforesaid, commencing from January 1, 2009, The Phoenix consolidates the financial statements of Excellence, which is a traded company operating in Israel in management of financial services. The transaction was accounted for with the acquisition method in accordance with IFRS 3.

   The consolidated financial statement include the financial statements of Excellence commencing from January 1, 2009.

   The Phoenix implemented temporary attribution of the acquisition cost in relation to the fair value of the assets and liabilities that were acquired in the context of a business combination. The Phoenix intends to adapt the consideration of the acquisition and the fair value of the acquired assets and liabilities up to 12 months from the acquisition date.

   The acquisition cost was determined at the amount of the financial liability created for the put option given to the sellers, based on the estimated projected payment to the sellers (changes in the value of the liabilities in the subsequent periods, with the exception of changes due to the value of time, will be recognized in goodwill). The total acquisition cost of the investment in Excellence as of January 1, 2009 amounted to NIS 799 million (after deducting a provision of NIS 167 million for a loss in respect of the acquisition). This amount is based on the opinion of an external appraiser for the amount to be paid for exercising the put option and the fair value of the holdings in Excellence as of January 1, 2009.

   The discounted value of the expected payments in accordance with the future arrangement, for the put option, reflects the liabilities for payment of the put option, as calculated as of March 31, 2009.

3. On February 25, 2009 Excellence and companies under its control, entered into an agreement with Prisma Investment House Ltd. ("Prisma") to acquire Prisma's trust fund, index-linked certificates and portfolio management operations ("the agreement"). Under the agreement, a subsidiary of Excellence, which holds the Excellence Group trust fund operations ("Excellence Funds") will acquire the shares of Prisma Trust Funds Ltd ("Prisma Funds") which holds Prisma Group's trust fund management operations. Following the acquisition, Excellent Funds will transfer its trust fund management operation to Prisma Funds. In return, Excellence Funds will allocate to Prisma shares representing 45% of the issued and paid-up shares in Excellence Funds ("the allocated shares"). Prisma will sell the allocated shares to Excellence in 2014-2017 at the prices fixed in the agreement and for a consideration that will be calculated per a formula fixed in the agreement.

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

B. Insurance and finance operations (contd.)

3. (contd.)

In addition, Prisma waived a capital bill for which it will be paid installments according to a formula set in the agreement. During the period that Prisma will hold the allocated shares, various financial and decision making arrangements will be applicable between the parties, as set forth in the agreement. Subject to the completion of the trust funds transaction, Prisma and Excellence will transfer Prisma's portfolio management operations to Excellence for no additional consideration. In addition, Excellence will acquire Prisma's index-linked certificates and financial instrument companies for a consideration equivalent to the shareholders' equity of the acquired companies with the addition of NIS 7 million. As of the date of the approval of the financial statements, the agreement has not yet come into effect as not all of the approvals have been received from the authorities. In accordance with the agreement signed with the sellers in respect of the Excellence transaction, as defined in section 1 above in the matter of the Excellence transaction, the sellers were required to receive prior written consent of The Phoenix Investments for the Prisma agreement. This consent was not received, therefore The Phoenix Investments announced the annulment of the agreement with the sellers, as described in section 1 above, in view of the fundamental breach.

4. In the first quarter of 2009, following the termination of the term of employment of the office holders at The Phoenix prior to completion of the vesting period, 2,437,750 options that were issued in the past by The Phoenix were foreclosed for employees.

   As a result of the aforesaid, in the reporting period, The Phoenix recorded an income of NIS 6 million.

C. Refinery operations in the US

Pursuant to Note 13(E)(4)(b) to the annual financial statements, regarding the fire at the refinery in the US, subsequent to the balance sheet date, in May 2009, the refinery continued operations.

In the reporting period, Delek US received USD 30.6 million (NIS 123 million) from the insurance company, including USD 21.1 million (NIS 85 million) for loss of profits and USD 9.5 million (NIS 38 million) for damage to property, which was recorded in the financial statements less costs in the amount of USD 7.9 million (NIS 32 million). The net income was recorded in the statement of income under other revenue.

Subsequent to the balance sheet date, Delek US received additional compensation of USD 43 million (NIS 180 million) from the insurance company.

D. Fuel operations in Europe

1. In the reporting period, Delek Benelux recognized a tax asset for losses for transfer that was not recognized when acquiring the European fuel operations in August 2007. As a result, Delek Benelux recognized expenses for amortization of goodwill amounting to NIS 26 million, recognized under administration and general expenses. On the other hand, Delek Benelux recognized deferred tax revenues in the same amount.

2. In February 2009, a new chairman was appointed to Delek Europe's board of directors (“the chairman”). The chairman also serves as a director in the Group. As part of the chairman’s employment agreement, it was decided, inter alia, to allot him 225 phantom options. The options will be allotted on the first day of October 2010, 2011 and 2012. As long as Delek Europe is a private company, the chairman will be entitled to receive the phantom grant only from January 1, 2012 until June 30, 2012 or at the end date, in accordance with the agreement to provide services, whichever is earlier. Should Delek Europe become a public company, the chairman will be entitled to receive the phantom options every year, on January 1, commencing from January 1, 2010, provided he provides management services to Delek Europe.

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

E. Other operations

The Group holds 50% of the shares of IDE Technologies Ltd. (“IDE”). The Group’s investment in IDE is accounted in accordance with the equity method. The Group’s share in the financial results of IDE for the three months ended March 31, 2009 amounted to NIS 41 million. The Group did not attach the financial statements of IDE to its financial statements, as the financial statements of IDE in the prior reporting year did not have a substantial effect on the Group's financial statements and they are not expected to have a substantial effect on the Group's results in the next reporting year.

NOTE 4 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION

A. Michal and Matan licenses

Delek Drilling and Avner each hold 15.6% of the Michal and Matan drilling licenses. Under these licenses, in 2008 drillings were conducted at Tamar 1, a deep sea offshore drilling west of Haifa.

In February 2009, the project operator, Noble Energy Ltd. ("Noble") announced that commercial quantities of gas were discovered in the drilling. Nobel estimates that the economic potential of the gas reserves at the drilling is BCM 142.

Subsequent to the balance sheet date, in April 2009, Noble started drillings at Tamar 2, to achieve a more accurate assessment of the gas reserves in the Tamar formation. The drilling budget is USD 77 million.

It is noted that the estimates of Noble in respect of the future production rate and economic potential of the gas reserves are estimates which are as yet uncertain. These estimates are expected to be updated as additional information is gathered and/or as a result of a range of factors related to oil and gas exploration and production projects, including as a result of the continued analysis of the drilling findings, production tests and Tamar 2 verification drilling planned in 2009 and an assessment of the proven reserves.

As of the balance sheet date, USD 173 million have been invested in Tamar 1 (the share of the joint partnership is USD 21 million).

In April 2009, the Commissioner of Petroleum Affairs in the Ministry of National Infrastructures (“the Petroleum Commissioner”) declared the Tamar discovery as a commercial discovery. In view of the aforesaid, the Petroleum Commissioner approved the validity of the Matan License until December 2, 2009, in accordance with section 18(B) of the Petroleum Law. During this period, the Tamar 2 drilling would be drilled and the application for a lease in the license area would be addressed.

In addition, in March 2009, the partners started to drill at Dalit 1 in the area of the Michal license. The drilling site is 60 km west of the Hadera coast. I In April 2009, Noble announced that the productions tests at the drilling were successful and commercial quantities of gas were discovered. Noble estimates that the mean potential of the gas reserves at the Dalit structure is 14.2 BCM.

Noble announced that the Dalit 1 discovery, if the found to be commercial, is liable to be part of the initial stage of the Tamar development plan, which is currently in its preliminary formulation stages, and should enable commencement of the supply of natural gas to the Israeli market by 2012.

In April 2009, the Petroleum Commissioner confirmed that if the Dalit 1 drilling is a commercial discovery, the license shall remain valid until December 2, 2009, in accordance with section 18(B) of the Petroleum Law, and the application for a lease in the license area will be addressed.

The updated estimated cost of the Dalit 1 drilling is USD 57 million. As of the balance sheet date, USD 34.1million have been invested (the share of Delek Drilling is USD 5.3 million).

NOTE 4 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

B. Investments in oil and gas exploration and production (contd._

Subsequent to the balance sheet date, in April 2009, the National Petroleum Company of Vietnam announced that it will exercise its option to acquire 15% of the rights in the project in view of its declaration as commercial discovery. The consideration for the acquisition of the rights shall be calculated as the proportional part (15%) of the total costs investments in the project to date.

After exercising the option, Delek Energy's holding in the project fell to 21.25%.

NOTE 5 – DEBENTURES

A. Subsequent to the balance sheet date, on May 6, 2009, Delek Israel issued in a private issue to classified investors NIS 106,813,539 par value debentures (Series A) of NIS 1 par value each in consideration of NIS 111 million ("the additional debentures”). The additional debentures are from the same series of NIS 760,000,000 debentures (Series A) (the original debentures) in accordance with the prospectus of Delek Israel of August 5, 2007. The terms of the additional debentures are the same as the terms of the existing debentures.

B. Subsequent to the balance sheet date, in May 2009, S&P Maalot announced the downgrading of debentures (Series A, E-M, V and W) issued by the Company, to A from AA with stable outlook. At this date, Midroog rating company announced a rating of A1 for debentures (Series E-M, V and W) issued by the Group.

NOTE 6 – CONTINGENT LIABILITIES AND AGREEMENTS

A. There are contingent claims against certain investees for significant sums that might reach several hundred million or even billion shekels. In some cases, it is not possible to assess their outcome at this stage, and therefore no provision was recorded in the financial statements as set forth below (see Notes 31(A) to the annual financial statements).

1. Several law suits amounting to several hundred million shekels have been filed against Gadot Biochemical Industries Ltd. (“Gadot”) and others, for bodily injury and damage to property with regard to Gadot’s activity in the Kishon River area. For further information, see Gadot’s financial statements, which are available to the public.

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

NOTE 6 – CONTINGENT LIABILITIES AND AGREEMENTS (CONTD.)

A. (contd.)

2. Several lawsuits were filed against HOT Cable Communication Systems Ltd. ("HOT") in previous years, including motions to recognize some of them as class actions, amounting to substantial sums (several hundred million NIS). Some of the suits relate to failure to meet the conditions of the Council for Cable and Satellite Broadcasting pertaining to the broadcasting of a specific channel and claims for the alleged breach of copyrights of various producers and breach of agreements to purchase various broadcasting rights. The management of HOT estimates, based on the opinion of its legal counsel, that for most of the claims it is likely that the application to recognize the claim as a class action will be rejected and therefore no provisions were made in this respect in HOT's financial statements. For further information, see the financial statements of HOT as of March 31, 2009, which are available to the public.

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

   In all of these proceedings, Delek Israel filed motions for summary dismissal, motions to try all three proceedings before the same judge and motions to extend the deadline for the submission of a response to the motion for approval until after the hearing on the summary dismissal. The court granted the motion to try all three proceedings before the same judge.

   In the third quarter of 2007, one motion, in the amount of NIS 90 million, was stricken off by consent and the court ordered to combine the two remaining motions into one. Following combination of the two motions, the amount of the motion for approval as a class-action was reduced from NIS 1,400 million to NIS 554 million. Similarly the former Deputy CEO of Delek Israel was removed from the petition. The applicants filed a motion for a continuance in the proceedings in the motion for approval as a class action until receipt of a peremptory decision against the additional defendants (but not against the Company) in a criminal proceeding instituted against them. The court allowed a continuance in the proceedings until the receipt of a decision in a criminal proceeding. Delek Israel filed a motion for leave to appeal the decision for a continuance in the proceedings. The court rules that the motion requires a response and the applicants' response was filed in November 2008. A court ruling on the motion has not yet been handed down.

   The management of Delek Israel estimates, based on the opinion of its legal counsel, that until the applicants submit a response to the Company's response in respect of the motion for approval as a class action, and until the decision that the proceedings will be delayed until a decision is given in the criminal proceeding and the criminal proceeding is still in progress, the chances of the motion cannot be assessed and therefore no provision was made for them in the financial statements.

4. Further to Note 31(A)(3) to the annual financial statements regarding the motion for approval as a class action against Delek Israel and against other fuel companies (the defendants), in which the applications claim that the defendants collected service fees unlawfully, without appropriate signs, in April 2009, a joint motion to dismiss was filed and the motion was accepted, ending this proceeding.

5. In November 2005, a motion for approval as a class action Was filed against a subsidiary, Delek Oils Ltd. (formerly Delkol) and two other fuel companies. The plaintiff's suit amounts to NIS 450 and the sum of the suit against Delek Oils if the suit is certified as a class action, amounts to NIS 1,664 million, plus compensation for mental distress in the amount of NIS 27.5 million.

NOTE 6 – CONTINGENT LIABILITIES AND AGREEMENTS (CONTD.)

A. (contd.)

5. (contd.)

The motion for approval as a class action is based primarily on the allegation that Delek Oils marketed engine oils claiming that they are in compliance with certain American and European standards. According to the applicant, such representation is false. The management of Delek Oils is of the opinion that Delek Oils acted within the law and the engine oil marketed by Delek Oils in Israel does indeed comply with the specifications of the standard.

In November 2007, a settlement was negotiated between Delek Oils (and the other defendants) and the applicant, according to which the motion for approval as class action suit and the suit will be withdrawn and Delek Oils (and the other defendants) will reimburse the applicant for expenses (which are not material). Accordingly, a joint motion to dismiss was filed in the court.

In March 2009, the settlement agreement was approved and the motion was dismissed.

6. In August 2008, an application was filed for approval of a class action in the amount of NIS 150 million against Delek Israel and a number of other fuel companies. In accordance with the statement of claim, the defendants did not abide by their legal obligation to produce invoices for fuel purchases on paper that is durable for at least seven years (for submission to the tax authorities). In the Company's opinion, based on the opinion of the management of Delek Israel and its legal counsel, the Company has good counterclaims against the application in general, and strong counterclaims in all matters relating to the financial relief demanded.

7. In November 2008, an application for approval as a class action was filed against Delek Israel. According to the applicant, due to the delay in installation of a fume pumping system at Delek Israel's fuel terminal in Haifa, the applicant, residents of the Haifa bay area and other people in the area during the period of the delay (allegedly from August 1, 2005 to April 22, 2007) non-monetary damage and emotional distress was caused in the amount of NIS 2,000 per person. The applicant did not specify the amount in the claim for all members of the group.

   On March 30, 2009, Delek Israel submitted a response, claiming that the application should be summarily dismissed. On April 6, 2009, in the hearing of the application, the court proposed that the parties agree to a continuance of the class action proceedings until the ruling in another case against the Company, relating to a similar issue of a continuance of class-action proceedings until the ruling on the criminal proceeding. A court ruling on the continuance has not yet been handed down.

   The Group's management estimates, based, inter alia, on the assessment of Delek Israel's management and on the opinion of its legal counsel, and considering the preliminary stage of the motions, the chances of the proceedings cannot be assessed at this stage and therefore provisions in their regard have not been included in these financial statements.

8. As described in Note 31(A)(15) to the annual financial statements, several lawsuits have been filed against The Phoenix, its investees and others, including motions for approval as class actions, amounting to significant sums (several hundred million shekels). Some of the suits relate to high insurance premiums that were collected unlawfully, damages at the time of insurance events for reduced amounts and more. For most of these claims, no provisions were included in these financial statements because, inter alia, in the estimation of the Group's management, based on the assessment of the management of The Phoenix and the opinion of its legal counsel, The Phoenix has defensive claims that are likely to result in dismissal of the claims.

   In addition, in March and April 2009, another two motions for approval as class actions were filed against investees of The Phoenix. As the claims were filed recently, in the initial stages it is not possible to estimate the chances of these motions and therefore no provisions were included in the financial statements.

NOTE 6 – CONTINGENT LIABILITIES AND AGREEMENTS (CONTD.)

A. (contd.**)**

9. As described in Note 31(A) to the annual financial statements, in 2006 and 2007, two motions for approval as class action suits were filed against subsidiaries of Republic, following a hurricane. The applicants allege that the subsidiaries are in breach of their insurance policies because they did not pay insurance claims as appropriate and did not apply the law properly on various matters. Furthermore, several claims for financial and declarative remedies were filed against subsidiaries of Republic, for unspecified amounts, in the aftermath of Hurricane Katrina.

   Some of the claims were recently split and refiled as regular suits. Republic and its subsidiaries have reached settlement agreements or are in the process of reaching such agreements.

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

10. See Note 3(B)(1) for the claim in the matter of Excellence.

B. Agreements

As set forth in Note 24(G)(1) to the annual financial statements, in March 2009, the Group and Delek Investments entered into an agreement with a bank in respect of a loan with a balance of NIS 921 million as of March 31, 2009. Pursuant to the agreement, the financial covenants determined in prior agreements were annulled and new covenants were established, as follows:

– The Company and Delek Investments have undertaken that the total liabilities as defined in the loan agreement will not exceed NIS 1.5 billion.

– The Group and Delek Investment must maintain certain financial ratios derived from the value of assets in relationship to the total liabilities of the companies.

– A mechanism has been established for the distribution of dividends, according to which in certain circumstances, the distribution of dividends by the Group will be cause and Delek Investments will be required to repay a certain percentage of the loan to the bank.

– In addition, it was determined that if the Group's rating by Maalot and/or Midroog falls below A, this will be cause for immediate repayment of the credit extended by the bank.

Furthermore, in the framework of the new agreement, the repayment dates of the aforementioned loan and of other loans were postponed to periods commencing in 2010.

NOTE 7 – SHAREHOLDERS' EQUITY

A. Subsequent to the balance sheet date, in May 2009, NIS 1,120,169 par value debentures of the Group were converted into 3,890 Group shares. Subsequent to the conversion, the issued and paid up share capital amounted to 11,690,253 shares.

B. In January 2009 the Company acquired 5,504 of its shares on the TASE for NIS 0.75 million. In addition, subsequent to the balance sheet date, the Company acquired an additional 5,459 shares for NIS 2 million. After this acquisition, the number of dormant shares amounted to 346,407 ordinary shares.

In addition, subsequent to the balance sheet date, Delek Investments acquired 22,462 Company shares for NIS 10 million.

C. Subsequent to the balance sheet date, on March 27, 2009, the Group declared the distribution of a dividend to its shareholders of NIS 72 million (NIS 6.3 per share).

D. See Note 3(A)(1) for distribution of Delek Real Estate shares as a dividend.

NOTE 8 – OPERATING SEGMENTS

A. General

In accordance with IFRS 8, the Group's operating segments are determined on the basis of the management reports, which are mainly based on the investments in each subsidiary.

The operating segments are as follows:

- Fuel operations in Israel: The main operation is marketing and sale of fuels and commodities at gas stations and other outlets and storage and production of fuels in facilities.
- Fuel operations in the US: The main operation is the maintenance and operation of gas stations and convenience stores in the US, operation of a refinery and a crude oil pipeline, and marketing of fuels to various customers.
- Fuel operations in Europe: The main operation is marketing and sale of fuels and commodities at gas stations and other outlets in Europe.
- Vehicles and spare parts: The main operation is importing and marketing Mazda and Ford vehicles and spare parts.
- Real Estate: The main operation is investment and management of profitable real estate properties in Israel and other countries and construction of housing and commercial projects for sale.
- Insurance and finances in Israel: The main operation is carried out by The Phoenix.
- Insurance and finances in the US: The main operation is carried out by Republic.
- Oil and gas exploration and production: The main operation is carried out under the Yam Tethys joint venture, which operates in oil and gas exploration and production on the continental shelf of the State of Israel.
- Other: The main operation in investment in infrastructure, including mainly desalination and establishment of a power station and the biochemical operation that includes mainly production and marketing of fructose, citric acid and ingredients for nutritional additives.

B. Segment Reporting

1. Revenue

	Three months ended March 31		Year ended December 31
	2009	2008	2008
	Unaudited		Audited
	NIS millions		
Fuel operations in Israel	856	1,397	5,813
Fuel operations in the US	1,513	4,500	17,118
Fuel operations in Europe	2,413	3,638	14,660
Automotive	1,033	1,562	4,770
Real estate	406	390	1,654
Oil and gas exploration and production	87	114	447
Insurance operations abroad	439	380	1,490
Insurance and finance in Israel	2,573	330	1,201
Other segments	204	173	741
Total in statement of income	9,524	12,484	47,894

NOTE 8 – OPERATING SEGMENTS (CONTD.)

B. Segment Reporting (contd.)

2. Segment results

	Three months ended March 31		Year ended December 31
	2009	2008	2008
	Unaudited		Audited
	NIS millions		
Fuel operations in Israel	48	82	222
Fuel operations in the US	26	44	188
Fuel operations in Europe	(17)	42	129
Automotive	112	270	872
Real estate	249	359	(147)
Oil and gas exploration and production	44	66	240
Insurance operations abroad	41	65	(139)
Insurance and finance in Israel	161	105	(350)
Other segments	77	13	105
Adjustments *)	(68)	(83)	47
Total profit from ordinary operations	673	963	1,167
Finance expenses, net	331	690	3,547
Gains from realization of investments in investee and other companies, net	-	-	69
Group's share in profits (losses) of investees and partnerships, net	68	54	(375)
Income (loss) before income tax	410	327	(2,686)

*) Including expenses not attributed to segments and the Company's share in operating income of the affiliates as included in the segment results.

3. Segment assets

Following the consolidation of Excellence (see Note 3(B)), as of March 31, 2009, assets of the insurance and finance segment increased by NIS 13 billion.

NOTE 9 – MINIMUM SHAREHOLDERS' EQUITY REQUIRED OF AN INSURER

1. The information below regarding the equity of The Phoenix Insurance is in accordance with Insurance Supervision (Minimal Equity Capital Required of an Insurer) (Amendment) Regulations, 5764-2004 ("the capital regulations") and the Supervisor's instructions.

	March 31, 2009	December 31, 2008
	Unaudited	Audited
	NIS millions	
Minimum equity:		
Amount required according to the equity regulations and Supervisor's guidelines (A)	1,412	1,413
Existing amount under the equity regulations and instructions of the Supervisor		
Primary capital	1,303	920
Secondary capital (subordinated notes)	562	497
	1,865	1,417
Surplus (B)	453	4
Investments in investees against which it is mandatory to place surplus capital in the orders of the Supervisor, and thereby constituting non-distributable surplus	303	259
Investments surplus (deficit) against surplus capital (7)	150	(255)
Primary capital		
Minimum required amount under the regulations	80	80
Existing amount under the regulations	1,303	920
Surplus	1,223	840

(A) The required amount includes capital requirements for:

Deferred acquisition expenses in life assurance and health insurance and insurance portfolio acquisition expenses	696	704
For exceptional life assurance risks	186	184
Unrecognized assets as defined in the equity regulations (mainly loans and advance payments to agents)	101	94
	983	982

(B) Apart from the general requirements in the Companies Law, distribution of a dividend from surplus capital is subject to liquidity requirements and compliance with the investment regulations.

NOTE 9 – MINIMUM SHAREHOLDERS’ EQUITY REQUIRED OF AN INSURER (CONTD.)

2. In June 2008, a circular was published relating to the application of IFRS presentation guidelines and criteria for calculating the required and recognized equity of insurance companies, commencing from the financial statements of the second quarter of 2008. The objective of the circular is to set out guidelines for application of equity standards regarding investments in investees (including insurance companies and management companies controlled by insurance companies). According to the circular, the required equity in accordance with the equity standards will continue to be based on stand-alone financial statements. To calculate the recognized equity in accordance with the equity standard, the investment by an insurance company in an insurance company or a controlled management company and in other investees shall be calculated on the on the basis of the rate of the holdings linked to them.

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

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

   A. Plans ensuring returns on life assurance, against which or against part of which, there are no designated debentures
   B. Longevity risk for pension policies in which the pension coefficient includes life expectancy insurance
   C. Operational risks
   D. Credit risks based on the typical risk volume of the various assets
   E. Catastrophe risks in general insurance

   The new capital requirements are expected to materially increase the minimum solvency margin, however it is not possible to assess the effect until publication of the final draft of the regulations. In accordance with the draft, the required capital increase is to be carried out in three equal annual portions by the end of 2010.

4. On January 25, 2009, the Supervisor published a circular regarding “relief for required equity from insurance companies in respect of the rate of secondary capital”. According to the circular, the insurance company may include in its recognized equity, secondary equity amounting to 75% of the total increase of the primary equity, instead of 50% as determined in the control regulations, up to a limit of 60% of the total primary equity.

   This relief shall be applicable to:

   – Increase in primary equity created as a result of investment in the insurance company by its controlling shareholders, commencing from December 1, 2008 until June 30, 2009.

   – Increase in equity due to transfer of the companies whose core business is holding real estate assets as defined in section 23(C) of the Investments Regulations

5. In accordance with the Supervisor’s circular published in January 2009 regarding relief for required equity from the insurance companies, an asset held in contravention of the Investment Regulations with a passive deviation created subsequent to October 1, 2008, shall not be considered as an unrecognized asset as defined in the Capital Regulations, subject to the prior approval of the Supervisor. As of March 31, 2009, The Phoenix has a number of passive deviations that are not considered as an unrecognized asset in accordance with the approval of the Supervisor.

NOTE 9 – MINIMUM SHAREHOLDERS' EQUITY REQUIRED OF AN INSURER (CONTD.)

6. In accordance with the Supervisor's circular of March 30, 2009, commencing from the financial statements for 2008 and until December 30, 2010, an insurance company and a management company require the consent of the Supervisor before distributing a dividend, and in any event, the amount of the dividend shall not exceed 25% of the profit permitted for distribution.

7. On March 29, 2009, The Phoenix Insurance invested NIS 200 million for allocation of shares to increase the equity of The Phoenix Insurance.

8. In accordance with the US National Association of Insurance Commissioners (NAIC), Republic requires minimum equity of USD 48 million. As of March 31, 2009, Republic is in compliance with the capital requirements.