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**Delek Group**

# FINANCIAL STATEMENTS

## UNAUDITED

AS OF JUNE 30, 2014



**Delek Group**



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

## **IMPORTANT**

**This document is an unofficial translation for convenience only of the Hebrew original of June 30, 2014 financial report of Delek Group Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on August 28, 2014.**

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

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Delek Group



## Corporate Description



**Update of Chapter A (Description of the Corporation's Business)  
to the Board of Directors' Report of the Delek Group Ltd. ("the Company") for 2013<sup>1</sup>**

**Description of Company Operations by Segment:**

**1. Energy**

- A. Referring to Section 1.7.4(d)(5) to the periodic report - As of the reporting date, approval has yet to be received from the Ministry of National Infrastructures, Energy and Water's Oil Commissioner ("the Energy Ministry" and "the Commissioner", respectively) to store natural gas from the Tamar Project in the Mari B reservoir, and no decision has yet been made to actually store the gas as aforesaid ("the Storage Project"). The Tamar Partners, including Delek Drilling Limited Partnership and Avner Oil Exploration Limited Partnership (jointly, "the Partnerships" ), are discussing with the Energy Ministry options to receive approvals to carry out the Storage Project.

In light of the above, the parties to the operational gas swap agreement have reconciled accounts (as detailed in Section 1.7.4(d)(5) to the Periodic Report) for revenues from the sale of natural gas supplied from the Tamar Project to Yam Tethys Project customers, based on the principles set out in the sales format (as defined in Section 1.7.4(d)(5)(b) to the Periodic Report). For more information concerning these reconciliations, see Note 4C(3) to the financial statements, and Section 1(L) below.

- B. Referring to Section 1.7.5 to the periodic report - on June 1, 2014, the Partnerships announced the Commissioner's decision to extend the 351/Hannah license until September 14, 2014.
- C. Referring to Section 1.7.5(i)(1) to the periodic report - On July 13, 2014, the Company issued an updated contingent natural gas and condensate resources assessment report for the Leviathan reservoir located in the I/14 Leviathan South and I/15 Leviathan North leases ( the Leviathan Project" ). For more information, see the Company's immediate report of July 13, 2014 (ref. no. 2014-01-112455), included here by way of reference.
- D. Referring to Section 1.7.7 to the periodic report - On August 12, 2014, the Partnerships announced the Commissioner's notification that each of the following natural gas reservoirs - Tanin (located in the 364/Alon A license) and Karish (located in the 366/Alon C license) - constitutes a discovery as defined in the Oil Law of 1952.
- E. Referring to Section 1.7.8 to the periodic report - On July 27, 2014, Ratio Oil Exploration (1992) Limited Partnership ( "Ratio" ) announced that, at the request of the operator in the Neta and Roy licenses, the Commissioner approved an update to the work plan in the Neta and Roy licenses, as follows:

It is clarified, that in light of the fact that the Partnerships are only granted an option in the Neta and Roy licenses, and they do not have access to information concerning the joint endeavor, the description of the work plan in the Neta and Roy licenses is based solely on publicly available information published by Ratio.

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<sup>1</sup> The update contains material changes or developments in the Company's business during the second quarter of 2014 and up to immediately prior to the date of this report, in any matter which must be disclosed in the periodic report and which was not updated in the quarterly report for the first quarter of 2014, as published on May 29, 2014 (ref. no. 2014-01-079389). The update refers to the section numbers in Chapter A - Description of the Company's Business in the Periodic Report for 2013 ("the Periodic Report") and supplements the content disclosed therein.

Neta and Roy Licenses	
Period	Key Points in the Updated Work Plan
2014	<p>By December 15, 2014 - continued analysis of data from the 3D seismic survey of the licenses, and submitting all analysis data and reports and all related material to the data processing organs of the National Archives, as defined in the Energy Ministry's directives.</p> <p>Continued analysis will include, among other things:</p> <ul style="list-style-type: none"> <li>A. 3D pre-stack seismic inversion, with special focus on lithology definitions.</li> <li>B. 3D pre-stack AVO modeling.</li> <li>C. 3D pre-stack spectral decomposition.</li> </ul>
2015	<ul style="list-style-type: none"> <li>• By February 15, 2015 - Updating analyses and submitting a drilling prospect including a description of the drill targets, geological forecast, and engineering program.</li> <li>• By February 15, 2015 - Filing a resources report for the targets specified in the prospect.</li> <li>• By June 15, 2015 - Filing a detailed plan for the drill site and a signed contract with a drilling contractor for conducting drilling operations in the licenses.</li> <li>• By July 15, 2015 - Conducting a risk survey of the drill site, submitting geophysical data and submitting a summary report to the Energy Ministry.</li> <li>• By September 15, 2015 - Submitting an environmental document according to the Energy Ministry's guidelines.</li> <li>• By December 15, 2015 - Start of drilling operations in the licenses according to the approved drilling plan, while submitting all geological and engineering reports as specified in the Energy Ministry's guidelines.</li> </ul>
2016	<p>Three months from completion of drilling - Filing a summary report for the well and submitting all findings including rotary tests, electrical logs, core samples and the results of tests (if conducted), and other tests carried out in the well as specified in the Energy Ministry guidelines.</p>

**Warning concerning forward-looking information** - The above description concerning planned actions in the Neta and Roy licenses, including as concerns timeframes for such actions, constitutes forward-looking information as defined in the Securities Law, 1968, and is based solely on publications made by Ratio. Actual implementation of the work plan, including its associated timeframes, may differ materially from the above and depends, among other things, on applicable regulation, technical ability, and economic viability.

- F. Referring to Section 1.7.9 to the periodic report -
1. On June 1, 2014, the Partnerships announced the Commissioner's decision to extend the Block 12 license in Cyprus until May 23, 2016.
  2. On August 12, the Partnerships issued an update concerning an extension of the bid to supply natural gas via pipeline from the Leviathan reservoir under a tender issued by the Cypriot government.
- G. Referring to Section 1.7.10(a) to the periodic report - On August 11, 2014, the Partnerships announced the Energy Minister's decision to deny the appeal against the Commissioner's decision concerning the expiration of the Eran license.
- H. Referring to Section 1.7.13(d) to the periodic report - As of the reporting date, the Partnerships and the other partners in the Tamar reservoir ("the Tamar Partners") have signed another agreement with a consumer for the sale of natural gas at a maximum total amount of 0.19 BCM (over the entire agreement term). The conditions set forth in the agreement are similar to those detailed in Section 1.7.13(d)(2) to the periodic report.

The Partnerships estimate the total monetary value of this agreement at USD 45 million.

- I. Referring to Section 1.7.13(d)(5)(b) to the periodic report - On June 26, 2014, a condensate supply agreement between Delek San Recycling Ltd. and the Tamar Partners terminated with the parties' mutual consent (as detailed in Section 1.7.13(d)(5)(b) to the periodic report).
- J. Referring to Section 1.7.13(e)(2) to the periodic report - On June 27, 2014, the Partnerships and BG International Limited ( "the Buyer") signed a non-binding letter of intent to export natural gas from the Leviathan Project to the Buyer's existing liquefaction facility. For more information, see the Company's immediate reports of June 29, 2014 (ref. no. 2014-01-100791), included here by way of reference.
- K. Referring to Section 1.7.27 to the periodic report -
1. On June 18, 2014, the Partnerships announced the receipt of a statement of claim and an application for its approval as a class action, filed with the Central District Court, against the partners in the 1/12 Tamar lease ("the Tamar Lease"), including the Partnerships, in connection with the price of natural gas sold from the Tamar Lease to Israel Electric Corporation Ltd.
  2. On July 23, 2014, the Partnerships announced a petition to the Supreme Court filed by the partners in the Tamar Lease, including the Partnerships, concerning the Commissioner not approving development of the Tamar South-West reservoir.
- L. Production data from the Tamar Project for the first two quarters of 2014:

		2014	
		Q1	Q2
Total output in the period (attributable to the Company's share) (MMCF) <sup>2</sup>		9,684 <sup>3</sup>	9,735
Average price per output unit (attributable to the Company's share) (USD thousands per MMCF)		6	6
Average royalties (each payment derived from the output of the producing asset, including the gross income from the oil asset) paid per output unit (attributable to the Company's share) (USD thousands per MMCF)	The State	0.7	0.7
	Third parties	0.1	0.1
	Principle shareholders	0.2	0.2
Receipts for average royalties (each payment derived from the output of the producing asset, including the gross income from the oil asset) received per output unit (attributable to the Company's share) (USD thousands per MMCF)		0.2	0.2
Average production costs per output unit (attributable to the Company's share) (USD thousands per MMCF)		0.6	0.7
Average net proceeds per output unit (attributable to the Company's share) (USD thousands per MMCF)		4.6	4.5

<sup>2</sup> Production data for the first and second quarter of 2014 do not include 731 MMCF and 813 MMCF, respectively, of natural gas produced in the Tamar Project and supplied to customers of the Yam Tethys project, under an operational gas swap agreement. For information concerning reconciliations made in connection with the operational gas swap agreement as detailed in above Section 1(a), see Note 4C(3) to the financial statements.

<sup>3</sup> Production data include production of condensate (converted into MMCF).

<sup>3</sup> Production data include production of both natural gas and condensate (converted into MMCF).

**2. Fuel Operations in Israel**

Referring to Section 1.8.12 to the periodic report - On June 15, 2014, Delek The Israel Fuel Company Ltd. ("Delek Israel") announced Mr. Avi Ben Assayag's decision to resign as CEO of Delek Israel. Mr. Ben Assayag will complete his tenure on September 30, 2014. On July 9, 2014, Delek Israel's board of directors announced the appointment of Mr. Shmuel Antzel as CEO of Delek Israel. Mr. Antzel will serve as acting CEO starting September 1, 2014.

**3. Fuel Products in Europe**

Referring to Section 1.9.1 to the periodic report - On June 29, 2014, the Company announced that it had signed an agreement to sell its holdings in the foreign subsidiary Delek Europe B.V. and the loans extended to Delek Europe B.V., for a total consideration of EUR 355 million. For more information, see the Company's immediate reports of June 8, 2014 and June 29, 2014 (ref. no. 2014-01-084933 and 2014-01-100683, respectively), included herein by way of reference. On August 28, 2014, the sale of all Delek Europe Holdings Ltd.'s (a Company subsidiary) holdings in Delek Europe B.V. was completed.

**4. Insurance Operations in Israel**

Referring to Section 1.11.1 to the periodic report - On July 4, 2014, the Company signed a non-binding memorandum of understanding with a foreign company Kushner Funding LLC, for selling control in The Phoenix Holdings Ltd. ("The Phoenix"). For more information, see the Company's immediate reports of July 6, 2014 (ref. no. 2014-01-107010), included here by way of reference.

Referring to Section 1.11.1 to the periodic report - In June 2014, The Phoenix Investment and Finance Ltd. (a wholly-owned subsidiary of The Phoenix), Property & Building Corporation Ltd., and Hadarim Properties Ltd. issued a complete purchase offer for the purchase of shares in Mehadrin Ltd. The purchase offer was not accepted, as subscription to the purchase offer did not meet the required subscription rate, and the condition for effecting a forced sale under Section 337(a) to the Companies Law was not met. Thus, pursuant to Section 337(b) to the Companies Law, the complete purchase offer was withdrawn.

**5. Insurance Operations in the US**

Referring to Section 1.12.1 to the periodic report - On June 19, 2014, Delek Finance US Inc., a wholly-owned foreign subsidiary holding the entire share capital of Republic Companies Inc. ("Republic") signed an amendment to an agreement for selling some of its holdings in Republic. For more information, see the Company's immediate reports of June 19, 2014 (ref. no. 2014-01-094410 and 2014-01-094899), included herein by way of reference.

**6. Additional Operations**

Referring to Section 1.15.4 to the periodic report - On June 24, 2014, the Company announced the signing of an agreement to sell all its holdings in Barak Capital Ltd. ("Barak Capital") with Mr. Eyal Bakshi, the controlling shareholder in Barak Capital, for a total consideration of NIS 237 million. On July 3, 2014, the transaction was completed. For more information, see the Company's immediate reports of June 24, 2014 (ref. no. 2014-01-097680), included herein by way of reference.

## 7. Matters Pertaining to the Company as a Whole

### Human Capital:

Referring to Section 1.17.3 to the periodic report - On July 29, 2014, the Company's Board of Directors resolved, following approval by the Company's Remuneration Committee, to renew a directors' and officers' insurance policy, and to update the Company's remuneration policy, all subject to approval by the Company's general meeting. For more information, see the Company's immediate report concerning the summons to meeting, dated July 29, 2013 (ref. no. 2014-01-097680), included herein by way of reference.

### Financing

Referring to Section 1.20.8 to the periodic report - On June 10, 2014, S&P Maalot announced that it was affirming its A rating for the Company's Maalot-rated debentures series.

### Legal actions

Referring to Section 1.25 to the periodic report - On May 19, 2014, the subsidiary Delek Petroleum Ltd. ("Delek Petroleum") filed a written application with the district court for early repayment of all of Delek Petroleum's debentures. On June 9, the Court granted the application, and on June 30, 2014, Delek Petroleum announced that it was no longer a reporting entity as defined in the Securities Law, and its securities were no longer held by the public.

### Objectives and Business Strategy

Referring to Section 1.26.1 to the periodic report - Following the Company's consideration of a strategic move to split the Company's holdings, whereby the Company's energy and oil and gas exploration operations will be consolidated under a new company and the new company's shares will be listed for trading on an overseas exchange and/or in Israel ("the Operational Split"), according to its strategic focus on developing its core assets in the energy segment, the Company has signed binding agreements and/or is in the advanced stages of negotiations to dispose of part of its assets, so that after completion of the said disposal, should it be carried out, the bulk of the Company's holdings will focus on its energy operations (the Oil and Gas Exploration segment and the Fuel Products in Israel segment); therefore, in the Company's Board of Directors meeting of August 28, 2014, the Company's Board of Directors instructed Management to study the possibility of listing the Company's shares for trading on a foreign exchange, and to issue its shares there (in addition to its listing in Israel), in lieu of the Operational Split. It is clarified that, at this time, there is no certainty that such listing will indeed be carried out and that the Company will list and/or issue its shares on a foreign exchange (in addition to their current listing on the Tel Aviv Stock Exchange).

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Delek Group Ltd.

**Date:** August 28, 2014

**Names and titles of signatories:**

Gabriel Last, Chairman of the Board

Asaf Bartfeld, CEO

## Chapter B



## **Board of Directors Report on the State of the Company's Affairs**



**Delek Group**

August 28, 2014

# Delek Group Ltd.

## **Board of Directors' report on the state of the Company's affairs**

**For the six months ended June 30, 2014**

The Board of Directors of the Delek Group Ltd. ("the Company") hereby presents the Company's Directors' Report for the six months ended June 30, 2014.

### **A. The Board's explanations on the state of the Company's affairs**

#### **1. Description of the Company and its business environment**

The Company is a holdings and management company controlling a number of corporations (for the sake of convenience, the Company and its investees shall henceforth be referred to as "the Group" or "the Delek Group") with a range of investments in Israel and overseas in the fields of energy and infrastructure, finance and insurance, automobiles, and others.

The Company's financial data and its operating results are affected by the financial data and operating results of its investee companies, and by its sale or acquisition of holdings. The Company's cash flow is affected, among other things, by dividends and management fees received from its investees, by inflows originating from the disposal of its holdings therein, by its ability to raise financing in Israel and abroad which depends, inter alia, on the value of its holdings, financial market conditions in Israel and abroad, and by investments made by the Group and the dividends it distributes to its shareholders.

#### **2. Principal Operations**

##### **General**

- A) The Company's Board of Directors instructed Management to review options for listing the Company's shares for trading on the London Stock Exchange, and to issue the company's shares on that exchange (in addition to its listing in Israel), in lieu of splitting the Company's operations.
- B) The Company's strategy is to focus on developing its core assets in the energy segment, which primarily include oil and gas exploration, production, distribution, and marketing. Therefore, last year, the Company began implementing its strategy by selling off assets not related to these core operations. These initiatives occasionally require a change in the accounting principles applied to these assets, and their classification as held-for-sale.

Results for the first six months of 2014, and particularly for the second quarter of 2014, were significantly affected by these changes in accounting principles, and included a number of accounting write-downs due to changes in the value of assets measured at market value or based on market value, following the Company's plans to dispose of these assets.

Following the sale of 18% of Delek USA's shares in the second quarter of the year, and since the Company still holds a 7.5% interest in Delek USA's shares, the Company has ceased applying the equity method in accounting for this investment, and recognized a loss

of NIS 263 million in the second quarter of 2014. It is noted, that this loss was previously written-down from the Company's equity, and so it did not influence the Company's equity balance.<sup>1</sup>

As of the financial statements' approval date, the appreciation of the Company's holdings in Delek USA shares amounted to NIS 110 million.

In light of the non-binding memorandum of understanding signed for selling control in The Phoenix, and the increased probability that the Company will dispose of its investment in The Phoenix within a period of less than six years, in the second quarter of 2014 the Company recognized a NIS 350 million impairment on its investment in The Phoenix (in the first six months of the year - a total write-down of NIS 400 million).

In light of the agreement signed for selling control in the US insurance company Republic, the Company recognized an impairment of NIS 60 million in the second quarter of 2014.

Following completion of the sale of all the Company's holdings in Barak Capital, the Company recognized an impairment of NIS 34 million.

Excluding one-time effects, the first six months of the year would have ended with a net profit of NIS 189 million, and the second quarter with a net profit of NIS 115 million.

Summary of key one-time write-downs:

	4-6/2014	1-6/2014
Impairment of the investment in The Phoenix	350	400
Loss on disposal of the investment in Delek USA	263	436
One-time expenses in natural gas operations	68	88
Impairment of goodwill in Republic	-	60
Impairment of investment in Barak Capital	34	-
<b>Total one-time write-downs</b>	<b>715</b>	<b>984</b>

For more information concerning the accounting write-downs, see Note 3 to the financial statements.

### **Gas and oil**

- A) In May 2014, a non-binding letter of intent for exporting natural gas was signed by the Tamar Partners and Union Fenosa Gas SA, with an estimated annual volume of 4.5 BCM for a period of 15 years. See Note 4C(1) to the financial statements.

Furthermore, in June 2014, a non-binding letter of intent for exporting natural gas was signed by the Leviathan Partners and BG International Limited, with an estimated annual volume of 7 BCM for a period of 15 years. See Note 4A(1) to the financial statements

- B) In May 2014, Delek Drilling Limited Partnership and Avner Oil Explorations Limited Partnership ("the Limited Partnerships") announced that the parties to the memorandum of understanding from February 7, 2014 for including Australian company Woodside Petroleum Ltd. to the Leviathan Project, had decided to cancel the non-binding memorandum of understanding.

<sup>1</sup> In this translation of the Board of Directors' Report, all amounts should be understood by the reader to be rounded to the nearest billion, million, or thousand, as the case may be.

- C) On March 27, 2014, an agreement was reached with the Antitrust Authority on a consensual decree, in lieu of the Antitrust Authority's decision concerning a restrictive trade arrangement in the Leviathan Reservoir, whereby the Limited Partnerships and Noble Energy ("the Sellers"), will sell all their holdings in the 366/Alon C license in which the Karish natural gas reservoir is located, as well as all their holdings in the 364/Alon A license ("the Alon A License") in which the Tanin natural gas reservoir is located (jointly: "the Asset"), subject to conditions including, inter alia, the Sellers' commitment to sell their holdings in the Asset no later than the date specified in the agreement; an option not to sell the rights to condensate in the Asset to a potential buyer; and the Sellers' being entitled to hold on to the right to royalties from the sale of any oil found in the Asset up to the maximum rate specified in the agreement. The agreement supersedes an Antitrust Authority determination concerning a restrictive trade arrangement between the partners in the Leviathan Reservoir, and was made without the Limited Partnerships and the other partners in the Leviathan Reservoir admitting the existence of any such restrictive arrangement.
- D) On March 27, 2014, the Ministry of National Infrastructures, Energy, and Water's Oil Commissioner ("the Ministry of Infrastructures" and "the Commissioner", respectively) granted the Limited Partnerships and the other partners in the licenses, two leases in lieu of their licenses - Lease I/14 Leviathan South, and Lease I/15 Leviathan North ("the Leases"). The Leases cover the Leviathan gas field, with the I/14 Leviathan South lease included in the area of the Rachel license, and the I/15 Leviathan North lease included in the area of the Amit License.
- E) On May 19, 2014, the Limited Partnerships completed a bonds issue to a total amount of USD 2 billion. The Limited Partnerships will use the proceeds of this issue (net of issuance costs) primarily to repay the project financing and bridge loans received for the Tamar Project (to the amount of USD 1 billion); to deposit the safety buffers (to the amount of USD 100 million); and the remainder will mainly be used to finance the Limited Partnerships' operating activities, including upcoming investments in the Limited Partnerships' oil assets.
- F) On June 17, 2014, the Limited Partnerships and the trustees approved the distribution of profits to participation unit holders, to a total amount of USD 100 million in each partnership. These amounts were distributed subsequent to the financial position statement date, on July 10, 2014.

#### **Sale of Delek USA shares**

- G) In March 2014, the Group sold 3,000,000 shares in Delek USA in consideration for NIS 315 million. Post-sale, the Company holds a 25.4% interest in Delek USA.

In May 2014, the Group issued a sales offer for the sale of shares in Delek USA. The price quoted in the tender was USD 30 per share. In all, 10,580,000 shares in Delek USA were sold in the offer (including the underwriters' exercised options), for a total consideration (before fees) of NIS 1,097 million. Post-sale the Group holds a 7.5% interest in Delek USA's shares. See also Note 3 to the financial statements.

#### **Delek Europe**

- H) In June 2014, a subsidiary signed an agreement to sell all its holdings in Delek Europe B.V. ("DEBV") and the loan extended by the subsidiary to DEBV, for a total consideration of EUR 355 million (NIS 1.7 billion). Payment of the consideration in this transaction will be effected as follows:
- 1) EUR 180 million will be paid in 2 equal instalments of EUR 90 million each. The first payment will be made upon closing the deal, and the other will be made at the end of 12 months from the closing date plus 5% annual interest.

- 2) The remaining consideration, to the amount of EUR 175 million, will be provided by the subsidiary to the buyer as a loan with a term of 5 years and 6 months, which shall bear 5% annual interest.
- 3) A mechanism was also established for adding/ deducting from the remaining consideration subject to various terms.

The transaction was completed on August 28, 2014. See also Note 3 to the financial statements.

### **Republic**

- I) In April 2014, Delek Finance US Inc. (a wholly-owned overseas subsidiary - "Delek Finance"), signed an agreement (updated in July 2014) to sell 34% of Republic's share capital for a total consideration of USD 75 million (NIS 263 million) in cash. The buyers were given an option to buy 21% of Republic's share capital, up to a total interest of 55%, for a period of up to three years from the closing date, subject to such terms as specified in the agreement.

The buyers were also given an option to buy Republic's remaining share capital (45%), which option shall remain valid for two years from the closing date, subject to such terms as specified in the agreement.

Should the said options be exercised, consideration shall be based on a valuation of USD 220 million for Republic plus annual interest as specified for each period, according to the exercise period for each option.

The buyers gained controlling rights in Republic from the closing date, which will be yielded back to Delek Finance at the end of three years if the buyers not exercise one of their options to buy Republic's shares, which would grant them an interest of at least 55% in Republic's share capital.

Completion of the transaction is subject to regulatory approval and various preconditions. See also Note 3 to the financial statements.

### **The Phoenix**

- J) Subsequent to the financial position statement date, in July 2014, the Company signed a non-binding memorandum of understanding detailing principles for reaching a binding agreement to sell control of The Phoenix Holdings Ltd. (47% of its share capital). The memorandum of understanding includes a number of principal conditions for the binding agreement. The total consideration will be equal to The Phoenix's equity as of December 31, 2013, multiplied by the percentage of shares being sold, plus interest as determined. Interest will be added to the consideration from January 1, 2014 and until the closing date. Under the specified principles, the buyer will be entitled to a loan from the Company and/or a Company guarantee to finance part of the said consideration. The memorandum of understanding is non-binding, except for a stated commitment to exclusivity for a specified time as agreed upon by the parties. The deal is subject to due diligence, successful completion of negotiations, and the signing of a binding agreement. The binding agreement will be subject to all regulatory approvals required by law. See also Note 3 to the financial statements.

### **Dividends**

- K) In March 2014, the Company's Board of Directors resolved to distribute a dividend of NIS 160 million. The dividend was distributed in April 2014.

Subsequent to the financial position statement date, in August 2014, the Company's Board of Directors resolved to distribute a dividend of NIS 150 million.

### 3. Results of Operations

- A) Contribution to net profit (loss) (attributable to Company shareholders) from principal operations (NIS millions):

	1-3/2014	4-6/2014	1-6/2014	1-3/2013	4-6/2013	1-6/2013	2013
Oil and gas exploration and production operations	38	56 **)	94	(5)	10	5	70
Fuel operations in Europe	(29)	25	(4)	-	19	19	14
Fuel operations in Israel	40	4	44	1	13	14	34
Motorway service area operations in the UK	(22)	6	(16)	(21)	-	(21)	(2)
Insurance and finance operations in Israel	94	22	116	144 *)	93 *)	237 *)	368
Overseas insurance operations	30	(32)	(2)	37	(16)	21	65
Automotive operations	30	21	51	51	33	84	125
Fuel operations in the USA	10	-	10	138	63	201	194
<b><u>Contribution of operations before capital and other gains</u></b>	<b>191</b>	<b>102</b>	<b>293</b>	<b>345</b>	<b>215</b>	<b>560</b>	<b>868</b>
Capital and other gains (losses) (1)	(386)	(702)	(1,088)	(289)	298	9	(128)
<b><u>Net profit (loss) attributable to Company shareholders</u></b>	<b><u>(195)</u></b>	<b><u>(600)</u></b>	<b><u>(795)</u></b>	<b><u>56</u></b>	<b><u>513</u></b>	<b><u>569</u></b>	<b><u>740</u></b>

(\*) Re-stated, see Note 2D to the financial statements.

(\*\*) Adjusted for one-time expenses.

- 1) In the first six months of 2014, the item includes an impairment on the investment in Delek USA and losses on the sale of shares in Delek USA to the amount of NIS 380 million (net of taxes), impairment of goodwill and intangible assets in The Phoenix of NIS 400 million, and impairment of goodwill in Republic to the amount of NIS 60 million. The item also includes results of other operations, unattributed finance expenses, other expenses, and tax expenses.

- B) Revenues from operating activities

The Group's revenues in the reporting period totaled NIS 10 billion, similar to its revenues in the same period last year, as detailed in the table below (NIS millions):

	1-6/2014	1-6/2013 **)	4-6/2014	4-6/2013 **)	2013 **)
Oil and gas exploration and production operations	617	538	273	314	1,283
Fuel operations in Israel	2,974	3,320	1,528	1,621	6,492
Insurance and finance operations in Israel *)	5,842	5,653	2,774	2,726	12,589
Overseas insurance operations *)	466	603	229	287	1,158
Other segments including adjustments	283	153	178	129	374
<b>Total revenues</b>	<b><u>10,182</u></b>	<b><u>10,267</u></b>	<b><u>4,982</u></b>	<b><u>5,077</u></b>	<b><u>21,896</u></b>

\*) Represents insurance premiums on self-retention in life insurance and general insurance.

\*\*) Re-stated and re-classified, see Note 2D to the financial statements.

See also Note 7 to the financial statements - Information Regarding Operating Segments.

C) Operating profit (NIS millions):

	1-6/2014	1-6/2013 *)	4-6/2014	4-6/2013 *)	2013 *)
Oil and gas exploration and production operations	341	114	132	91	415
Fuel operations in Israel	49	64	35	42	126
Insurance and finance operations in Israel	323	684	109	329	1,143
Overseas insurance operations	5	27	(43)	(33)	99
Other segments including adjustments	20	(53)	62	30	(85)
<b>Operating profit (before impairment)</b>	<b><u>738</u></b>	<b><u>836</u></b>	<b><u>295</u></b>	<b><u>459</u></b>	<b><u>1,698</u></b>
Impairment and other write-downs	(400)	-	(350)	-	(195)
<b>Operating profit (loss)</b>	<b><u>338</u></b>	<b><u>836</u></b>	<b><u>(55)</u></b>	<b><u>459</u></b>	<b><u>1,503</u></b>

\*) Re-stated and re-classified, see Note 2D to the financial statements.

D) The Group's share in the profits of associate companies and partnerships, net (NIS millions):

The following table details the Group's share in the results of its principal associates:

	1-6/2014	1-6/2013 *)	4-6/2014	4-6/2013 *)	2013 *)
Delek Automotive	52	84	22	33	118
IDE	12	8	17	16	55
The Phoenix associates	20	37	(5)	5	52
Other	2	57	3	7	205
<b>Total</b>	<b><u>86</u></b>	<b><u>186</u></b>	<b><u>37</u></b>	<b><u>61</u></b>	<b><u>430</u></b>

\*) Re-stated and re-classified, see Note 2D to the financial statements.

E) Highlights from the Company's consolidated income statements (NIS millions):

	1-6/2014	1-6/2013 *)	4-6/2014	4-6/2013 *)	2013 *)
Revenues	10,182	10,267	4,982	5,077	21,896
Cost of revenues	7,892	8,064	3,900	3,961	17,196
<b>Gross profit</b>	<b>2,290</b>	<b>2,203</b>	<b>1,082</b>	<b>1,116</b>	<b>4,700</b>
Sales, marketing and gas station operating expenses	910	859	471	441	1,755
General and administrative expenses	631	610	311	325	1,268
Other income (expenses), net	(411)	102	(355)	109	174
<b>Profit (loss) from operating activities</b>	<b>338</b>	<b>836</b>	<b>(55)</b>	<b>459</b>	<b>1,503</b>
Finance income	119	80	47	54	109
Finance expenses	736	684	(469)	407	1,397
<b>Profit (loss) after financing</b>	<b>(279)</b>	<b>232</b>	<b>(477)</b>	<b>106</b>	<b>215</b>
Gains (loss) from disposal of investments in investees and others, net	-	3	-	3	(8)
Group's share in earnings of associate companies and partnerships, net	86	186	37	61	430
<b>Profit (loss) before income tax</b>	<b>(193)</b>	<b>421</b>	<b>(440)</b>	<b>170</b>	<b>637</b>
Income tax (tax benefit)	(1)	261	(94)	137	471
<b>Profit (loss) from continuing operations</b>	<b>(192)</b>	<b>160</b>	<b>(346)</b>	<b>33</b>	<b>166</b>
Profit (loss) from discontinued operations, net	(446)	872	(220)	700	1,169
<b>Net profit (loss)</b>	<b>(638)</b>	<b>1,032</b>	<b>(566)</b>	<b>733</b>	<b>1,335</b>
<b>Attributable to -</b>					
Company shareholders	(795)	569	(600)	513	740
Non-controlling interest	157	463	34	220	595
	<b>(638)</b>	<b>1,032</b>	<b>(566)</b>	<b>733</b>	<b>1,335</b>

\*) Re-stated and re-classified, see Note 2D to the financial statements.

F) Movement in comprehensive income (loss) (NIS millions):

	1-6/2014	1-6/2013 *)	4-6/2014	4-6/2013 *)	2013 *)
<b>Net profit (loss)</b>	<b>(638)</b>	<b>1,032</b>	<b>(566)</b>	<b>733</b>	<b>1,335</b>
Other comprehensive income (loss) from operating activities (post-tax):					
Actuarial gain (loss) on defined benefit plans, net	(4)	1	(2)	3	2
Gain (losses) on available-for-sale financial assets, net	86	81	(13)	(15)	209
Transfer to profit or loss from disposal of available-for-sale financial assets	(141)	(81)	(36)	(39)	(204)
Transfer to profit or loss for impairment of available-for-sale financial assets	6	6	5	3	9
Gain (loss) from cash flow hedges	4	(2)	2	-	(3)
Adjustments from translation of overseas operations	(60)	(367)	(107)	(50)	(649)
Group's share of other comprehensive income (loss) of associates, net	40	(4)	39	13	(24)
<b>Total other comprehensive loss from continuing operations</b>	<b>(69)</b>	<b>(366)</b>	<b>(112)</b>	<b>(85)</b>	<b>(660)</b>
<b>Total profit (loss) from discontinued operations</b>	<b>292</b>	<b>(167)</b>	<b>232</b>	<b>(34)</b>	<b>(198)</b>
<b>Total comprehensive income (loss)</b>	<b>(415)</b>	<b>499</b>	<b>(446)</b>	<b>614</b>	<b>477</b>
<b>Attributable to:</b>					
Company shareholders	(538)	213	(408)	439	206
Non-controlling interests	123	286	(38)	175	271
	<b>(415)</b>	<b>499</b>	<b>(446)</b>	<b>614</b>	<b>477</b>

(\*) Re-stated and re-classified, see Note 2D to the financial statements.

#### **4. Financial Position**

The Group's total assets as of June 30, 2014, amounted to NIS 134 billion, compared with NIS 130 billion as of December 31, 2013.

Below is a description of the principal changes in assets and liabilities as of June 30, 2014, compared with December 31, 2013:

##### **Cash and cash equivalents and short-term investments**

The Group has cash and short-term investment balances of NIS 4.8 billion, consisting mainly of balances of NIS 1.0 billion in the headquarters companies, NIS 1.2 billion in The Phoenix, NIS 2.4 billion in Delek Energy, and NIS 0.3 billion in Delek Israel.

##### **Total current assets**

The Group's total current assets (excluding assets held for sale) as of June 30, 2014, amounted to NIS 50.8 billion, compared with NIS 47.7 billion as of December 31, 2013. This increase in current assets was mainly attributable to increased cash balances and short-term investment balances in finance operations. On the other hand, and following the classification of current assets as held-for-sale, current asset balances decreased by NIS 4 billion (mainly through Delek Europe's and Republic's current assets)

##### **Held-for-sale assets (liabilities attributed to held-for-sale assets)**

Following the signing of agreements to sell shares in Delek Europe, Republic, and Barak Capital, these companies' assets and liabilities are presented separately in the financial position statement as of June 30, 2014 (see also Note 3 to the financial statements).

##### **Total non-current assets**

The Group's total non-current assets, as of June 30, 2014, amounted to NIS 73.6 billion, as compared to NIS 82 billion as of December 31, 2013, a decrease of NIS 8.4 billion. This decrease was mainly due to the classification of assets from fuel operations in Europe and overseas insurance operations as held for sale under current assets.

##### **Balance of short- and long-term financial liabilities**

Total financial liabilities (to banks, others, and debenture holders) amounted to NIS 20.8 billion as of June 30, 2014, as compared to NIS 22.2 billion as of December 31, 2013. This decrease was mainly attributable to classification of the classification of liabilities from fuel operations in Europe and overseas insurance operations as liabilities associated with held for sale assets, under current liabilities. On the other hand, long-term liabilities increased by NIS 2 billion, mainly due to the issue of debentures in the Tamar Project by the Delek Drilling and Avner Partnerships.

##### **Contingent claims**

In their review, the Company's auditors draw attention to legal actions brought against the Company and Group companies. For details, see Note 5 to the financial statements.

##### **Additional information**

For additional information regarding repayments of principal and interest on the debts of headquarter companies, see Appendix A to the Board of Directors' Report.

## 5. Sources of Finance and Liquidity

The net financial debt of the Company and the headquarters companies as of June 30, 2014:<sup>2</sup>

	NIS millions
<b><u>Liabilities</u></b>	
Debentures	(6,631)
Bank loans	(299)
Other	(659)
<b>Total liabilities</b>	<b>(7,589)</b>
<b><u>Assets</u></b>	
Cash	930
Financial investments (*)	476
Loans to investees(**)	983
Dormant shares	453
<b>Total assets</b>	<b>2,842</b>
<b>Net financial liability - headquarters companies</b>	<b>(4,747)</b>

(\*) Included for the first time under this item is the Company's investment in Delek USA shares, to an amount of NIS 433 million (holdings of 4,456,432 par value, at a share price of USD 28.23 as of June 30, 2014). This change was made as the Company no longer applies the equity method and the investment is treated as a financial investment measured at market value.

(\*\*) Composition of loans to investees:

Borrower	Loan balances as of June 30, 2014 (NIS millions)
Delek Europe BV	525
Barak Capital	65
IPP	231
Other	162
<b>Total</b>	<b>983</b>

The Company has a separate working capital deficit of NIS 585 million. As a holdings and investment management company engaged in oil and gas exploration and production, infrastructures, gas stations and refining, insurance and finance, automotive and other operations, the Company tests its liquidity at the headquarters (separate) level, and for each investee at the individual investee level. It is noted, that the Group has numerous and varied options for recycling or repaying its debt, due inter alia to the fact that the bulk of the Group's assets are free of any liens and are mostly marketable. This provides the Group with a high level of financial flexibility, which can be realized through the sale of its holdings and/or the Group's ability to recycle its debt and/or obtain additional loans against the pledge of its unencumbered assets. Moreover, the low yields on the Group's bonds also provide it with a real option of recycling its debts on the capital market or through the banks.

<sup>2</sup> Headquarters companies: Delek Group, Delek Petroleum, Delek Ecology Limited Partnership, Delek Europe Israel, and Delek Hungary.

Furthermore, the management of the Group's subsidiaries believe that they can secure cash flows for continuing their investments and repaying their liabilities, inter alia, in light of their ability to generate cash flows from operating activities, the significant volume of assets which can be sold if necessary, dividend payments from companies presented as per the equity method, and in light of their assessment that they can continue raising short- and long-term funding.

The various considerations detailed above indicate that the separate working capital deficit does not indicate any liquidity problems.

As of the financial statements' approval date, the Company and the headquarters companies have liquid balances of NIS 1.1 billion (furthermore and in addition to these liquid balances, the Company has guaranteed, unutilized credit facilities of NIS 1.1 billion).

## 6. Analysis of Operations by Segment

### A) Oil and Gas Exploration and Gas Production Operations

Operations are mainly carried out through the limited partnerships Delek Drilling ("Delek Drilling") and Avner Oil Exploration ("Avner") (jointly, "the Partnerships"), which engage in oil and gas exploration, development and production operations in the exclusive economic zone off the coast of Israel and Cyprus, and sell natural gas and condensate to a variety of customers. In the reporting period, the Partnerships' operations focused on commercial production of natural gas from the Tamar Project, and the expansion of this project; production operations in the Yam Tethys Project; and investments and development feasibility studies in the Leviathan Project.

Below are the results of oil and gas exploration and production operations as included in the Group's results (NIS millions):

	1-6/2014	1-6/2013	4-6/2014	4-6/2013	2013
Revenues from gas sales net of royalties	617	538	273	314	1,283
Operating profit	341	105	132	82	415
EBITDA	593	517	284	328	1,159
Finance expenses, net	289	94	169	79	263
<b>Net profit (loss) attributable to Company shareholders</b>	25	5	(13)	10	70
Gas sales in BCM (*)	3.3	2.4	1.6	1.7	6.4
Condensate sales - thousands of barrels (**) 15	158	68	82	68	246

(\*) The data relate to sales of natural gas (100%) from the Yam Tethys and Tamar projects, rounded to one tenth of one BCM.

(\*\*) The data relate to condensate sales (100%) from the Tamar Project, rounded to thousands of barrels.

**Analysis of the results of operations in the gas segment:****Net profit (loss) attributable to Company shareholders**

The Company's share in the results of oil and gas exploration and production in the second quarter of 2014 yielded a loss of NIS 13 million, as compared to a profit of NIS 10 million in the same quarter last year. The year-on-year decrease in profit was attributable, among other things, to recognition of the Partnerships' expenses on LIBOR hedges totaling NIS 26 million, and reconciliation of accounts between the partners in the Yam Tethys Project and the partners in the Tamar Project following supply of gas from the Tamar Project to customers of the Yam Tethys Project to the amount of NIS 27 million. In contrast, profit from the lease of oil and gas assets was recorded in the same quarter last year, as well as insurance income.

Oil and gas exploration and production in the reporting period yielded a profit of NIS 25 million, as compared to a profit of NIS 5 million in the corresponding period last year.

The increase in net profit attributable to Company shareholders in the reporting period, as compared to the same period last year, was mainly attributable to greater revenues from natural gas and condensate sales in the Tamar Project, which were first recognized in the second quarter of 2013, net of the Partnerships' and the Company's expenses as aforesaid.

**Revenues**

In the reporting period, the Company recorded revenues from gas and oil sales, net of royalties, to the amount of NIS 617 million, as compared to NIS 538 million in the same period last year. This increase in revenues was due mainly to recognition of net revenues from natural gas and condensate sales to a range of customers in the Tamar Project, which last year only started in the second quarter.

**Operating profit**

Operating profit in the reporting period amounted to NIS 341 million, compared to NIS 105 million in the same period last year. This increase in operating profit was mainly due to the start of gas production in Tamar in the second quarter of 2013, and the recognition of depreciation expenses in the same period last year in the Noa and Pinnacles gas reservoirs.

**Finance expenses, net**

Net finance expenses in the reporting period amounted to NIS 289 million, compared to NIS 94 million in the same period last year, an increase of NIS 195 million.

Finance expenses were up mainly due to finance agreements signed by the Partnerships in connection with the Tamar Project and the Leviathan Project's funding. In the corresponding period last year, the Partnerships discounted the bulk of their finance expenses for development costs in the Tamar Project and investments in the Leviathan Project. Finance expenses were also up due to the issue of debentures in the second quarter of 2014 in lieu of repaid loans, recognition of NIS 35 million in loan-raising costs on the repaid loans, and due to the Partnerships' recognition of finance expenses in the reporting period in connection with LIBOR hedges totaling NIS 112 million.

Finance expenses in the second quarter of the year amounted to NIS 169 million, compared to NIS 79 million in the same period last year. This increase was mainly due to recognition of finance expenses on LIBOR hedges, as well as interest on debentures issued in the quarter as aforesaid.

**Additional information**

For more information on oil and gas exploration operations, see Note 4 to the financial statements.

**B) Fuel operations in Israel**

Data from the financial statements of Delek Israel as included in the Group's statements (NIS millions):

	1-6/2014	1-6/2013	4-6/2014	4-6/2013	2012
Revenues	2,974	3,342	1,528	1,644	6,492
Gross profit	366	358	192	180	739
Operating profit	43	66	24	43	126
EBITDA	92	113	53	68	224
Finance expenses (income), net	(23)	42	18	21	80
Delek Israel's share in results of associates	(17)	2	(4)	6	2
<b>Net profit</b>	<b>29</b>	<b>20</b>	<b>1</b>	<b>21</b>	<b>38</b>
<b>Attributable to:</b>					
Delek Israel shareholders	29	19	1	20	36
Non-controlling interests	-	1	-	1	2
	<b>29</b>	<b>20</b>	<b>1</b>	<b>21</b>	<b>38</b>

As of the financial position statement date, the Group maintains a 100% interest in Delek Israel (Delek Israel's statements are available to the public).

**Revenues**

Revenues in the reporting period amounted to NIS 2,974 million, compared with NIS 3,342 million in the same period last year, a decrease of 11%. Second quarter revenues amounted to NIS 1,528 million, compared with NIS 1,644 million in the same quarter last year, a decrease of 7%.

Sales turnover in Company-operated and franchise-operated Menta convenience stores in the first half and second quarter of 2014 totaled NIS 191 million and NIS 104 million, respectively, as compared to NIS 178 million and NIS 93 million in the same periods last year, for an increase of 7% and 12%, respectively.

**Gross profit**

Gross profit in the reporting period amounted to NIS 366 million, compared with NIS 358 million in the same period last year, an increase of 2.2%. Gross profit in the second quarter amounted to NIS 192 million, compared with NIS 180 million in the same period last year, an increase of 6.6%.

The increase in gross profit in the six and three month periods was attributable to great sales volumes in gas stations, growth in convenience store sales, growth in containerization and distribution operations, and a decrease in inventory losses of NIS 15 million in the first six months of the year and NIS 13 million in the second quarter. This increase was partially offset by lower revenues in direct marketing operations.

**Sales, gas station operation and general and administrative expenses**

In the first six months of 2014, sales and gas station operation expenses totaled NIS 270 million, as compared to NIS 272 million in the same period last year. In the second quarter

of 2014, these expenses totaled NIS 136 million, as compared to NIS 137 million in the same quarter last year.

General and administrative expenses totaled NIS 44 million in the first six months of 2014, as compared to NIS 45 million in the same quarter last year. In the second quarter of 2014, these expenses totaled NIS 21 million, as compared to NIS 23 million in the same quarter last year.

Sales, gas station operation and general and administrative expenses were down following Delek Israel's streamlining initiatives. However, some gas station operation expenses were up following an increase in municipal tax fees, electricity and water utilities fees, and environmental protection costs.

#### **Other finance expenses (income), net**

Net finance income in the reporting period amounted to NIS 23 million, as compared to net finance expenses of NIS 42 million in the same period last year. This increase in finance expenses was attributable to the recognition of gains on the sale of Delek Israel's shares in Pi Giloth Ltd. In all, recognized finance income amounted to NIS 58 million.

For more information concerning Delek Israel's operations, see Notes 3 and 5 to the financial statements.

#### **C) Fuel operations in Europe**

Fuel operations in Europe are managed by the consolidated company Delek Europe BV ("Delek Europe"), a subsidiary incorporated in the Netherlands and indirectly held by the Company (80%) and Delek Israel (20%). Operations include marketing and distribution of fuel and oil products, operation of gas stations, operation of a chain of convenience stores and bakeries, carwash facilities, and various holdings in terminals. For information concerning the agreement to sell the Company's holdings in Delek Europe, see Chapter A above.

Delek Europe operates in 4 countries in Western Europe. Operations in Belgium, the Netherlands, and Luxembourg ("Benelux") are carried out through Delek Benelux BV ("Delek Benelux"), while operations in France are carried out through Delek France BV ("Delek France"). The two companies are wholly-owned subsidiaries of Delek Europe, incorporated in the Netherlands.

#### **Condensed statement of financial position of Delek Europe as of June 30, 2014 and 2013, and as of December 31, 2013 (NIS millions):**

	June 30, 2014	June 30, 2013	December 31, 2013
Cash	858	542	649
Current assets (excluding cash)	1,427	1,678	1,431
Investment in investees and long term receivables	186	196	192
Property, plant and equipment, net	2,176	2,162	2,276
Other assets, net	1,340	1,389	1,377
<b>Total assets</b>	<b>5,989</b>	<b>5,967</b>	<b>5,925</b>
Short-term credit and loans	149	219	192
Current liabilities (excluding short-term credit and loans)	2,095	2,045	2,004
Long-term loans from banks	1,870	1,816	1,824
Other long-term liabilities	478	660	507
Long-term loans from shareholders	690	527	674
Equity	707	700	724
<b>Total equity and liabilities</b>	<b>5,989</b>	<b>5,967</b>	<b>5,925</b>

**Data from Delek Europe's income statement (NIS millions):**

	1-6/2014	1-6/2013	4-6/2014	4-6/2013	2013
Revenues	7,146	7,874	3,644	4,261	15,401
Gross profit	937	972	507	513	1,955
Operating profit	59	112	64	85	174
Share in earnings of investee partnerships	7	5	3	2	11
EBITDA	234	245	152	147	498
Finance expenses	(85)	(73)	(46)	(41)	(154)
Net profit (loss)	(19)	19	10	19	14

Average exchange rate for translation of financial statements (EUR/NIS)	4.77	4.82	4.75	4.74	4.79
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**EBITDA distribution across operations (EUR millions):**

	1-6/2014	1-6/2013	4-6/2013	4-6/2012	2013
Delek Benelux	32	32	21	20	64
Delek France	17	19	11	11	40

Analysis of Delek Europe's results in the reporting periods:

**Revenues**

Revenues in the reporting period amounted to NIS 7,146 million, compared with NIS 7,874 million in the same period last year, a decrease of 9.2%.

This decrease is attributable to a decrease in the number of liters sold, which was partially offset by increased sales in convenience stores.

**Operating profit**

Operating profit in the reporting period amounted to an operating profit of NIS 59 million, compared to an operating profit of NIS 112 million in the same period last year.

Operating profit was down mainly due to a decrease in the number of liters sold, which was partially offset by increased profitability in convenience stores.

**EBITDA**

EBITDA (operating profit excluding depreciation, amortization, and one-time expenses) in the reporting period amounted to NIS 234 million, compared with NIS 245 million in the same period last year, a decrease of 4.5%.

For more information concerning Delek Europe's operations, see Note 3 to the financial statements.

**D) Motorway service area operations in the UK**

The Company holds 100% of Delek Motorway Services' ("DMS") shares. DMS holds 100% of the shares in a UK company ("MSA") which holds RoadChef Limited. RoadChef Limited holds 28 motorway service areas in 20 different locations in the UK, operating under the Roadchef brand. This entire group of companies is henceforth referred to as Roadchef.

**Data from Roadchef's statements of financial position as June 30, 2014 (NIS millions):**

	June 30, 2014	June 30, 2013	Dec.31, 2013
Current assets	116	88	87
Property, plant and equipment, net	416	391	399
Other assets, net	685	647	674
Goodwill	779	734	763
<b>Total assets</b>	<b>1,996</b>	<b>1,860</b>	<b>1,923</b>
Short-term credit and loans	233	183	220
Current liabilities (excluding short-term credit and loans)	173	146	123
Long-term loans from banks	194	156	192
Debentures	730	728	715
Other long-term liabilities	54	45	49
Reserve for deferred taxes, net	83	103	86
Shareholder loans	1,357	1,278	1,330
Equity deficit	(828)	(779)	(792)
<b>Total equity and liabilities</b>	<b>1,996</b>	<b>1,860</b>	<b>1,923</b>

**Data from Roadchef's income statements (NIS millions):**

Item	1-6/2014	1-6/2013	4-6/2014	4-6/2013	2013
Revenues	494	519	284	282	1,046
Operating expenses	(434)	(466)	(238)	(243)	(908)
Depreciation	(38)	(36)	(20)	(21)	(80)
<b>Operating profit</b>	<b>22</b>	<b>17</b>	<b>26</b>	<b>18</b>	<b>58</b>
<b>EBITDA(*)</b>	<b>76</b>	<b>66</b>	<b>54</b>	<b>46</b>	<b>170</b>
Finance expenses on bank loans	(41)	(40)	(20)	(19)	(82)
Tax benefit	3	2	-	1	22
<b>Net profit (loss)</b>	<b>(16)</b>	<b>(21)</b>	<b>6</b>	<b>-</b>	<b>(2)</b>
Average exchange rate for translation of financial statements (GBP/NIS)	5.81	5.66	5.83	5.76	5.64

(\*) Reflects operational activities managed by Roadchef Ltd.

EBITDA (GBP millions)

	1-6/2014	1-6/2013	4-6/2014	4-6/2013	2013
Roadchef	13.1	11.7	9.2	8.0	30.1

**Additional information**

Roadchef operating results were up compared to the same period last year, mainly due to Roadchef's site development program, wherein Roadchef renovates its service areas and opens on-site McDonald's outlets. The service area development program is an important component in Roadchef's future growth plan. As of the end of the first quarter of 2014, Roadchef completed development of 19 of its 28 service areas.

EBITDA for the reporting period amounted to GBP 13.1 million, as compared to GBP 11.7 million in the same period last year, a year-on-year increase of 12%. EBITDA was up mainly due to the continued roll-out of the service area development program, increased efficiency in service area operations, and a re-structuring of headquarters expenses. In February 2014, Roadchef completed the acquisition of another site, Sutton Scotney, for a total consideration of GBP 700,000.

The Company is in the process of selling its holdings in Roadchel, as part of its strategy of focusing on its core assets in the energy segment

#### **E) Insurance and finance operations in Israel and abroad**

The Group holds 52.3% of the shares in The Phoenix Holdings Ltd., and 100% of the shares of Republic, a property insurance company operating in the US.

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

For information concerning a non-binding memorandum of understanding for the sale of control in The Phoenix, see Chapter A above.

#### **Below are the principal data from The Phoenix's consolidated income statements (NIS millions):**

(It is noted that The Phoenix's financial statements for June 30, 2013, were re-stated due to a change in the measurement of land assets in AD 120 Ltd. See Note 2D to the financial statements):

	1-6/2014	1-6/2013	4-6/2014	4-6/2013	2013
Gross premiums earned	3,902	3,672	2,002	1,867	7,474
Premiums earned in retention	3,598	3,347	1,847	1,706	6,826
Net gains on investments, and finance income	1,602	1,736	621	719	4,547
Income from management fees	458	373	192	174	875
Payments and changes in liabilities for insurance contracts and investment contracts in retention	4,348	3,879	2,070	1,828	9,105
Commission, marketing, and other purchasing expenses	640	572	342	304	1,187
General and administrative expenses	518	485	255	252	1,027
Other expenses	13	18	3	8	99
Finance expenses	51	88	41	55	181
Share in the profits of investees accounted for as per the equity method	21	37	(5)	4	52
<b>Profit for the period</b>	<b>246</b>	<b>445</b>	<b>56</b>	<b>177</b>	<b>760</b>
<b>Profit for the period attributable The Phoenix shareholders</b>	<b>236</b>	<b>434</b>	<b>50</b>	<b>172</b>	<b>739</b>

A significant part of The Phoenix's asset portfolio is invested on the capital market. Therefore, capital market returns for the various investment channels have a material effect on the yields achieved for The Phoenix's customers and on The Phoenix's profits. Gains and losses on investments reflect capital market movements in Israel and abroad, and fluctuations in the Israeli CPI and the NIS exchange rates against primary currencies, whose aggregate effect on the financial margin is the main cause for fluctuations in the reported results.

The results of The Phoenix's operations in the reporting period and the second quarter were materially affected by the decrease in interest rates. This decrease in interest rates materially affected the increase in reserves for pensions, which grew in the reporting period by NIS 124 million as compared to an increase of NIS 27 million in the same period last year. Furthermore, the decrease in interest rates led to a NIS 102 million provision (pre-tax), made in the second quarter of 2014, for liability adequacy testing (LAT) in life insurance operations.

Lower interest rates also caused an increase in insurance liabilities in compulsory and liability insurance operations in the general insurance segment.

Revenues from management fees were up NIS 85 million in the reporting period, as compared to the same period last year. This increase was mainly attributable to the fact that in the first quarter of 2013, The Phoenix only collected part of the variable fees on profit-sharing policies marketed up to 2003, due to the cumulative negative real yield on these policies as of December 31, 2012. It is noted, that had it not been for the cumulative negative real yield recorded on these policies as of December 31, 2012, variable management fees collected in the first six months of 2013 would have increased by an additional NIS 62 million.

The Phoenix's share in the earnings of investees in the reporting period amounted to NIS 21 million, as compared to a profit of NIS 37 million in the same period last year. This decrease was mainly attributable to Mehadrin, which is engaged in agricultural operations.

Key data according to The Phoenix's operating segments:

	1-6/2014	1-6/2013	4-6/2014	4-6/2013	2013
Profit from life insurance and long term savings segment	15	181	(84)	55	372
Profit from health insurance segment	48	170	22	48	219
Profit from general insurance segment	165	202	89	131	353
Profit from financial services segment	52	43	33	18	72
Total profit from operating segments	280	596	60	252	1,016
Profit not attributed to reporting segments	65	38	34	17	134
Company's share in the net results of investees not included in the reported segments	12	29	(9)	2	28
Profit before income tax	357	663	85	271	1,178
Income tax	111	218	29	94	418
<b>Profit for the period</b>	<b>246</b>	<b>445</b>	<b>56</b>	<b>177</b>	<b>760</b>
<b>Net profit for the period attributable The Phoenix shareholders</b>	<b>236</b>	<b>434</b>	<b>50</b>	<b>172</b>	<b>739</b>

#### **Additional information**

On May 27, 2014, The Phoenix issued its report on the embedded value of the long-term insurance operations of its subsidiary, The Phoenix Insurance Company Ltd. ("The Phoenix Insurance"). As of December 31, 2013, The Phoenix Insurance had an embedded value (EV) of NIS 6,353 million, as compared to an EV of NIS 5,438 million as of December 31, 2012.

Value of new business (VNB) on 2013 sales in the life, health and pension insurance segments amounted to NIS 386 million, as compared to NIS 336 million in the same period of the previous year, an increase of 15%.

It is emphasized that embedded value does not include the embedded value of general insurance operations, nor does it include ability to generate future business (goodwill).

Furthermore, embedded value does not take into account certain risks as detailed in the embedded value report.

It is understandable, that in light of the aforesaid, embedded value does not reflect The Phoenix Insurance's market value or economic value.

It is clarified that analysis of embedded value and the value of new business relies on forecasts, assessments and estimates regarding future events whose materialization is not certain and are outside the Company's control, and so constitutes "forward-looking information" as defined in Section 32A of the Securities Law, 1968. It is possible that these forecasts, assessments and estimates, or any one of them, will fail to materialize or will materialize in a manner that is different from that presented in the embedded value report. Therefore, actual results may differ from projected results.

#### **Additional information**

For more information on The Phoenix's operations, see Note 3 to the financial statements.

## **2) Republic Companies, Inc**

Republic Companies, Inc ("Republic") is a wholly-owned subsidiary. Republic is one of the oldest companies in the US dealing in property and accident insurance (over 100 years of history). Republic holds insurance companies and agencies which deal primarily in property and other general insurance, particularly in Texas, Louisiana, Oklahoma, Mississippi, Arkansas, and New Mexico, in the US. In addition, Republic holds insurance licenses in 48 other states, with one company in the group generating fronting insurance revenues for Republic. For information concerning the agreement to sell the Company's holdings in Republic, see Chapter A above.

#### **Republic's operating segments:**

Republic operates in 4 main markets:

- (a) Personal Lines - Household property and accident insurance marketed through Republic's network of approximately 450 active agents.
- (b) Commercial Lines - Insurance for commercial clients marketed through Republic's network of agents.
- (c) Program Management - Insurance through MGAs - independent brokers and underwriters connected to the company through unique, customized insurance programs marketed by brokers through their agents.
- (d) Insurance Services - Operations in insurance services, fronting policies made in collaboration with leading insurers in the US, seeking to leverage the availability of Republic's operating license in Texas.

**The results of Republic's operations as included under discontinued operations (USD millions):**

	1-6/2014	1-6/2013	4-6/2014	4-6/2013	2013
Gross premiums earned	302	350	144	167	705
Premiums earned in retention	119	146	59	72	288
Investment and other income, net	16	18	7	7	31
<b>Total revenues</b>	<b>135</b>	<b>164</b>	<b>66</b>	<b>79</b>	<b>319</b>
Increase in insurance liabilities less reinsurers	91	104	57	61	183
Purchasing and other expenses	26	34	14	18	70
General and administrative expenses	16	19	8	9	37
Impairment of goodwill	17	-	-	-	-
Finance expenses	2	2	1	1	5
<b>Total expenses</b>	<b>152</b>	<b>159</b>	<b>80</b>	<b>89</b>	<b>295</b>
<b>Profit (loss) before income tax</b>	<b>(17)</b>	<b>5</b>	<b>(14)</b>	<b>(10)</b>	<b>24</b>
<b>Net profit (loss) attributable to Company shareholders</b>	<b>(17)</b>	<b>6</b>	<b>(10)</b>	<b>(4)</b>	<b>19</b>

**Analysis of the results of Republic's operations as included in the Group's statements**

Republic's loss, as presented in the Group's statements for the first six months of 2014, amounted to USD 17 million, as compared to a profit of USD 6 million in the same period last year. The present-period loss was attributable to a USD 17 million impairment of goodwill, based on Republic's value as derived from the transaction value following the subsidiary Delek Finance's plans to sell Republic. After adjusting for this impairment, Republic broke even in the first six months of 2014, and posted a loss of USD 10 million in the second quarter of the year.

Gross premiums earned in the first six months of the year amounted to USD 302 million, as compared to USD 350 million in the same period last year. Premiums earned in retention were down, amounting to USD 119 million, as compared to USD 146 million in the same period last year.

For more information on overseas insurance operations (Republic), see Note 3 to the financial statements.

**F) Automotive operations**

As of the financial position statement date, the Group holds 24.2% of Delek Automotive (Delek Automotive is a public company which publishes its financial statements). The investment in Delek Automotive is presented as per the equity method.

The results of Delek Automotive's operations are included under the 'Group's share in the profits of associates, net' item. Below is an analysis of the results of automotive operations. Following are the results of Delek Automotive Systems Ltd.'s ("Delek Automotive") operations (as included in the Delek Group's statements (\*)) (NIS millions):

	1-6/2014	1-6/2013	4-6/2014	4-6/2013	2013
Revenues	2,146	2,097	988	975	3,467
Gross profit	411	325	166	166	570
Sales, marketing, and general and administrative expenses	70	57	34	28	114
Operating profit	341	268	133	138	460
EBITDA	349	276	137	142	475
Finance income (expenses), net (*)	(3)	156	13	49	208
<b>Net profit</b>	<b>248</b>	<b>317</b>	<b>109</b>	<b>141</b>	<b>502</b>

(\*) Delek Automotive recognized the revaluation of its investment in Mobileye in profit or loss, while the Group recognized the changes in the fair value of the investment in other comprehensive income. In the first six months of 2014, Delek Automotive recognized income, net of taxes, of NIS 192 million in profit or loss for appreciation of its investment in Mobileye, while the Group recognized the appreciation in comprehensive income.

### Analysis of the results of Delek Automotive's operations in the reporting periods:

Breakdown of Delek Automotive's sales by number of cars sold:

	1-6/14	1-6/13	4-6/14	4-6/13	2013
MAZDA vehicles	10,030	6,386	4,164	3,122	10,689
FORD vehicles	5,215	8,133	2,848	3,673	12,802
BMW vehicles	1,164	1,235	530	562	1,942
Total vehicles sold	16,409	15,754	7,542	7,357	25,433
The Company's share of all new vehicles sold in Israel (based on Licensing Bureau data)	13%	14%	12%	13%	12%

The gross profit margin in the second quarter of 2014 was 16.9%, similar to the 17.0% margin posted in the same quarter last year, and the 16.5% margin for 2013 as a whole. The gross margin was down in the second quarter of 2014, as compared to the 21% margin posted in the first quarter of 2014, mainly due to changes in the vehicle sales mix.

For more information on automotive operations, see Note 3 to the financial statements.

## G) Additional Operations

### 1) Infrastructures

The Group's infrastructures operations are carried out through Delek Ecology Limited Partnership ("Delek Ecology"), which coordinates the development and operation of power plants in Israel through its subsidiaries. The Group also holds 50% of IDE Technologies Ltd. ("IDE"). The infrastructures segment's contribution to the Group's net profit in the reporting period amounted to NIS 27 million, compared with a profit of NIS 6 million in the same period last year. This contribution is due to IDE's profit of NIS 12 million, and a profit of NIS 15 million recorded by the Ashkelon power plant ("Delek Ashkelon").

In the reporting period, IPP Delek Sorek signed several agreements with a gas supplier, and build-operate-maintain contractors for constructing and operating the power plant.

In March 2014, Delek Ecology signed a financing agreement with Bank Leumi Lelsrael Ltd. ("Bank Leumi"), whereby Bank Leumi provided Delek Ecology with a loan of NIS 120 million, based on Delek Ashkelon's projected surplus cash flows.

On May 13, 2014, a finance agreement was signed between Delek Sorek, the Group and Delek Ecology, and Bank Hapoalim Ltd. and Poalim Trust Services Ltd., to finance construction of the power plant in Sorek. The agreement is subject, as specified in the criteria issued by the Public Utility Authority - Electricity, to the Electricity Authority approving the rates. Under the financing agreement, the Group provided guarantees, while Delek Sorek and Delek Ecology pledged assets and rights.

## 2) **Biochemicals**

Gadot Biochemical Industries Ltd. ("Gadot"), is a manufacturer of food supplements and chemicals for the food, detergents and toiletries industries, in which the Group holds a 100% interest as of the financial position statement date.

The biochemicals segment's contribution to the Group's net profit in the reporting period amounted to a loss of NIS 26 million, compared with a loss of NIS 29 million in the same period last year.

Subsequent to the financial position statement date, and following early repayment of Gadot's debentures, Gadot is no longer a reporting entity.

For more information on additional operations, see Notes 3 and 5 to the financial statements.

## B. Market Risk Exposure and Management

1. A) Company operations focus mainly on holding and managing shares in its subsidiaries. These are long-term investments and therefore these holdings are not hedged.

Risk management in subsidiary and associate companies is determined and carried out directly by the investees. Some of these companies are public companies and are listed on the stock exchange, and therefore proper disclosure of this subject is made in their financial statements.

- B) The currency risk management officer in the Company is Mr. Ido Adar, MBA. In recent years, Mr. Adar has served as Company Treasurer.
2. Description of market risks

- A) As stated above, the Group is mainly a holdings and management company, and its principal exposure results from the market risks of its subsidiaries and associates ("Investees").
- B) In the reporting period, no material changes occurred in the Company's policy concerning its exposure to and mitigation of market risks, including the effects of sensitivity tests for the Group's reports in this matter in the year ended December 31, 2013.

The following table details Israeli CPI data and exchange rates for the primary currencies used by the Company:

	EUR representative exchange rate	USD representative exchange rate	GBP representative exchange rate	Known CPI
As of	NIS	NIS	NIS	Points
June 30, 2014	4.694	3.438	5.860	119.66
June 30, 2013	4.720	3.618	5.521	118.48
December 31, 2013	4.782	3.471	5.742	119.89
<u>% Change</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
June 30, 2014 (H1/2014)	(1.8)	(0.9)	2.1	(0.2)
June 30, 2013 (H1/2013)	(4.1)	(3.1)	(8.5)	0.7
2013	(2.8)	(7.0)	(4.9)	1.9

3. Linkage bases report for the second quarter of 2014:

	June 30, 2014											
	Israeli Currency		Foreign Currency		Fair Value	ETNs	Insurance Business Items	Monetary Items in Overseas Operations			Non-Monetary Item	Total
	Un-linked	CPI-linked	USD	Other Currency				USD	EUR	GBP		
Assets												
Current assets	2,205	14	731	3	26	-	-	2,986	5,990	95	315	12,365
Non-current assets	207	95	95	-	507	-	-	399	-	10	20,298	21,611
Insurance business assets	653	823	47	5	-	36,549	54,579	4,458	-	-	3,804	100,918
<b>Total assets</b>	<b>3,065</b>	<b>932</b>	<b>873</b>	<b>8</b>	<b>533</b>	<b>36,549</b>	<b>54,579</b>	<b>7,843</b>	<b>5,990</b>	<b>105</b>	<b>24,417</b>	<b>134,894</b>
Liabilities												
Current liabilities	1,506	1,739	629	17	2	-	-	933	4,592	407	-	9,825
Non-current liabilities	3,177	5,140	118	-	-	-	-	7,012	-	958	2,316	18,721
Insurance business liabilities	285	2,320	80	-	-	36,161	53,543	3,746	-	-	134	96,269
<b>Total liabilities</b>	<b>4,968</b>	<b>9,199</b>	<b>827</b>	<b>17</b>	<b>2</b>	<b>36,161</b>	<b>53,543</b>	<b>11,691</b>	<b>4,592</b>	<b>1,365</b>	<b>2,450</b>	<b>124,815</b>
<b>Assets less liabilities, net</b>	<b>(1,903)</b>	<b>(8,267)</b>	<b>46</b>	<b>(9)</b>	<b>531</b>	<b>388</b>	<b>1,036</b>	<b>(3,848)</b>	<b>1,398</b>	<b>(1,260)</b>	<b>21,967</b>	<b>10,079</b>

## C. Aspects of Corporate Governance

### 1. Disclosure on the financial statements' approval process

The Company's Board of Directors is the corporate organ charged with overall supervision and approval of the financial statements. The Company's Board of Directors has appointed a committee for examining the financial statements. This committee is not the Audit Committee, and is separate from the Audit Committee, although the committees share the same members.

#### A) The committee and its members

The committee comprises 3 members as follows: Mr. Yoseph Dauber, committee chairman (external director); Prof. Ben-Zion Zilberfarb (external director); and Mr. Avi Harel. All three members have accounting and financial expertise. Prior to their appointment, all committee members have submitted declarations detailing their skills, education, and experience, and based on these signed declarations, the Company has determined that they are able to read and understand financial statements.

#### B) The financial statements approval process

- 1) The Financial Statements Examination Committee formulated its recommendations to the Company's Board of Directors in its meeting of August 24, 2014.
- 2) All committee members participated in the above meeting.
- 3) In addition to the committee members, the August 24, 2014 meeting was attended by the Chairman of the Board, Mr. Gabi Last; the Company's CEO, Mr. Asaf Bartfeld; the Company's CFO, Mr. Barak Mashraki; the Company's comptroller, Mr. Amit Kornhauser; the Company's external auditors; and other Company personnel.
- 4) The committee examined the assessments and estimates used in the financial statements, internal control of financial reporting, the scope and propriety of disclosure made in the financial statements, adopted accounting policies and accounting methods applied on material matters in the Corporation, valuations, including underlying assumptions and estimates, which serve as the basis for data included in the financial statements. The committee's discussions were based on materials brought before the committee on these matters by the Company's management, and questions and answers discussed during the meeting including the external auditor's remarks on these issues.
- 5) The committee unanimously recommended that the Board of Directors approve the financial statements for the second quarter of 2014.
- 6) The Board of Directors discussed the Financial Statements Examination Committee's recommendations and the financial statements on August 27 and 28, 2014. The Board of Directors' meeting was attended by the following directors: Mr. Gabi Last (Chairman); Prof. Ben-Zion Zilberfarb (external director); Mr. Yoseph Dauber (external director); Mr. Avi Harel; Mrs. Mazal Braunstein; Mr. Moshe Amit; Mrs. Carmit Elroy, and Mr. Moshe Bareket. The meeting was also attended by the Company's senior officers and its accountants.
- 7) The Board of Directors believes that the Financial Statements Examination Committee's recommendations were submitted a reasonable amount of time prior to the Board of Director's meeting.
- 8) The Company's Board of Directors has adopted the Financial Statements Examination Committee's recommendations and has resolved to approve the Company's financial statements for the second quarter of 2014.

**D. Disclosure relating to the Company's financial reporting****1. Critical accounting estimates**

No changes have occurred in the reporting period as compared to the 2013 annual report.

**2. Events after the financial position statement date**

For details of material events after the financial position statement date, see Chapter A to the Board of Directors' Report.

**E. Dedicated disclosure for debenture holders**

Series	Issue date	Original par value	Par value balance as of Jun. 30, 2014	Stated interest rate	Linkage	Carrying amount as of Jun. 30, 2014	Interest accrued in the books	Repayment years	Stock exchange value as of Jun. 30, 2014	Material series	Trustee
		NIS millions	NIS millions			NIS millions	NIS millions				
B11	7/2006	468	357	5.40%	CPI	424	5	2018	Non-marketable	No	BLL Trust Company 8 Rothschild Blvd. Tel Aviv Tel.: 03-5170777 – Idit Prizar
B12	11/2006	1,100	596	5.35%	CPI	713	8	2015-2017	Non-marketable	Yes	Reznick Trusts Ltd. 14 Yad Harutzim St. Tel Aviv Tel: 03-6393311 – Liat Bachar-Segal
B13	3/2007	913	639	Until listing - 5.1% + after listing - 4.6%	CPI	775	9	2013-2014, 2019-2021	900	Yes	Hermetic Trust (1975) Ltd. 113 Hayarkon St. Tel Aviv Tel: 03-5274867 – Dan Avnon
B14	7/2009+6/2010	419	419	8.5%	-	419	7	2018	517	No	Clal Finance Trusts 2007 Ltd. 37 Brhin Road Tel Aviv Tel" 03-6274827 – Yuval Likber
B15	7/2009 + 7/2013 +11/2009 +11/2013	1,486	1,486	8.5%	-	1,486	26	2015-2017	1,712	Yes	Clal Finance Trusts 2007 Ltd. 37 Brhin Road Tel Aviv Tel" 03-6274827 – Yuval Likber
B16	9/2009	260	173	5.5%	-	173	3	2013-2015	182	No	Strauss Lazar Trust Ltd. 17 Yitzchak Sadeh, Tel Aviv Tel: 03-6237777 – Uri Lazar
B17	9/2009	90	60	Variable	-	60	-	2013-2015	61	No	Strauss Lazar Trust Ltd. 17 Yitzchak Sadeh, Tel Aviv Tel: 03-6237777 – Uri Lazar
B18	+ 11/2009 6/2010+7/2013	1,062	1,062	6.1%	CPI	1,155	12	2016-2022	1,442	Yes	Clal Finance Trusts 2007 Ltd. 37 Brhin Road, Tel Aviv Tel: 03-6274827 – Yuval Likber
B19	11/2010	560	560	4.65%	CPI	595	4	2019-2022	701	Yes	Gafni Trusts Ltd. Hataas 4, Ramat Gan Tel: 03-6070370 – Tzuri Galili
B22	6/2007	500	375	4.50%	CPI	451	-	2012, 2019-2021	523	Yes	Aora Fidelity Trust Ltd. 12 Begin Rd., Ramat Gan Tel: 03-7510566 – Iris Shalbin
B23	10/2007+ 7/2009	1,293	323	4.75%	CPI	382	3	2013-2014	389	Yes	Strauss Lazar Trust Ltd. 17 Yitzchak Sadeh, Tel Aviv Tel: 03-6237777 – Uri Lazar

## Notes:

1. The Company meets all the terms of the debentures. Furthermore, the Company meets all the terms of its obligations under the deed of trust.
2. Information regarding the debenture ratings:

Series	Rating company	Current rating	Rating upon issue	Rating Company	Current Rating	Rating upon issue
B11	Midroog	A1	-	S&P Maalot	A	AA
B12	Midroog	A1	-	S&P Maalot	A	AA
B13	Midroog	A1	-	S&P Maalot	A	AA
B14	Midroog	A1	A1	S&P Maalot	-	-
B15	Midroog	A1	A1	S&P Maalot	-	-
B16	Midroog	A1	A1	S&P Maalot	-	-
B17	Midroog	A1	A1	S&P Maalot	-	-
B18	Midroog	A1	A1	S&P Maalot	-	-
B19	Midroog	A1	A1	S&P Maalot	-	-
B22	Midroog	A1	-	S&P Maalot	A	AA
B23	Midroog	A1	-	S&P Maalot	A	AA

**Details of the Company's liability certificates:**

In June 2014, S&P Maalot confirmed its A rating for S&P Maalot-rated debenture series.

**F. Additional Information****1. Dividends**

In March 2014, the Company's Board of Directors resolved to distribute a dividend of NIS 160 million. The dividend was distributed in April 2014.

Subsequent to the financial position statement date, in August 2014, the Company's Board of Directors resolved to distribute a dividend of NIS 150 million.

**2. Company employees**

The Board of Directors would like to thank the Company's management, the management of the Company's investees, and to all the employees for their dedicated work and their contribution to the advancement of the Company.

Sincerely

**Asaf Bartfeld**

CEO

**Gabriel Last**

Chairman of the Board

Signature date: August 28, 2014

**Appendix A to the Board of Directors' Report****Breakdown of principal and interest payments on the debentures and bank loans of the headquarters companies as of June 30, 2014 (NIS millions):****Delek Group - Headquarters**

		Q3- Q4/2014	2015	2016	2017	2018	2019 onwards	Total
<b>Debentures</b>	<b>Principal</b>	551	908	926	926	843	2,481	6,635
	<b>Interest</b>	188	379	316	248	166	257	1,554
<b>Bank loans</b>	<b>Principal</b>	6	31	79	34	167	-	318
	<b>Interest</b>	8	10	8	5	-	-	30
	<b>Total</b>	<b>753</b>	<b>1,328</b>	<b>1,329</b>	<b>1,213</b>	<b>1,176</b>	<b>2,738</b>	<b>8,537</b>

The Delek Group also has guaranteed bank credit facilities of NIS 1.1 billion, which as of June 30, 2014, and as of the financial statements' approval date, had not been utilized.

## **Appendix B to the Board of Directors' Report**

### **Information concerning an extremely material valuation as of June 30, 2014 (Regulation 49(a) to the Securities Regulations (Periodic and Immediate Reports), 1970)**

The Group's financial statements are appended by an economic study appraising the investment, goodwill, and other intangible assets recognized through the purchase of shares in The Phoenix Holdings Ltd. ("The Phoenix").

Highlights from this economic study:

- A. Study topic: Appraising the investment, goodwill and other intangible assets recognized through the purchase of shares in The Phoenix.
- B. Study date: June 30, 2014.
- C. Value of appraised assets: The balance of goodwill generated through the purchase totals NIS 100 million, and the balance of surplus acquisition costs attributed to the value of insurance portfolios totals NIS 185 million. The study also examined the value in use of the investment in The Phoenix, in light of the increased probability that The Phoenix will be sold in the next two years (as opposed to a period of six years as assumed in prior studies).
- D. Value of assets as determined in the study: Goodwill and intangible assets were impaired by NIS 340 million (see details in the attached study). The financial statements included a write-down of NIS 350 million, accounting for expected disposal costs.
- E. Identity and details of assessor: Prof. Yoram Eden (for more information, see Appendix A to the economic study). The assessor is independent of the Company.
- F. Assumptions and valuation model:

In light of the increased probability that the Company will dispose of its investment in The Phoenix, among other things, in light of the non-binding memorandum of understanding signed in July 2014 for selling control in The Phoenix, the Company changed its forecasted disposal period to two years. The appraiser estimated the present value of The Phoenix's predicted cash flows up to the expected time of its sale by the Group (two years), and at the end of the two-year period the expected consideration from the sale was estimated using The Phoenix's value in use as of June 30, 2014, plus required adjustments.

Key assumptions used in determining value in use were as follows:

- 1) The forecasted cash flows for the two year period as concerns The Phoenix's cash flows from each of its operating segments. In determining expected cash flows from each segment, various key assumptions were used, such as growth rates, predicted inflation rates, yield on assets and investments, etc.
- 2) In light of the Israel Security Authority's position, as published in March 2014, concerning methods for estimating the consideration expected to be received from the disposal of assets listed for trading, the appraiser took into consideration that the proceeds from the sale of The Phoenix shares in the second year is the market price of The Phoenix's shares as of June 30, 2014, plus adjustments required to estimate the Phoenix's operating value due to the difference between the market value of The Phoenix's financial liabilities and their carrying amount.
- 3) The post-tax discounting rate was estimated at 9%.

For more information, see also the valuation appended to the Group's periodic report.

Jerusalem, August 27, 2014

Delek Group Ltd.  
7 Giborei Yisrael, St.  
Netanya

Dear Sirs,

**Review of the value of the investment of Delek Group Ltd.  
in shares of The Phoenix Holdings Ltd.**

**1. General**

- 1.1 You have requested that I review my opinion of March 27, 2014 "Previous Paper"), which applied IFRSs in order to assess whether goodwill and other intangible assets recognized in the books of Delek Group Ltd. ("Delek Group" or "Delek") had suffered impairment following the purchase of shares of The Phoenix Holdings Ltd. ("The Phoenix" or the "Company"), as described in section 6 below.
- 1.2 In December 2013 the Knesset enacted the Promotion of Competition and Reduction of Concentration Law, 2013 ("Market Concentration Law"), which lays down, inter alia, a duty to separate holdings in significant non-financial operations from significant financial operations as defined in the Market Concentration Law.  
  
As I understand it, Delek Group has holdings in significant non-financial companies and in significant financial companies such as The Phoenix Insurance Co. Ltd. ("The Phoenix Insurance") and Excellence Investments Ltd. ("Excellence"). In view of the provisions of the Market Concentration Law, Delek Group will be required, within six years of application of the law, to separate its significant non-financial operations from its significant financial operations.
- 1.3 For the Previous Paper, I was requested by Delek Group to estimate the value in use of the investment in The Phoenix, assuming that in light of the Market Concentration Law, Delek Group would be required to sell its holdings in The Phoenix (which has holdings, inter alia, in the financial companies Phoenix Insurance and Excellence) within the timeframe laid down in the Market Concentration Law, i.e. six years.
- 1.4 On July 6, 2014, Delek Group published an immediate report advising that on July 4, 2014 it had signed a non-binding Memorandum of Understanding with the foreign company Kushner Funding LLC ("Buyer"), which set out the principles for drafting a binding agreement for the sale of control in the Company (approximately 47%). The overall consideration for the shares being purchased would be a sum equal to the equity of The Phoenix as of December 31, 2013, multiplied by the percentage of shares being sold out of the Company's issued capital, plus interest at an agreed rate that would be added to the consideration from January 1, 2014 to the date of closing the transaction. As part of the agreed principles, the Buyer would be entitled to a loan from the Company and/or a guarantee of the Company for financing part of the consideration.  
I was advised by the Company that it is not certain that the transaction will be closed.
- 1.5 Nevertheless, following sell efforts by Delek Group, I was requested by the Company to review the previous Paper on the assumption that Delek would sell its holdings in the Company within 18 – 30 months (i.e. in the period between December 31, 2015 and December 31, 2016). The review included reassessment and revision of some of the assumptions made in the Previous Paper in light of the changes in the interest environment and in light of the business results of the Company in the fourth quarter of 2013 and in the first half of 2014.

- 1.6 This paper should be read together with the Previous Paper, and its contents will apply here also, with the requisite changes, according to their context.
- 2.** Details relating to my education and professional experience are presented in Appendix A to this paper.
- 3.** For the purpose of my work I have drawn on the following accounting standards, financial statements and data:
- 3.1 The Phoenix audited financial statements for 2013 and for previous years.
- 3.2 The Phoenix reviewed financial statements for the interim period ended March 31, 2014, including the Embedded Value ("EV") report as of December 31, 2013.
- 3.3 Forecast for the profits of The Phoenix for the years 2014-2018, provided by Delek Group ("Revised Delek Forecast").
- 3.4 Audited financial statements of Excellence for 2013 and reviewed financial statements of The Phoenix for the interim period ended March 31, 2014.
- 3.5 IAS 36 – Impairment of Assets ("IAS 36").
- 3.6 Announcement of Maalot ratings company dated June 29, 2014, confirming a rating of ILAA+/Stable for The Phoenix Insurance Ltd. and a rating of ILA/Stable for Phoenix Holdings Ltd.
- 3.7 A presentation to analysts of The Phoenix which was attached to an immediate report published by the Company on May 27, 2014.
- 3.8 The response of the Companies Department at the Securities Authority, dated March 18, 2014, to the request of Discount Investments Co. for preliminary guidance on accounting questions relating to the Market Concentration Law (the "Authority's Response").
- 3.9 I wish to note that in preparing this paper, I had before me the business results of The Phoenix for the first quarter of 2014 and for prior years, and that I requested and received certain data from the draft financial statements of The Phoenix as of June 30, 2014. I also received explanations about developments in the Company in the second quarter of the year.
- 4.** I have no knowledge of any information that may indicate the implausibility of the data I have drawn on. I did not examine the data independently, and therefore this paper does not validate their verity, integrity or accuracy.
- 5. Use of forward looking information**
- 5.1 For this paper, I assessed the projected profits from the insurance portfolios (life insurance, pension and general insurance – from both existing portfolios and future portfolios) of the Company in the second half of 2014 and in the years 2015 and 2016 ("Forecast Period"). I made the profit estimate in the Forecast Period using forward looking information that included, inter alia, forecasts, assessments and estimates relating to future events or matters that may or may not come to pass and are not under the control of The Phoenix and/or Delek Group. Such forward looking information does not constitute proven fact, and is based solely on my subjective assessment, which relied on general information available to me at the time of writing.
- 5.2 Furthermore, I made an estimate of the profits of Excellence and of other companies in The Phoenix Group in the Forecast Period, in which I also used forward looking information provided by Delek's management, on the expected profit in each of its segments of operation. Such forward looking information is uncertain information concerning the future, based on information in the Company's possession at the time of the assessment, and includes estimations or intentions of the Company's management at the time of writing. If these

estimations of the management fail to materialize, the actual results may differ materially from the assessed results or the results implied by such information.

## 6. Methodology

- 6.1 IAS 36 states that in determining value in use –  
"Estimates of future cash flows should include:
- A. Projections of cash inflows from continuing use of the asset;
  - B. Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for us) and can be directly attributed or allocated on a reasonable and consistent basis, to the asset; and
  - C. net cash flows, if any, to be received (or paid) for disposal of the asset at the end of its useful life."<sup>1</sup>
- 6.2 IAS 36 states (in its sections 52 and 53) that calculation of the projected cash flow from disposal of the asset should be made in the following manner:
- "52. The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life shall be the amount that an entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.*
- 53. The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is **determined in a similar way to an asset's fair value less costs to sell...**" (emphasis added).*
- 6.3 In view of the information in section 1.4, I decided to estimate the value in use in a way that takes into account the cash flows to The Phoenix up to the projected date of disposal (i.e. in a period of 18 – 30 months) and the estimated proceeds to Delek Group from the sale of The Phoenix shares at the end of the period. In the Previous Paper I employed a similar methodology, but I assumed that the disposal date would be only at the end of 2019.
- 6.4 In calculating the value in use I took into account the weighted amounts of:
- A. Profits after tax, discounted at the discount rate after tax over the Forecast Period;<sup>2</sup>
  - B. The adjusted market value of the Company as of June 30, 2014, discounted from the end of the Forecast Period to June 30, 2014.
- 6.5 However, I decided to make an adjustment to the market price of the shares to the end of the period in the amount of the difference between the carrying value and the market value of the deferred bonds of The Phoenix Insurance and the debentures of The Phoenix, as described in section 18 of this paper.

## 7. Summary of the opinion

**From my examination, as of June 30, 2014 the recoverable amount of Delek's investment in The Phoenix is approximately NIS 340.7 million less than the equity of the investment, assuming that the investment is realized on June 30, 2016. Accordingly, an impairment loss of approximately NIS 340.7 million (before tax) should be recognized.**

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<sup>1</sup> See section 39 of IAS 36.

<sup>2</sup> According to the directives of IAS 36, for reviewing impairment the cash flows should be discounted before tax at the pre-tax discount rate. It should be borne in mind that because of the time difference between the date of collecting the premiums and the date of payment of claims, and owing to the accumulation to the insurance reserves, the cash flows of themselves are not relevant for estimating the value in use of investment in insurance companies. The relevant datum, and the one that I used, is the amount of profits. The discount rate after tax in this paper is a reasonable approximation of discount rate before tax.

## OPINION

### 8. Balance of Delek's investment in The Phoenix

- 8.1 The balance of the equity attributable to the majority shareholders of The Phoenix, as included in the balance sheet as of June 30, 2014, was NIS 3,794.4 million. The market capitalization of The Phoenix on that date was NIS 3,158.6 million. At the time of writing (at the rate on August 24, 2014), the market cap is NIS 3,073.7 million.
- 8.2 Delek Group's holding in The Phoenix as of June 30, 2014 is approximately 52.31%, a percentage that reflects also the share capital consolidation effected by the Company in May 2014.<sup>3</sup>
- 8.3 The equity value of Delek Group's investment in The Phoenix as of June 30, 2014 (prior to a deduction resulting from application of the conclusions of this paper) is approximately NIS 2,189 million, where the market cap of the investment as of the same date amounts to approximately NIS 1,652.3 million (=3,158.6\*52.31%).

### 9. Results of operations of The Phoenix in the first half of 2014

- 9.1 The Company shareholders' share in comprehensive income in the first six months of 2014 amounted to approximately NIS 233 million, compared with their share in comprehensive income of NIS 426 million in the corresponding period in 2013 and their share in comprehensive income of NIS 744 million for the whole of 2013.
- 9.2 Table 1 shows the main results from the Company's consolidated financial statements:

**Table 1 – Phoenix Holdings Ltd. – Condensed comprehensive income data (consolidated)  
(in NIS millions):**

	Six months ended June 30		Year ended December 31		
	2014	2013*	2013	2012	2011
Profit from life insurance and long-term savings segment	18	159	367	141	(14)
Profit from health insurance operations	48	164	219	116	118
Profit from general insurance segments	158	206	366	234	64
Profit from financial services segment	<u>52</u>	<u>43</u>	<u>73</u>	<u>78</u>	<u>95</u>
<b>Total profit from segments of operations</b>	<b>276</b>	<b>572</b>	<b>1,025</b>	<b>569</b>	<b>263</b>
Profit (loss) not from reported segments of operation	65	53	144	40	(142)
Company's share in net results of investees not from reported segments of operation	<u>12</u>	<u>29</u>	<u>28</u>	<u>31</u>	<u>(31)</u>
<b>Profit before income tax</b>	<b>353</b>	<b>654</b>	<b>1,197</b>	<b>640</b>	<b>90</b>
Income tax	<u>110</u>	<u>217</u>	<u>431</u>	<u>221</u>	<u>104</u>
<b>Comprehensive income for the period</b>	<b>243</b>	<b>437</b>	<b>766</b>	<b>419</b>	<b>(14)</b>
<b>Comprehensive income for the period attributed to Company shareholders</b>	<b><u>233</u></b>	<b><u>426</u></b>	<b><u>744</u></b>	<b><u>403</u></b>	<b><u>(30)</u></b>

\*Restated.

- 9.3 The Company's business results in the first half of the year were influenced by actuarial corrections of a one-time nature to the insurance reserves in the wake of lowered risk-free interest rates. The lower interest rate led to an increase of NIS 101 million in the reserve for annuity (of which NIS 72 million in the second quarter of 2014), and to an increase of NIS 102 million in the insurance reserve owing to guaranteed yield policies (an increase that was recorded entirely in the second quarter of the year). Eliminating these one-time actuarial corrections, we find that the business results for the first half of 2014 are within the range assumed in the Previous Paper.

<sup>3</sup> As part of the consolidation, the share capital of NIS 5 par value each was split into ordinary shares of NIS 1 par value each.

No other changes were assumed in the risk-free interest rate in the Forecast Period.

## **10. Review method**

### 10.1 Company profit forecast

I estimated the expected profit (after deduction of finance expenses and taxes) for Phoenix Holdings in the Forecast Period. To do so, and using a similar methodology to that employed in the Previous Paper, I estimated the expected profit of Phoenix Insurance, the investee insurance agencies, Excellence and the subsidiaries Phoeniclass and The Phoenix Investments and Finance Ltd. I also took into account the finance expenses which will be incurred by Phoenix Holdings which stem from the debentures it has issued. The estimated profit of The Phoenix was based on the latest forecast of Delek. I made a number of adjustments to the forecast, that I deemed to be necessary. Because of its materiality and to simplify the forecast, and as in the Previous Paper, I did not include in it the profits expected from the operations of the subsidiary Ad 120 Senior Citizens Residential Centers Ltd. The omission of this company from the profit forecast did not materially impact the results of the review.

10.2 I capitalized the expected profit at the weighted capital cost of Phoenix Holdings, approximately 9%, as explained in section 17.

10.3 Consistently with the Previous Paper, I assumed that the future (not discounted) value of the Company at the end of the Forecast Period (eliminating the profit accrued in that Forecast Period which, as mentioned, was capitalized separately), will be the same as today's market value, NIS 3,158.6 million plus an adjustment. The adjustment is in the amount of the difference between the fair value and the equity value of the Company's financial liabilities as of June 30, 2014 (approximately NIS 186.0 million), less the tax implications (approx. NIS 65.9 million), a total of NIS 120.1 million – see section 16. The adjusted future value is therefore approximately NIS 3,278.7 million (=3,158.6 + 120.1).

10.4 I discounted the forecast adjusted future at the end of the Forecast Period (NIS 3,278.7 million) at a discount rate of 9%, and I added the discounted amount to the discounted profit expected at the end of the Forecast Period.

10.5 I multiplied the result obtained from the calculation described in section 10.4 by the percentage of Delek Group's direct holding in The Phoenix. The result obtained reflects, to the best of my understanding, the value in use of Delek's investment in The Phoenix, in a scenario in which Delek must sell its holdings in The Phoenix as one unit, within the Forecast Period.

10.6 I analyzed sensitivity to changes of 0.5% in the discount rate in a range from 8.5% to 10%.

10.7 I also reviewed the value in use by the same methodology, assuming that the holding period to disposal would be 18, 24 and 30 months. For this purpose, I assumed a uniform split of the profits between the two halves of the year.

## **11. Profit forecast for 2014-2016**

### 11.1 Forecast for profit of Phoenix Insurance (without the holdings in the insurance agencies)

The Phoenix Insurance makes its profit in the following segments of operation:  
a. life insurance and long-term savings; b. health insurance; c. general insurance; d. revenues and expenses not attributed to the other segments of operation; e. finance expenses in respect of liabilities issued by the Company should be deducted from the amount obtained from the above four segments of operation.

### 11.2 Life insurance and long-term savings segment

11.2.1 For the Forecast Period, existing policies in The Phoenix insurance portfolio were sorted into four layers: (1) policies issued up to and including 1990; (2) policies issued from 1991 up to and including 2003; (3) policies issued from 2004 onwards; (4) policies no savings component.

Below is a brief explanation of the characteristics of each layer.

A. CPI-linked insurance policies issued up to and including 1990

The funds from savings in the policies are backed 70% by CPI-linked designated government bonds. Most of the profit from these policies stems from a fixed financial margin guaranteed to the insurance companies by means of the designated bonds (see section 11.2.3A).

Most of the one-time actuarial corrections mentioned in section 9.3 relate to this layer.

B. Profit-sharing insurance policies issued from 1991 up to and including 2003

For these policies, The Phoenix is entitled to fixed management fees of 0.6% and to variable management fees of approximately 15% of the real return obtained (less the management fees). The right to collect the variable management fees depends on obtaining a cumulative positive yield for the savers in these policies. If the yield is negative, no management fees are paid if the calculation shows that the profit obtained does not exceed the cumulative losses in the policies. While as of December 31, 2012 The Phoenix was still precluded from collecting variable management fees (which amounted to approximately NIS 62 million), it was able to do so commencing in the first quarter of 2013.

C. Insurance policies issued from 2004 onwards

For these policies The Phoenix is entitled to fixed management fees only. Pursuant to the Management Fee Regulations, the fixed management fees are expected to reach about 1.15% in 2014 and to fall to 1.10% in 2015 and to 1.05% from 2016 onwards.

D. Policies with no savings component

These are risk policies only. In recent years this segment of operations has been an important growth engine in the Company's profits.

11.2.2 Table 2 shows details about the premium amounts, profit (before tax) and insurance reserves earned in each of the years 2010-2013.

**Table 2 – Life insurance, revenue from premiums, reported profit and insurance reserves (in NIS millions)**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b><u>Policies up to 1990</u></b>				
Premiums	157	181	192	197
Reported pre-tax profit	91	(27)	30	85
Insurance reserves	9,377	8,887	8,382	7,972
<b><u>Policies 1991-2003</u></b>				
Premiums	1,192	1,201	1,218	1,211
Reported pre-tax profit	286	99	21	42
Insurance reserves	20,802	18,213	15,793	16,853
<b><u>Policies after 2004</u></b>				
Premiums	2,061	1,964	1,878	1,318
Of which, new annualized premium	140	405	303	289

One-time premium	660	698	734	358
Profit (loss) before tax	(90)	(76)	(81)	(95)
Insurance reserve	10,037	6,901	5,504	4,287
<b><u>Policies with no savings component</u></b>				
Premiums	451	406	381	338
Of which, new annualized premium	49	61	53	47
Profit (loss) before tax	81	88	75	28
Insurance reserve	644	579	529	505
<b><u>Total</u></b>				
Premiums	3,861	3,753	3,670	3,065
Reported pre-tax profit	368	84	44	60
Insurance reserves	40,860	34,580	30,207	29,616

11.2.3 To prepare the forecast for the Forecast Period, the following assumptions were made:

A. Policies issued up to and including 1990

- (1) Revenue from premiums: NIS 144 million in 2014 and NIS 129 million in 2015.
- (2) Savings component from the premium and the reserve – 69%.
- (3) Designated bond component – 70%, and the free investment component – 30% of the reserve. The bonds yield 4.8% linked.
- (4) Return on free investments – 2.75% linked.
- (5) Yield guaranteed for policyholders – 3.5% linked.
- (6) Inflation forecast – 0.65% in 2014, 1.4% in 2015 and 1.8% in 2016.
- (7) No change is foreseen in the risk-free interest rate.

B. Expenses (including provisions for longer life expectancy spread over the years by factor "K") – NIS 50 million in each of the years 2014 – 2016.

C. Policies issued from 1991 up to and including 2003

- (1) Revenue from premiums: NIS 1,184 million in 2014. Revenue will decrease throughout the Forecast Period by a nominal annual 0.8%.
- (2) Savings component from the premium and the reserve – 90%.
- (3) Fixed management fees of 0.6% of accrual and variable management fees of 15% of the net real return after deduction of fixed management fees.
- (4) Return on the investments 2.75%.
- (5) Percentage of expenses out of premium – 6% per year throughout the Forecast Period.

D. Policies issued after 2004

- (1) Revenue in 2014 from premiums in existing portfolio: NIS 1,289 million. The Company's management forecasts that in 2014 new annualized premium will attain NIS 168 million and an additional one-time premium of NIS 500 million. The new annualized premium will increase in 2015 by 7% and in 2016

by 6%. The one-time premium will stabilize at NIS 500 million per year.

- (2) Cancellation rate: 7% in 2015, 6% in 2016.
- (3) Savings component from the premium and the reserve – 100%.
- (4) Fixed management fees at 1.15% in 2014, 1.10% in 2015 and 1.05% in 2016.
- (5) Return on the investments 2.75% linked.
- (6) Expenses out of premium – 7% per year throughout the Forecast Period.

E. Policies with no savings component

- (1) Revenue from premiums in existing portfolio: NIS 433 million in 2014.
- (2) The Company's management sees in these policies one of its principal growth drivers in the coming years and foresees that the new annualized premium will reach NIS 72.5 million and will increase annually by 8% in each of the years 2015 and 2016.
- (3) Cancellation rate: 7% throughout the Forecast Period.
- (4) Profit out of premium: 18% in 2014, 17% in 2015 and 16% in 2016.

11.2.4 Rate of return on investments: 2.75% linked.

11.2.5 Table 3 below shows projected revenue from the existing portfolio. It should be noted that owing to a change in the supervisory directives and a ban on the sale of life insurance policies for savings (including senior employees insurance) that include assurance of guaranteed pension prepayments for policyholders who are less than 55 years old, it can be expected that policyholders with the existing policies will hold on to them for as long as possible. This assumption supports the assumptions of the forecast concerning the development of revenue from premiums shown in Table 3.

11.2.6 It should be borne in mind that while the new insurance policies issued by the Company since 2004 are contributing to an increase in the embedded value of the life insurance portfolio, they are the cause of an accounting loss reported in the first years after their issue. The profit embedded in these policies will be reflected in the financial statements of later years. In this paper I have assumed that the Company's management will continue to devote most of its efforts to enhancement of the Company's value, and therefore will continue to market these policies even though, on its face, the negative cash flow stemming from them in the Forecast Period results in a decrease in the value in use of Delek's investment in The Phoenix.

**Table 3 – Life insurance, projected revenue from premiums, projected profit and insurance reserves in 2014-2016 (in NIS millions)**

	<u>2013</u>	<u>July - December 2014</u>	<u>2015</u>	<u>January - June 2016</u>	<u>July - December 2016</u>
<b><u>Policies up to 1990</u></b>					
Premiums	157	71	129	59	59
Reported profit before tax	91	7	11	4	4
Insurance reserve	9,377	8,887	8,573	8,480	8,387

<b><u>Policies 1991-2003</u></b>					
Premiums	1,192	591	1,173	582	582
Reported profit before tax	286	65	139	75	75
Insurance reserve	20,802	22,204	23,791	24,648	25,504
<b><u>Policies after 2004</u></b>					
Premiums	2,061	978	2,029	1,058	1,058
Profit (loss) before tax	(90)	(22)	(33)	(14)	(14)
Insurance reserve	10,037	11,381	12,918	13,792	14,666
<b><u>Policies with no savings component</u></b>					
Premiums	451	253	568	319	319
Profit (loss) before tax	81	46	97	51	51
Insurance reserve	644	671	702	720	738
<b><u>Total</u></b>					
Premiums	3,861	1,893	3,899	2,018	2,018
Reported profit before tax	368	96	214	116	116
Insurance reserve	40,860	43,144	45,984	47,639	49,295

11.2.7 I also added to the Company's projected revenue from life insurance the projected revenue from pension fund management. Table 4 shows condensed data about the Company's pension fund management activities.

**Table 4 – Condensed data – Pension fund management**

	<b><u>January – March 2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Assets under management in NIS billions	9.5	8.5	6.6
Fees in NIS millions	433	1,582	1,360
Revenue from management fees	27	97	86
Profit before tax	2	6	7

I assumed that the pre-tax profit from the Company's pension fund management activities would amount to approximately NIS 9 million in 2014 and NIS 10 million in each of the years 2015 and 2016.

11.2.8 Table 5 shows projected pre-tax profit from the life insurance and long-term savings segment.

**Table 5 – Projected pre-tax profit from the life insurance and long-term savings segment (in NIS millions)**

	<b><u>2013</u></b>	<b><u>July – December 2014</u></b>	<b><u>2015</u></b>	<b><u>January – June 2016</u></b>	<b><u>July – December 2016</u></b>
<u>Profit from life insurance:</u>					
Policies issued up to 1990	91	7	11	4	4
Policies issued 1991-2003	286	65	139	75	75
Policies issued after 2004	(90)	(22)	(33)	(14)	(14)
Policies with no savings component	<u>81</u>	<u>46</u>	<u>97</u>	<u>51</u>	<u>51</u>
<u>Interim total</u>	368	96	214	116	116
Profit from pension fund management	<u>6</u>	<u>4</u>	<u>10</u>	<u>5</u>	<u>5</u>
Total	<b>374</b>	<b>100</b>	<b>224</b>	<b>121</b>	<b>121</b>

### 11.3 Health segment

11.3.1 The health segment consists of two main areas of operation: long-term care insurance and medical expenses insurance. In long-term care insurance the Company sells group policies and individual policies. The sale of group policies for long-term care is expected to end after 2014.

11.3.2 Table 6 provides data on Company revenue from premiums, pre-tax profit and insurance liabilities in each of the years 2010-2013.

**Table 6 – Health insurance – revenue from premiums, reported tax and insurance liabilities (in NIS million)**

	<b>2013*</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Long-term care</b>				
Premiums	349	326	308	289
Reported pre-tax profit	29	(22)	(32)	(1)
Insurance liabilities, net	1,141	1,051	893	807
<b>Medical expenses</b>				
Premiums	1,058	947	839	796
Reported pre-tax profit	190	137	150	116
Insurance liabilities, net	576	488	445	445
<b>Total</b>				
Premiums	1,407	1,273	1,147	1,085
Reported pre-tax profit	219	116	118	115
Insurance liabilities, net	1,717	1,539	1,339	1,253

\* Not including one-time revenue of NIS 72 million from a reinsurance transaction.

11.3.3 For preparing the forecast for the coming years, I made the following assumptions (as I did in the Previous Paper):

A. Long-term care insurance

- (1) Revenue from group insurance premiums in 2014 will be NIS 222 million. The sale of group policies will end at the end of 2014.
- (2) Revenue from individual insurance premiums in 2014 will be NIS 151 million, and will increase to NIS 272 million in 2015 (most of the increase stems from the transition from group insurance to individual insurance) and to NIS 285 million in 2016.
- (3) The rate of insurance profit before tax from individual insurances will stabilize in the Forecast Period at about 10%.

B. Medical expenses insurance

- (1) Revenue from premiums in 2014 will be NIS 1,108 million, after which it will increase in each of the years 2015 and 2016 by an annual rate of 7%. This rate of increase stems from a projected increase throughout the market, and the Company is expected to retain its market share in this field (which is about 23%).
- (2) The rate of insurance profit before tax is expected to be 11% in 2014 and 10% from 2015 onwards.

11.3.4 Table 7 shows projected revenue and pre-tax profit of The Phoenix in health insurance.

**Table 7 – Health insurances – Projected revenue and pre-tax profit (in NIS millions)**

	<b>2013*</b>	<b>July – December 2014</b>	<b>2015</b>	<b>January – June 2016</b>	<b>July – December 2016</b>
<b>Long-term care insurance</b>					
Group premiums	222	111	-	-	-
Individual premiums	127	75	272	143	143
Aggregate pre-tax profit	29	6	14	7	7
<b>Medical expenses insurance</b>					
Premiums	1,058	1,108	593	634	634
Reported pre-tax profit	190	61	119	63	63
<b>Total</b>					
Premiums	1,407	554	1,457	777	777
Pre-tax profit	219	67	132	71	71

\* Not including one-time revenue of NIS 72 million from a reinsurance transaction.

#### 11.4 General insurance

11.4.1 The Company operates in four main areas of general insurance: a. auto property insurance (CASCO); b. compulsory auto insurance; c. other property insurance; d. other liability insurances.

11.4.2 Table 8 shows data on the Company's revenue from premiums, pre-tax profit and insurance reserves (in retention) in each of the above four areas of operation and in each of the years 2011-2013 and in the first six months of 2013 and of 2012.

**Table 8 – General insurance – Revenue from premiums, reported profit and insurance reserves (in NIS millions)**

	<b>January – June 2014</b>	<b>January – June 2013</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Auto property insurance</b>					
Gross premiums*	444	444	821	763	728
Reported profit (loss) (in retention)	22	18	34	(7)	(20)
Insurance reserve	617	586	566	520	483
<b>Compulsory auto insurance</b>					
Gross premiums	247	233	425	384	374
Premiums in retention	242	228	416	370	360
Reported comprehensive income (in retention)	55	70	135	150	28
Insurance reserve, in retention	2,164	2,036	2,076	1,958	1,845
<b>Other property insurance</b>					
Gross premiums	372	362	663	623	602
Premiums in retention	160	160	297	285	279
Reported comprehensive income (in retention)	44	21	25	48	37
Insurance reserve, in retention	223	221	236	203	179
<b>Liabilities insurance</b>					
Gross premiums	199	200	360	354	347
Premiums in retention	161	155	273	265	254
Reported comprehensive income (in retention)	36	96	166	43	20
Insurance reserve, in retention	1,387	1,366	1,349	1,378	1,299
<b>Total</b>					

Gross premiums	1,262	1,239	2,269	2,125	2,050
Premiums in retention	1,007	987	1,807	1,683	1,621
Reported comprehensive income before tax	157	205	360	234	65
Insurance reserve, in retention	4,391	4,209	4,227	4,059	3,806

\* The Company does not require reinsurance for auto property insurances.

11.4.3 The "accrual" method, customary in accounting reporting on profit from compulsory auto insurances and other liability insurances, should also be considered. In this method, the insurance profit in these lines in the first three years after the underwriting year is accrued to the insurance reserve (including imputed investment profit of 3% linked to the CPI). The profit is "released" to the profit and loss report only at the end of the three years after the underwriting year. For example, profit in 2010 will be recognized only in the profit and loss report of 2013. As a result of this way of reporting, the insurance profit presented in each year in these lines does not actually reflect the underwriting results of that underwriting year.<sup>4</sup>

11.4.4 The results reported in the general insurance segment are extremely sensitive to the investment profits achieved in the capital market each year.

11.4.5 To prepare the forecast for the coming years of operation, the following assumptions were made:

A. Auto property insurance

- (1) Nominal annual increase in revenue from premiums – 3.3%. This rate stems from an expected increase in the overall market, and the Company is expected to retain its market share in this field (which is 13.5%).
- (2) Combined ratio – 99%.
- (3) Real return on the investments – 2.75%.

B. Compulsory auto insurance

- (1) Nominal annual increase in revenue from premiums – 1.5%. This rate stems from an expected increase in the overall market, and the Company is expected to retain its market share in this field (which is 9.6%).
- (2) Premium transferred to reinsurance – 2%.
- (3) Combined ratio – 102%.
- (4) Real return on the investments – 2.75%.

C. Other property insurance

- (1) Nominal annual increase in revenue from premiums – 3.3%. This rate stems from an expected increase in the overall market, and the Company is expected to retain its market share in this field (which is 14.0%).
- (2) Premium transferred to reinsurance – approx. 55% in each of the years 2014 and 2015, and 53% in 2016.
- (3) Revenue from reinsurance commission at 15% of the transferred premium.
- (4) Combined ratio – 89%.

<sup>4</sup> The accrual method will be cancelled in 2014.

(5) Real return on the investments – 2.75%.

D. Other liability insurances

(1) Nominal annual increase in revenue from premiums – 3.3%. This rate stems from an expected increase in the overall market, and the Company is expected to retain its market share in this field (which is 13.8%).

(2) Premium transferred to reinsurance – 24%.

(3) Revenue from reinsurance commission at 6.0% of the transferred premium.

(4) Combined ratio – 103%.

(5) Real return on the investments – 2.75%.

11.4.6 Table 9 shows the forecast for revenue and pre-tax profit of The Phoenix in general insurance.

**Table 9 – General insurance - Projected revenue and pre-tax profit for the years 2014-2016 (in NIS millions)**

	<u>2013</u>	<u>July – December 2014</u>	<u>2015</u>	<u>January – June 2016</u>	<u>July – December 2016</u>
<b><u>Auto property insurance</u></b>					
Gross premiums	821	434	898	464	464
Reported profit (loss)	34	14	33	18	19
Insurance reserve	566	585	604	614	624
<b><u>Compulsory auto insurance</u></b>					
Gross premiums	425	220	446	453	460
Net premiums	416	216	438	444	451
Reported profit (in retention)	135	28	64	36	36
Net insurance reserve	2,076	1,739	1,765	1,779	1,792
<b><u>Other property insurance</u></b>					
Gross premiums	663	359	742	383	383
Net premiums	297	162	334	173	173
Reported profit (in retention)	25	27	59	31	32
Net insurance reserve	236	244	252	256	260
<b><u>Liability insurance</u></b>					
Gross premiums	360	187	387	200	200
Net premiums	273	142	294	152	152
Reported profit (in retention)	166	19	49	28	29
Net insurance reserve	1,349	1,393	1,439	1,463	1,487
<b><u>Total</u></b>					
Gross premiums	2,269	1,201	2,474	1,500	1,507
Net premiums	1,807	954	1,963	1,232	1,239
Reported pre-tax profit	360	87	206	114	116
Insurance reserve	4,227	3,961	4,061	4,112	4,163

11.5 Revenue and expenses not attributed to the other segments of operation

11.5.1 As of June 30, 2014, the Company had other financial investments amounting to approximately NIS 1,979 million which were not attributed to the segments of operation. As of the same date, the Company also held balances of cash and cash equivalents of NIS 98 million which were not attributed to the segments of operation.

11.5.2 I assumed a real annual return of about 2.75% from these investments. I also assumed that the sum invested would not vary during the Forecast

Period, i.e. all the additions to equity that would stem from the profit would be distributed as dividend. I further assumed that there would be no change in the amount of the deferred bonds in the Forecast Period (since they would be recycled at each due date).

- 11.5.3 General and administrative expenses not attributed to the segments of operation amount to NIS 76.35 million in 2013. I assumed that they would increase by an annual nominal 2% throughout the Forecast Period, as shown in Table 10.

**Table 10 – Revenue and expenses not attributed to the segments of operation (in NIS millions)**

	<b>July – December 2014</b>	<b>2015</b>	<b>January – June 2016</b>	<b>July – December 2016</b>
Sum invested	2,077.0	2,077.0	2,077.0	2,077.0
Nominal yield	1.38%	2.75%	1.38%	1.38%
Rise in CPI	0.55%	1.40%	0.90%	0.90%
Income from investments	40.1	87.0	47.5	47.5

11.6 Finance expenses in respect of deferred bonds

11.6.1 The balance of deferred bonds included in the draft financial statements as of June 30, 2014 of Phoenix Insurance is approximately NIS 1,343 million. The interest expense (without linkage) expected to apply in the second half of 2014 is NIS 31.6 million.

11.6.2 I added to this expense amount the linkage differences that can be expected assuming inflation at the rate noted in section 11.2.3A(6), which is 0.55% for the rest of 2014, 1.40% in 2015 and 1.80% in 2016.

11.6.3 In the methodology employed in this paper, the Company will maintain the extent of its financial debt, enabling it to tolerate similar real financial expenses in each of the forecast years. In nominal amounts, the projected interest expenses are approximately NIS 39.1 million in the second half of 2014, NIS 82.8 million in 2015 and NIS 87.8 million in 2016.

11.7 Tax rate

The statutory tax rate applicable to the Company (corporate tax and profit tax) from 2014 onwards is 37.71%. I assumed that Phoenix Insurance would commit to tax at that rate on its future profits.

11.8 Forecast of profit after tax of Phoenix Insurance

Table 11 shows the profit forecast of Phoenix Insurance, and completes the discussion in sections 11.2 – 11.7.

**Table 11 – Profit forecast (after tax) of The Phoenix Insurance (in NIS millions)**

	<b>July – December 2014</b>	<b>2015</b>	<b>January – June 2016</b>	<b>July – December 2016</b>
Profit from life insurance segment	99.7	223.9	121.2	121.2
Profit from health insurance segment	66.9	132.1	70.6	70.6
Profit from general insurance segment	87.4	205.7	114.3	116.0
Revenue and expenses not attributed to the segments of operation	1.2	7.6	7.4	7.0
Finance expenses	(39.1)	(82.8)	(43.9)	(43.9)
Interim total	216.1	486.5	269.6	270.8
Tax expense 37.71%	(81.5)	(183.5)	(101.7)	(102.1)
<b>Total</b>	<b>134.6</b>	<b>303.0</b>	<b>167.9</b>	<b>168.7</b>

## 12. Projected profits from the insurance agencies

- 12.1 The Phoenix Insurance holds a number of material insurance agencies that are incorporated as companies, as shown in Table 12.

**Table 12 – Insurance agencies held by The Phoenix Insurance**

<u>Company name</u>	<u>Holding %</u>
Shekel Insurance Agency (2008) Ltd.	100%
Agam Leaders Insurance Agency (2003) Ltd.*	70%
Kela Insurance Agency (1967) Ltd.**	85%
The Employee Benefit Experts, Benefit Ltd.	100%
Cohen-Givon Insurance Agency Ltd.	52%
Ramon Granit Insurance Agency (1994) Ltd.***	50%
Oren Mizrach Insurance Agency Ltd.	50%

\* Directly and indirectly through Agam Leaders Holdings (2001) Ltd. The Company has an agreement enabling it, on certain terms to buy the balance of the shares.

\*\* The Company has an agreement for purchase of the balance of the shares.

\*\*\* Directly and indirectly through Granit Insurance Agency HISH (1991) Ltd.

- 12.2 The Phoenix share in the after-tax profits of the above companies [which are incorporated in The Phoenix Insurance Agencies (1989) Ltd.] in the first six months of 2014 and in 2013, were NIS 30.2 million and NIS 53.5 million respectively. These figures included net finance income (net of finance expenses) before tax, in the amounts of NIS 2.7 million and NIS 7.2 million respectively.
- 12.3 In the Previous Paper I assumed that The Phoenix share in the profits of the insurance agencies after tax would be NIS 46.1 million in each of the years 2014 and 2015, and NIS 46.8 million in 2016.
- 12.4 The expected tax rate on these profits is a "normal" corporate tax rate (i.e. excluding profit tax) of 26.5%.
- 12.5 In view of the business results of the insurance agencies in the first half of 2014, and for reasons of lack of materiality, I decided not to change that assessment in this paper, as can be seen in Table 13.

**Table 13 – Projected profit (after tax) of the insurance agencies (in NIS millions)**

	<u>July – December 2014</u>	<u>2015</u>	<u>January – June 2016</u>	<u>July – December 2016</u>
Profit after tax	23.1	46.1	23.4	23.4

## 13. Forecast of the Company's share in the profits of Excellence Investments

- 13.1 Excellence is a public company. At the time of writing, The Phoenix holds 89.81% in the share capital of Excellence.
- 13.2 Excellence and its subsidiaries operate in the following segments of operation:
- A. Investment management
- Management and marketing of investment portfolios in Israel and abroad;
  - Management of mutual funds;
  - Management of the Ritt Foundation and other management services.
- B. Investment and underwriting banking.

- C. Issue of structured products.
- D. Issue of financial instruments
  - Issue and trading in deposit certificates under the Paz brand.
  - Issue and trading in ETFs and deposit funds under the Kessem brand.
- E. Stock exchange and trading services.
- F. Provident funds and pension funds
  - Management of provident funds, study funds, central compensation funds;
  - Management of pension funds.

13.3 Table 14 shows the condensed profit and loss report of Excellence, prepared so as to show the contribution of each of its segments of operation.

**Table 14 – Excellence – Condensed data of results (in NIS millions)**

	6 months ended June 30		Year ended December 31		
	2014	2013	2013	2012	2011
<b>Investment management</b>					
Revenue	76	75	148	152	171
Segment profit before finance	12	17	15	26	38
Segment profit after finance expenses	10	<u>11</u>	<u>6</u>	<u>8</u>	<u>11</u>
<b>Investment and underwriting banking</b>					
Revenue	6	7	14	6	8
Segment profit after finance expenses	3	3	7	2	4
<b>Issue of structured products</b>					
Revenue	*	3	3	(1)	7
Segment profit (loss) after finance expenses	(1)	1	(1)	(6)	*
<b>Issue of ETFs and deposit funds</b>					
Revenue	61	59	122	127	132
Segment profit after finance expenses	32	31	60	66	74
<b>Stock exchange and trading services</b>					
Revenue	25	24	49	51	47
Segment profit after finance expenses	7	8	15	17	16
<b>Provident and pension funds</b>					
Revenue	88	92	182	207	219
Segment profit after finance expenses	12	18	30	53	53
<b>Other</b>					
Revenue	1	(2)	(3)	8	*
Segment profit (loss) after finance expenses	<u>*</u>	<u>(2)</u>	<u>(3)</u>	<u>9</u>	<u>*</u>
Total revenue	257	258	515	550	584
<b>Total operating profit</b>	<b>63</b>	<b>70</b>	<b>114</b>	<b>149</b>	<b>158</b>
Other income			2		1
Income tax	(19)	(25)	(44)	(55)	(50)
Share in comprehensive income (loss)	<u>1</u>	<u>1</u>	<u>2</u>	<u>(1)</u>	<u>(1)</u>
Total profit for the period	<b>45</b>	<b>46</b>	<b>74</b>	<b>93</b>	<b>108</b>
Share of Company shareholders	40	39	65	86	101
Non-controlling interest	<u>5</u>	<u>7</u>	<u>9</u>	<u>7</u>	<u>7</u>
	<b>45</b>	<b>46</b>	<b>74</b>	<b>93</b>	<b>108</b>

\* Less than NIS 1 million.

13.4 Excellence's business results are impacted by two conflicting trends: an increase in assets under management (AUM) by the company in the investment

management segment and in the provident and pension funds segment, and on the other hand a decrease in the management fees collected by the company, the overall effect of which, in prior periods, was greater than that of the effect of the rise in the volume of managed businesses.

- 13.5 In the Previous Paper I assumed the erosion of the management fees collected by Excellence was approaching the lower bar and that therefore the downward trend in company profits (as was in 2011-2013) would be halted. Accordingly, I assumed at the time that Excellence's profits attributable its shareholders would stabilize in 2014 at approximately NIS 65.0 million, similar to its achievement in 2013. I assumed also that commencing 2015, there would be a nominal annual rise of 1.5% in the profit attributable to its shareholders.
- 13.6 The business results of Excellence in the first six months of 2014 are within the range assumed and are even slightly better. I therefore decided to adopt the forecast included in the Previous Paper, as shown in Table 15.

**Table 15 – Company's share in the profits of Excellence (in NIS millions)**

	<b>July – December <u>2014</u></b>	<b><u>2015</u></b>	<b>January – June <u>2016</u></b>	<b>July – December <u>2016</u></b>
Net profit attributable to the shareholders	32.5	66.0	33.5	33.5
<b>Share of The Phoenix 89.81%</b>	<b>29.2</b>	<b>59.3</b>	<b>30.1</b>	<b>30.1</b>

#### 14. Share of The Phoenix in other companies

- 14.1 Table 16 shows projected revenue of The Phoenix from its share in its equity companies.

**Table 16 – The Phoenix Holdings – Share in profits of other subsidiaries (in NIS millions)**

	<b>July – December <u>2014</u></b>	<b><u>2015</u></b>	<b>January – June <u>2016</u></b>	<b>July – December <u>2016</u></b>
The Phoenix Investments	15	31	15	15
Phoeniclass	-	60	-	-
Others	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total before tax	17	93	17	17
<b>Total after tax (26.5%)</b>	<b>12</b>	<b>68</b>	<b>12</b>	<b>12</b>

- 14.2 In the first six months of 2014 The Phoenix made profit investments of NIS 18 million.
- 14.3 The profits of The Phoenix Investments include, in addition to its separate income, its 41.42% share in Mehadrin.<sup>5</sup>
- 14.4 The revenue from Phoeniclass in 2015 is expected to stem from a one-time profit from the sale of real estate planned by The Phoenix in that year.

#### 15. Finance expenses and profit from investments in The Phoenix Holdings

- 15.1 The balance of the debentures included in the draft financial statements as of June 30, 2014 of The Phoenix Holdings (separate) is approximately NIS 877 million. The interest expense (without linkage) expected to apply in the second half 2014 is NIS 17.8 million.
- 15.2 Linkage differentials according to the inflation forecast in the relevant period and at the rate shown in section 11.6.2, should be added to the interest expense.

<sup>5</sup> A public company.

- 15.3 As of December 31, 2013, The Phoenix Holdings had an investment portfolio of NIS 75 million, and an additional NIS 24 million in cash and cash equivalent balances. I assumed that these balances would yield investment profits at a real rate of 2.75% per year.
- 15.4 Using the methodology applied in this paper, I assumed that the Company would not change the structure of its equity and therefore would maintain the level of its financial debt by recycling liabilities in a way that would tolerate similar finance expenses, and would see similar investment profits in real terms in each of the forecast years (2014-2016).
- 15.5 I assumed also that these income and expenses would be taxed at the statutory corporate tax rate of 26.5%, as shown in Table 17.

**Table 17 – The Phoenix Holdings – Finance expenses and investment profits  
(in NIS millions)**

	<b>July – December <u>2014</u></b>	<b><u>2015</u></b>	<b>January – June <u>2016</u></b>	<b>July – December <u>2016</u></b>
Finance expenses	(22.7)	(48.3)	(25.8)	(25.8)
Investment profits	<u>1.9</u>	<u>4.1</u>	<u>2.3</u>	<u>2.3</u>
Interim total	<u>(20.8)</u>	<u>(44.1)</u>	<u>(23.5)</u>	<u>(23.5)</u>
Tax saving – 26.5%	<u>5.5</u>	<u>11.7</u>	<u>6.2</u>	<u>6.2</u>
<b>Total</b>	<b>(15.3)</b>	<b>(32.4)</b>	<b>(17.3)</b>	<b>(17.3)</b>

## 16. Forecast summary

A summary of the profit forecast for the years (2014-2016), incorporating the data of Tables 11, 13, 15, 16 and 17, is shown in Table 18.

**Table 18 – The Phoenix Holdings – Summary of profit forecast (in NIS millions)**

	<b>July – December <u>2014</u></b>	<b><u>2015</u></b>	<b>January – June <u>2016</u></b>	<b>July – December <u>2016</u></b>
Profit of The Phoenix Insurance	134.6	303.0	167.9	168.7
Profit from insurance agencies	23.1	46.1	23.4	23.4
Share in profits of Excellence	29.2	59.3	30.1	30.1
Profit from other investees	12.5	68.1	12.5	12.5
Finance expenses and investment profits of The Phoenix Holdings	<u>(15.3)</u>	<u>(32.4)</u>	<u>(17.3)</u>	<u>(17.3)</u>
<b>Total</b>	<b>184.1</b>	<b>444.0</b>	<b>216.6</b>	<b>217.4</b>

## 17. Adjustment to the market value of the Company

17.1 As of June 30, 2014, there is a difference between the equity of the financial liabilities of the Company and their fair value, as shown in Table 19.

**Table 19 – The Phoenix Holdings – Carrying value and fair value of financial liabilities  
(in NIS millions)**

	<u>Carrying value</u>	<u>Fair value</u>	<u>Difference</u>	<u>Tax implications*</u>	<u>Net difference</u>
Deferred bonds	1,343.0	1,491.0	148.0	55.8	92.2
Debentures	<u>877.0</u>	<u>915.0</u>	<u>38.0</u>	<u>10.1</u>	<u>27.9</u>
<b>Total</b>	2,220.0	2,406.0	186.0	65.9	<b>120.1</b>

\* The deferred bonds were issued by The Phoenix Insurance, and therefore the tax shield for them is 37.71%. The tax shield for the debentures issued by The Phoenix Holdings, however, is 26.5%.

- 17.2 The difference between the carrying value and the fair value of the deferred bonds and the debentures reflects a difference between the returns at which these financial instruments are traded today and the returns required by the investors on the issue date. It can be assumed, therefore, that the investors in the capital market subtract the financial liabilities from the operating value of the Company at their fair value and not at their carrying value. Accordingly, I believe that in order to estimate the operating value in use of the investment, this difference (net of the tax implications) should be added to the market value of the Company. The adjusted market value of the Company as of June 30, 2014 is therefore NIS 3,278.7 million (=3,158.6+120.1).

## 18. Discount rate

- 18.1 As in the Previous Paper, I assumed that operations would be financed entirely by The Phoenix's equity at 60% Tier 1 capital and 40% Tier 2 capital.
- 18.2 I estimated the cost of Tier 1 capital using the Capital Asset Pricing Model (CAPM):  
 $Ke = Rf + \beta*(Rm-Rf)$   
where:  
Ke - equity capital cost  
Rf - risk-free interest rate  
Rm-Rf - market risk premium  
 $\beta$  - method risk factor – the ratio of non-distributable risk of the share to the standard deviation of the market portfolio. This factor reflects the extent of sensitivity of the rate of return on the share to changes in the rate of return of the market portfolio.
- 18.3 The nominal rate of return on risk-free assets according to Interest Rates Co., the risk-free rate of return, Rf, for 30 months from the end of June 2014 was approximately 0.98%. The method risk factor of The Phoenix is 1.20%.<sup>6</sup> The accepted risk premium in the capital market in Israel is 6.61%.<sup>7</sup> These data lead, according to the CAPM formula, to an equity capital cost of 8.9% (=0.98%+1.20\*6.61%).
- 18.4 The debentures of the Company are rated A+. As of June 30, 2014, the return on AA- debentures according to an interest rate company was 2.33%. After deduction of the tax shield of 26.5%, the cost of debt is 1.71% [=2.33%\*(1-26.5%)].
- 18.5 The weighted average cost of capital (WACC) of The Phoenix is therefore 6.03% (=8.9%\*60%+1.71%\*40%).
- 18.6 In the Previous Paper I decided that in order to estimate the value in use of the investment, I would add to the WACC an additional risk premium of 2.5%. This premium reflects also the regulatory risks stemming from activity in a controlled market. In this paper, I decided increase the additional risk premium to 3.0%, owing to the uncertainty in today's capital market and the claim that a bubble is being created in the debentures market. The WACC includes a risk premium of 9.0% (=6.0%+3.0%).

## 19. Discount results

Table 20 shows the results of the discount to 100% of the value in use of the Company.

<sup>6</sup> Based on 104 weekly observations in 2013, which reviewed correlation with the TASE 100 index. Another review, based on the 12 months ended June 30, 2014, found a factor of only 1.024.

<sup>7</sup> According to data published on the Damodaran website at the beginning of 2014, the risk premium for Israel as of December 31, 2013 is 6.61%.

**Table 20 – Estimated Company value (in NIS millions)**

	<b>July – December 2014</b>	<b>2015</b>	<b>January – June 2016</b>	<b>June 30 2014</b>	<b>Total</b>
Profit forecast	184.1	444.0	216.6		
Adjusted future market value				3,278.7	
Discount period (years)	0.25	1.00	1.75	2.00	
Discount rate 9%	<b>180.2</b>	<b>407.4</b>	<b>186.3</b>	<b>2,759.6</b>	<b>3,533.4</b>

**20. Conclusion arising from the review**

- 20.1 As noted, Delek holds approximately 52.31% of the equity of The Phoenix. The recoverable amount of the investment is NIS 1,848.3 million (=52.31%\*3,533,4). Accordingly, the recoverable amount of the investment is NIS 340.7 million less than the equity value of the investment (=2,189.0-1,848.3).
- 20.2 According to what I was told by Delek, this sum is less than the value deriving from the total contribution (including interest from December 31, 2013) that was stated in the non-binding Memorandum of Understanding between Delek and a foreign company, which is described in section 1.4.

**21. Sensitivity analysis**

- 21.1 Table 21 shows an analysis of sensitivity to changes of 0.5% in the discount rate in a range from 8.5% to 10.0%.

**Table 21 – Analysis of sensitivity to changes in the discount rate (in NIS millions)**

Discount rate	<b>8.50%</b>	<b>9.00%</b>	<b>9.50%</b>	<b>10.00%</b>
Discounted value	3,562.5	3,533.4	3,504.7	3,476.4
The Phoenix share	52.31%	52.31%	52.31%	52.31%
Recoverable amount	1,863.5	1,848.3	1,833.3	1,818.5
Equity value	<u>2,189.0</u>	<u>2,189.0</u>	<u>2,189.0</u>	<u>2,189.0</u>
Difference	(325.5)	<b>(340.7)</b>	(355.7)	(370.5)

- 21.2 I made an additional sensitivity analysis to examine a scenario in which the holding period is shortened from 24 months to 18 months (i.e. sale forecast for December 31, 2015). Yet another sensitivity test examined a scenario in which the holding period to disposal of the investment is 30 months (i.e. until December 31, 2016). The results of these analyses are shown in Tables 22 and 23.

**Table 22 – Analysis of sensitivity to shortening the holding period to 18 months (in NIS millions)**

Discount rate	<b>8.50%</b>	<b>9.00%</b>	<b>9.50%</b>	<b>10.00%</b>
Discounted value	3,490.7	3,468.7	3,446.9	3,446.9
The Phoenix share	<u>52.31%</u>	<u>52.31%</u>	<u>52.31%</u>	<u>52.31%</u>
Recoverable amount	1,826.0	1,814.5	1,803.1	1,803.1
Equity value	<u>2,189.0</u>	<u>2,189.0</u>	<u>2,189.0</u>	<u>2,189.0</u>
Difference	(363.0)	<b>(374.5)</b>	(385.9)	(385.9)

**Table 23 – Analysis of sensitivity to shortening the holding period to 30 months  
(in NIS millions)**

Discount rate	<u>8.50%</u>	<b><u>9.00%</u></b>	<u>9.50%</u>	<u>10.00%</u>
Discounted value	3,632.1	3,596.1	3,560.6	3,525.7
The Phoenix share	52.31%	52.31%	52.31%	52.31%
Recoverable amount	1,899.9	1,881.1	1,862.6	1,844.3
Equity value	<u>2,189.0</u>	<u>2,189.0</u>	<u>2,189.0</u>	<u>2,189.0</u>
Difference	(289.1)	<b>(307.9)</b>	(326.4)	(344.7)

21.3 The analysis teaches that shortening the holding period from 24 months to 18 months will prevent the Company from benefiting from the surplus profits of the first half of 2016, and therefore, despite shortening the discount period, will lead to a smaller recoverable amount of the investment. However, lengthening the holding period to the end of 2016 will result in an increase in the recoverable amount.

### Summary

22. Based on my examination, as of June 30, 2014 the recoverable amount of Delek's investment in The Phoenix is NIS 340.7 million less than the equity value of the investment. Accordingly, a loss from impairment of NIS 340.7 million (before tax) should be recognised.
23. I am aware that you wish to use this paper for preparing the financial statements of Delek Group as of June 30, 2014, and if necessary also to attach it to the financial statements and to publish it, and I consent to that.
24. I wish to note that I have no personal interest in the shares of the companies mentioned in this paper. Furthermore, the consideration paid to me for preparing this paper does not depend on the results of the assessment.
25. I would add that to the end of 2008, I served as a member of the "extended nostro" investment committee of The Phoenix and that in the past I prepared a number of economic / accounting opinions for The Phoenix on an ad hoc basis. In addition, in 2010 I prepared a fairness opinion for Delek Group on Delek Motorway Services. In 2013 I prepared an economic opinion for Delek Group on a class action and a motion for assessment relief which was filed against the company following a full tender offer for the shares of Gadot Biochemical Industries Ltd. I have also prepared, again on an ad hoc bases, a number of economic opinions for companies in Delek Group, among them Delek, The Israel Fuel Corporation Ltd. and Gadot Biochemical Industries Ltd.

Yours sincerely,

Prof. Yoram Eden, CPA

## Appendix A - Prof. Yoram Eden

The following are details of my education and professional experience:

### **1. Academic education:**

Full professor, academic track, Administration College

Ph.D. in accounting and financing – Tel Aviv University

MBA (cum laude) – Tel Aviv University

B.A. in accounting – Tel Aviv University

B.A. in economics – Hebrew University of Jerusalem

### **2. Training and academic and professional activities:**

#### **2.1 Academic activities:**

Between 2000 and 2007 I served as dean of the School of Business Administration, academic track, Administration College.

Guest lecturer in Baruch College, City University of New York.

Academic editor of the "Accountant" periodical since October 1991.

Between 2000 and 2006 I served as a senior member of the academic staff on the Auditor's Council.

I presently chair the examinations committee of the Auditor's Council.

Between 2000 and 2004, I served as a member of the Education Committee of IFAC (International Federation of Accountants).

I have published numerous articles in the professional press and academic periodicals in Israel and overseas.

#### **2.2 Training and professional activities:**

I have been a licensed CPA since July 1978.

I have been a member of the Institute of Certified Public Accountants in Israel since 1988.

I am a director and chairman of the investment committee of Infinity – Central Provident Pension Funds Ltd.

**Appendix C to the Board of Directors' Report**

The following is a current rating report issued by Standard & Poor's Maalot Ltd., for the Company's debentures.



## Financial Statements



**Delek Group Ltd.**

**Consolidated Interim Financial Statements as of June 30, 2014**

**Unaudited**

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## Consolidated Balance Sheets

	June 30		December 31
	2014	2013	2013
	Unaudited		Audited
	NIS million		
<u>Current assets</u>			
Cash and cash equivalents	4,042	3,452	2,716
Performance-based cash and cash equivalents in insurance companies	2,739	2,585	2,241
Short-term investments of the finance sector (mainly exchange-traded funds and deposits)	37,011	28,087	32,494
Short-term investments in insurance companies	1,638	1,967	1,989
Other short-term investments	779	603	711
Trade receivables	1,667	2,675	2,432
Insurance premium receivable	704	1,065	920
Other receivables	935	1,110	934
Current tax assets	97	10	48
Reinsurance assets	474	1,746	1,799
Inventory	290	851	889
Deferred acquisition costs in insurance companies	430	481	470
	<u>50,806</u>	<u>44,632</u>	<u>47,643</u>
Assets held for sale	10,515	69	69
	<u>61,321</u>	<u>44,701</u>	<u>47,712</u>
<u>Non-current assets</u>			
Financial investments of insurance companies	43,932	39,358	43,296
Long-term loans, deposits and receivables	723	824	700
Investments in other financial assets	504	50	65
Financial derivatives	-	77	67
Investments in associates	1,990	4,252	4,381
Investment property	2,824	2,599 *)	2,782
Investments in oil and gas exploration and production	14,387	14,683	14,307
Reinsurance assets	898	1,507	1,460
Property, plant and equipment, net	2,828	4,897 *)	5,021
Deferred acquisition costs in insurance companies	887	803	840
Structured bonds	398	2,758	2,760
Goodwill	2,568	3,771	3,555
Other intangible assets, net	1,380	2,314	2,318
Deferred taxes	238	369	409
	<u>73,557</u>	<u>78,262 *)</u>	<u>81,961</u>
	<u>134,878</u>	<u>122,963 *)</u>	<u>129,673</u>

\*) Restated, see Note 2D

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

## Consolidated Balance Sheets

	June 30		December 31
	2014	2013	2013
	Unaudited		Audited
	NIS million		
<u>Current liabilities</u>			
Interest bearing loans and borrowings	2,659	5,458	6,360
Trade payables	797	1,652	1,724
Other payables	3,133	4,670	4,441
Exchange-traded funds and deposit	35,763	27,419	31,967
Current tax liabilities	604	604	330
Financial derivatives	-	13	26
Dividend payable	-	-	70
Liabilities for insurance contracts	3,871	5,919	5,976
	<u>46,827</u>	<u>45,735</u>	<u>50,894</u>
Liabilities attributable to assets classified as held for sale	8,338	-	-
	<u>55,165</u>	<u>45,735</u>	<u>50,894</u>
<u>Non-current liabilities</u>			
Loans from banks and others	1,063	5,797	5,035
Debentures	17,066	11,857	10,826
Structured bonds	398	2,758	2,758
Financial derivatives	-	133	116
Liabilities for employee benefits	163	280	213
Liabilities for insurance contracts	47,602	41,269	44,734
Provisions and other liabilities	574	713	693
Deferred taxes	2,768	3,467 *)	3,499
	<u>69,634</u>	<u>66,274 *)</u>	<u>67,874</u>
<u>Capital</u>			
Share capital	13	13	13
Share premium	1,917	1,777	1,917
Options and proceeds from conversion option	-	16	-
Retained earnings	3,198	4,177 *)	4,156
Adjustments arising from translation of financial statements of foreign operations	(615)	(610)	(822)
Capital reserve from transactions with holders of non-controlling interests	363	399 *)	363
Other reserves	(55)	(104)	(108)
Treasury shares	(162)	(140)	(162)
	<u>4,659</u>	<u>5,528</u>	<u>5,357</u>
<u>Total equity attributable to equity holders of the Company</u>	<u>4,659</u>	<u>5,528</u>	<u>5,357</u>
<u>Non-controlling interests</u>	<u>5,420</u>	<u>5,426 *)</u>	<u>5,548</u>
<u>Total capital</u>	<u>10,079</u>	<u>10,954 *)</u>	<u>10,905</u>
	<u>134,878</u>	<u>122,963 *)</u>	<u>129,673</u>

\*) Restated, see Note 2D

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

August 28, 2014	Gabriel Last	Asi Bartfeld	Barak Mashraki
Date of approval of the financial statements	Chairman of the Board	CEO	CFO

**Consolidated Statements of Income**

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013 *)	2014	2013 *)	2013 *)
	Unaudited				Audited
	NIS million				
	(Other than earnings (loss) per share)				
Revenues	10,182	10,267	4,982	5,077	21,896
Cost of revenues	7,892	8,064	3,900	3,961	17,196
Gross income	2,290	2,203	1,082	1,116	4,700
Selling, marketing and gas station operating expenses	910	859	471	441	1,755
General and administrative expenses	631	610	311	325	1,268
Other revenues (expenses), net	(411)	102	(355)	109	(174)
Operating income (loss)	338	836	(55)	459	1,503
Finance income	119	80	47	54	109
Finance expenses	(736)	(684)	(469)	(407)	(1,397)
	(279)	232	(477)	106	215
Gain (loss) from disposal of investments in partnerships and investees, net	-	3	-	3	(8)
Group's share in earnings of associates, net	86	186	37	61	430
Income (loss) before taxes on income	(193)	421	(440)	170	637
Taxes on income (tax benefit)	(1)	261	(94)	137	471
Gain (loss) from continuing operations	(192)	160	(346)	33	166
Income (loss) from discontinued operations, net	(446)	872	(220)	700	1,169
Net income (loss)	(638)	1,032	(566)	733	1,335
Attributable to:					
Equity holders of the Company	(795)	569	(600)	513	740
Non-controlling interests	157	463	34	220	595
	(638)	1,032	(566)	733	1,335
<u>Net earnings (loss) per share attributable to equity holders of the Company (NIS)</u>					
Basic loss from continuing operations	(30.2)	(3.5)	(32.9)	(5.6)	(14.5)
Basic earnings (loss) from discontinued operations	(38.7)	54.0	(19.1)	51.0	79.5
Basic earnings (loss)	(68.9)	50.5	(52.0)	45.4	65.0
Diluted loss from continuing operations	(30.2)	(3.5)	(32.9)	(5.6)	(14.6)
Diluted earnings (loss) from discontinued operations	(38.7)	53.7	(19.1)	50.7	79.1
Diluted earnings (loss)	(68.9)	50.2	(52.0)	45.1	64.5

\*) Restated and reclassified, see Note 2D

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

**Consolidated Statements of Comprehensive Income**

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013 *)	2014	2013 *)	2013 *)
	Unaudited				Audited
	NIS million				
Net income (loss)	(638)	1,032	(566)	733	1,335
Other comprehensive income (loss) from continuing operations (net of tax effect):					
<u>Amounts not reclassified to profit or loss:</u>					
Actuarial gain (loss) for defined benefit plans	(4)	1	(2)	3	2
Total	(4)	1	(2)	3	2
<u>Amounts classified or reclassified to profit or loss under specific conditions:</u>					
Gain (loss) for available-for-sale financial assets	86	81	(13)	(15)	209
Transfer to statement of income for disposal of available-for-sale financial assets	(141)	(81)	(36)	(39)	(204)
Transfer to statement of income for impairment of available-for-sale financial assets	6	6	5	3	9
Gain (loss) for cash flow hedges	4	(2)	2	-	(3)
Adjustments arising from translation of financial statements of foreign operations	(60)	(367)	(107)	(50)	(649)
Other comprehensive income (loss) attributable to associates, net	40	(4)	39	13	(24)
Total	(65)	(367)	(110)	(88)	(662)
Total other comprehensive loss from continuing operations	(69)	(366)	(112)	(85)	(660)
Total other comprehensive income (loss) from discontinued operations, net	292	(167)	232	(34)	(198)
Total other comprehensive income (loss)	223	(533)	120	(119)	(858)
Total comprehensive income (loss)	(415)	499	(446)	614	477
Attributable to:					
Equity holders of the Company	(538)	213	(408)	439	206
Non-controlling interests	123	286	(38)	175	271
	(415)	499	(446)	614	477

\*) Restated and reclassified, see Note 2D

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

## Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company									
	Share capital	Share premium	Retained earnings	Adjustments arising from translation of financial statements of foreign operations	Reserve from transactions with non-controlling interests	Other reserves *)	Treasury shares	Total	Non-controlling interests	Total equity
	Unaudited									
	NIS million									
Balance as of January 1, 2014 (audited)	13	1,917	4,156	(822)	363	(108)	(162)	5,357	5,548	10,905
Net income (loss)	-	-	(795)	-	-	-	-	(795)	157	(638)
Total other comprehensive income (loss)	-	-	(3)	207	-	53	-	257	(34)	223
Total comprehensive income (loss)	-	-	(798)	207	-	53	-	(538)	123 ***)	(415)
Dividends	-	-	(160)	-	-	-	-	(160)	-	(160)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	(261)	(261)
Cost of share-based payment, net	-	-	-	-	-	-	-	-	9	9
Issue of shares to holders of non-controlling interests	-	-	-	-	-	-	-	-	1	1
Balance as of June 30, 2014	<u>13</u>	<u>1,917</u>	<u>3,198</u>	<u>(615) **)</u>	<u>363</u>	<u>(55)</u>	<u>(162)</u>	<u>4,659</u>	<u>5,420</u>	<u>10,079</u>

\*) Mainly capital reserve for available-for-sale financial assets. As of June 30, 2014, including a debit balance of NIS 50 million for investments presented as held for sale. See also Note 3 below.

\*\*\*) Including a debit balance of NIS 328 million for investments held for sale. See also Note 3 below.

\*\*\*) Composition of comprehensive income of non-controlling interests:

Net income attributable to non-controlling interests	157
Loss from available-for-sale financial assets, net	(2)
Exchange differences on translation of foreign operations	<u>(32)</u>
Total comprehensive income attributable to non-controlling interests	<u>123</u>

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

## Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company										
	Share capital	Share premium	Options and proceeds for conversion option	Retained earnings	Adjustments arising from translation of financial statements of foreign operations	Reserve from transactions with non-controlling interests	Other reserves *)	Treasury shares	Total	Non-controlling interests	Total equity
	Unaudited										
	NIS million										
Balance as of January 1, 2013 (audited) **)	13	1,631	25	3,980	(274)	(181)	(85)	(152)	4,957	7,921	12,878
Net income	-	-	-	569 **)	-	-	-	-	569 **)	463 **)	1,032 **)
Total other comprehensive loss	-	-	-	(1)	(336)	-	(19)	-	(356)	(177)	(533)
Total comprehensive income (loss)	-	-	-	568 **)	(336)	-	(19)	-	213 **)	286 ***)	499 **)
Reissuance of treasury shares	-	66	-	-	-	-	-	31	97	-	97
Acquisition of treasury shares	-	-	-	-	-	-	-	(19)	(19)	-	(19)
Exercise of options for Company shares	-	80	(9)	-	-	-	-	-	71	-	71
Dividends	-	-	-	(371)	-	-	-	-	(371)	-	(371)
Cost of share-based payment, net	-	-	-	-	-	-	-	-	-	28	28
Acquisition of shares from holders of non-controlling interests	-	-	-	-	-	(2) **)	-	-	(2) **)	(186) **)	(188) **)
Sale of shares to non-controlling interests, net	-	-	-	-	-	591	-	-	591	469	1,060
Expiry of options in a subsidiary	-	-	-	-	-	10	-	-	10	(10)	-
Deconsolidated company	-	-	-	-	-	-	-	-	-	(2,915)	(2,915)
Options exercised for subsidiary shares	-	-	-	-	-	(19)	-	-	(19)	13	(6)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(180)	(180)
Balance as of June 30, 2013	13	1,777	16	4,177 **)	(610)	399 **)	(104)	(140)	5,528 **)	5,426 **)	10,954 **)

\*) Mainly capital reserve for available-for-sale financial assets

\*\*\*) Restated, see Note 2D

\*\*\*) Composition of comprehensive income of non-controlling interests:

Net income attributable to non-controlling interests	463
Loss from available-for-sale financial assets, net	(1)
Adjustments arising from translation of financial statements of foreign operations	(176)
Total comprehensive income attributable to non-controlling interests	286

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

## Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company									
	Share capital	Share premium	Retained earnings	Adjustments arising from translation of financial statements of foreign operations	Reserve from transactions with non-controlling interests	Other reserves *)	Treasury shares	Total	Non-controlling interests	Total equity
	Unaudited NIS million									
Balance as of April 1, 2014	13	1,917	3,800	(776)	363	(88)	(162)	5,067	5,716	10,783
Net income (loss)	-	-	(600)	-	-	-	-	(600)	34	(566)
Total other comprehensive income (loss)	-	-	(2)	161	-	33	-	192	(72)	120
Total comprehensive income (loss)	-	-	(602)	161	-	33	-	(408)	(38) ***	(446)
Cost of share-based payment, net	-	-	-	-	-	-	-	-	3	3
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	(261)	(261)
Balance as of June 30, 2014	13	1,917	3,198	(615) **	363	(55)	(162)	4,659	5,420	10,079

\*) Mainly capital reserve for available-for-sale financial assets. As of June 30, 2014, including a debit balance of NIS 50 million for investments presented as held for sale. See also Note 3 below.

\*\*\*) Including a balance of NIS 328 million for investments held for sale. See also Note 3 below.

\*\*\*) Composition of comprehensive loss of non-controlling interests:

Net income attributable to non-controlling interests	34
Loss from available-for-sale financial assets, net	(20)
Exchange differences on translation of foreign operations	(52)
Total comprehensive loss attributable to non-controlling interests	(38)

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

## Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company										
	Share capital	Share premium	Options and proceeds for conversion option	Retained earnings	Adjustments arising from translation of financial statements of foreign operations	Reserve for transactions with holders of non-controlling interests	Other reserves *)	Treasury shares	Total	Non-controlling interests	Total equity
	Unaudited NIS million										
Balance as of April 1, 2013 **)	13	1,636	24	3,812 **)	(576)	420 **)	(61)	(171)	5,097 **)	8,450 **)	13,547 **)
Net income	-	-	-	513 **)	-	-	-	-	513 **)	220 **)	733 **)
Total other comprehensive income (loss)	-	-	-	3	(34)	-	(43)	-	(74)	(45)	(119)
Total comprehensive income (loss)	-	-	-	516 **)	(34)	-	(43)	-	439	175 ***)	614 **)
Reissuance of treasury shares	-	66	-	-	-	-	-	31	97	-	97
Exercise of options for Company shares	-	75	(8)	-	-	-	-	-	67	-	67
Dividends	-	-	-	(151)	-	-	-	-	(151)	-	(151)
Cost of share-based payment, net	-	-	-	-	-	-	-	-	-	(19)	(19)
Acquisitions from holders of non-controlling interests	-	-	-	-	-	(14)	-	-	(14)	(147)	(161)
Expiry of options in a subsidiary	-	-	-	-	-	10	-	-	10	(10)	-
Deconsolidated company (see Note 3B)	-	-	-	-	-	-	-	-	-	(2,915)	(2,915)
Options exercised for subsidiary shares	-	-	-	-	-	(17)	-	-	(17)	9	(8)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(117)	(117)
Balance as of June 30, 2013	13	1,777	16	4,177 **)	(610)	399 **)	(104)	(140)	5,528 **)	5,426 **)	10,954 **)

\*) Mainly capital reserve for available-for-sale financial assets

\*\*\*) Restated, see Note 2D

\*\*\*) Composition of comprehensive income of non-controlling interests:

Net income attributable to non-controlling interests	220
Loss from available-for-sale financial assets, net	(28)
Gain from cash flow hedges, net	1
Adjustments arising from translation of financial statements of foreign operations	(18)
Total comprehensive income attributable to non-controlling interests	175

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

## Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company										
	Share capital	Share premium	Options and proceeds for conversion option	Retained earnings	Adjustments arising from translation of financial statements of foreign operations	Reserve from transactions with non-controlling interests	Other reserves **)	Treasury shares	Total	Non-controlling interests	Total equity
	Audited										
	NIS million										
Balance as of January 1, 2013	13	1,631	25	3,980	(274)	(181)	(85)	(152)	4,957	7,921	12,878
Net income	-	-	-	740	-	-	-	-	740	595	1,335
Other comprehensive income (loss)	-	-	-	37	(548)	-	(23)	-	(534)	(324)	(858)
Total comprehensive income (loss)	-	-	-	777	(548)	-	(23)	-	206	271 ***)	477
Acquisition of treasury shares	-	-	-	-	-	-	-	(41)	(41)	-	(41)
Sale of treasury shares	-	66	-	-	-	-	-	31	97	-	97
Dividends	-	-	-	(601)	-	-	-	-	(601)	-	(601)
Cost of share-based payment, net	-	-	-	-	-	-	-	-	-	28	28
Exercise of options for Company shares	- *)	220	(25)	-	-	-	-	-	195	-	195
Exercise of options for shares by non-controlling interests	-	-	-	-	-	(19)	-	-	(19)	13	(6)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(237)	(237)
Expiry of options in a subsidiary	-	-	-	-	-	10	-	-	10	(10)	-
Acquisition of non-controlling interests	-	-	-	-	-	(9)	-	-	(9)	(116)	(125)
Deconsolidation of a company	-	-	-	-	-	-	-	-	-	(2,915)	(2,915)
Sale of shares to holders of non-controlling interests, net	-	-	-	-	-	562	-	-	562	593	1,155
Balance as of December 31, 2013	13	1,917	-	4,156	(822)	363	(108)	(162)	5,357	5,548	10,905

\*) Amounts to less than NIS 1 million

\*\*) Mainly capital reserve for available-for-sale financial assets

\*\*\*) Composition of comprehensive income of non-controlling interests:

Net income attributable to non-controlling interests	595
Gain from available-for-sale financial assets, net	3
Actuarial gain for defined benefit plans, net	2
Adjustments arising from translation of financial statements of foreign operations	(328)
Share in other comprehensive loss, net of associates	(1)
Total comprehensive income attributable to non-controlling interests	271

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

**Consolidated Statements of Cash Flows**

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
<u>Cash flows from operating activities</u>					
Net income (loss)	(638)	1,032 *)	(566)	733 *)	1,335
Adjustments to reconcile cash flows from operating activities (a)	2,268	462 *)	1,570	370 *)	1,020
Net cash from operating activities	1,630	1,494 *)	1,004	1,103 *)	2,355
<u>Cash flows from investing activities</u>					
Purchase of property, plant and equipment, investment property and intangible assets	(452)	(686)	(155)	(383)	(1,180)
Proceeds from sale of property, plant and equipment and investment property	7	47	1	35	73
Proceeds from sale (acquisition) of financial assets, net	4	19	(2)	-	21
Loans to associates, net	16	5	13	5	2
Short-term investments, net	(196)	116	(269)	(212)	31
Investment in long-term bank deposits	(108)	(22)	(61)	(22)	(238)
Increase in joint ventures for oil and gas exploration	(362)	(916)	(207)	(354)	(1,338)
Proceeds from lease of oil and gas assets	92	-	30	-	-
Proceeds from sale of investments in associates, net	1,394	154	1,054	154	384
Derecognized cash from disposal of investments in previously consolidated subsidiaries (c)	-	(1,420)	-	(1,420)	(1,420)
Investment in associate companies and partnerships	-	(12)	-	(3)	(14)
Acquisition of operations (b)	-	(24)	-	-	(24)
Loans provided to others, net	9	15	9	11	241
Net cash flows from (used in) investment activities	404	(2,724)	413	(2,189)	(3,462)

\*) Restated, see Note 2D

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

**Consolidated Statements of Cash Flows**

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
<u>Cash flow from finance activities</u>					
Short-term loans from banks and others, net	(713)	(1,522)	(882)	(768)	(1,170)
Sale of shares to holders of non-controlling interests, net	-	1,153	-	(33)	1,035
Acquisition of shares from holders of non-controlling interests	(5)	(165)	(5)	(161)	(168)
Receipt of long-term loans	745	2,182	388	1,402	2,376
Repayment of long-term loans	(5,333)	(1,494)	(5,116)	(793)	(1,705)
Issue of shares to holders of non-controlling interests in a subsidiary	1	-	-	-	-
Exercise of options for subsidiary shares	-	4	-	2	4
Dividend paid	(230)	(371)	(160)	(371)	(531)
Dividend paid to holders of non-controlling interests in subsidiaries	-	(175)	-	(147)	(231)
Exercise of options for Company shares	-	71	-	67	195
Acquisition of treasury shares	-	(19)	-	-	(41)
Sale of treasury shares	-	97	-	97	97
Payment of contingent liability for a put option to holders of non-controlling interests	-	(1)	-	-	(60)
Issue of debentures (less issuance expenses)	6,844	211	6,844	-	211
Payment for acquisition of an investee	-	(85)	-	(85)	(87)
Repayment of debentures	(510)	(416)	(306)	(155)	(1,645)
Net cash flows from (used in) finance activities	799	(530)	763	(945)	(1,720)
<u>Exchange differences on balances of cash – foreign operations</u>	(28)	(115)	(33)	(17)	(128)
<u>Cash and cash equivalents attributable to operations held for sale</u>	(981)	-	(981)	-	-
<u>Increase (decrease) in cash and cash equivalents</u>	1,824	(1,875)	1,166	(2,048)	(2,955)
<u>Cash and cash equivalents at the beginning of the period (including performance-based balance)</u>	4,957	7,912	5,615	8,085	7,912
<u>Cash and cash equivalents at the end of the period (including performance-based balance)</u>	6,781	6,037	6,781	6,037	4,957

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

## Consolidated Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
(a) <u>Adjustments to reconcile cash flows from operating activities:</u>					
Adjustments to profit or loss					
Depreciation, depletion, amortization and impairment of assets	1,092	1,044 *)	691	627 *)	1,983
Deferred taxes, net	117	660 *)	173	580 *)	967
Increase (decrease) in employee benefit liabilities, net	12	3	6	(2)	(4)
Decrease (increase) of loans granted, net	(15)	54	(12)	36	60
Loss (gain) from the sale of property, plant and equipment, real estate and investments, net	236	(175)	212	(152)	(117)
Group's share of losses (gains) of associates, net (1)	267	305	43	416	(203)
Gain from the disposal and revaluation of an investment in a deconsolidated subsidiary	-	(1,365)	-	(1,365)	(1,365)
Change in fair value of financial assets and financial derivatives, net	41	(56)	27	(32)	(65)
Increase in long-term liabilities, net	39	-	115	49	165
Increase in deferred acquisition costs	(86)	(68)	(29)	(9)	(98)
Gain from disposal of an available for sale financial asset	(60)	-	-	-	-
Cost of share-based payment	13	34	5	(16)	51
Change in financial investments of insurance companies, net	(1,132)	(1,284)	(204)	(533)	(2,343)
Investments net of proceeds from the sale of available-for-sale assets in insurance companies, net	(907)	(94)	(732)	353	(3,035)
Increase in reserves and other provisions in insurance companies	3,299	6,988	1,799	1,684	13,106
Acquisition of investment property for performance-based contracts and other investment property in insurance companies	(48)	(746)	(9)	(399)	(866)
Decrease (increase) in reinsurance assets	(171)	(31)	73	64	(116)
Change in fair value of investment property	6	(26) *)	(2)	(16) *)	(84)
Changes in operating assets and liabilities:					
Decrease (increase) in trade receivables	(85)	(425)	(56)	45	(196)
Decrease (increase) in other receivables	(98)	(141)	60	(24)	43
Decrease (increase) in inventory	90	(379)	40	(387)	(391)
Increase in other assets, net	(219)	(3)	(180)	(29)	(246)
Increase (decrease) in trade payables	(43)	263	66	59	299
Decrease in other accounts payable	(80)	(4,096)	(516)	(579)	(6,525)
	<u>2,268</u>	<u>462 *)</u>	<u>1,570</u>	<u>370 *)</u>	<u>1,020</u>
(1) Net of dividends and earnings received	<u>110</u>	<u>126</u>	<u>49</u>	<u>98</u>	<u>234</u>

\*) Restated, see Note 2D

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

## Consolidated Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
(b) <u>Acquisition of activities</u>					
Fixed assets, net *)	-	(24)	-	-	(24)
(c) <u>Cash derecognized from disposal of investments in previously consolidated subsidiaries</u>					
Working capital, net	-	(277)	-	(277)	(277)
Non-current assets	-	4,539	-	4,539	4,539
Non-current liabilities	-	(1,164)	-	(1,164)	(1,164)
Loss for the sale of subsidiaries	-	(1)	-	(1)	(1)
Discontinued non-controlling interests in a former subsidiary	-	(2,915)	-	(2,915)	(2,915)
Investment in a company accounted for at equity	-	(2,352)	-	(2,352)	(2,352)
Gain from revaluation and disposal of an investment in a former subsidiary, net	-	750	-	750	750
	-	(1,420)	-	(1,420)	(1,420)
(d) <u>Significant non-cash activities</u>					
Purchase of property, plant and equipment and intangible assets	17	12	17	4	81
Dividend payable by associates	215	-	215	-	21
Dividend payable to holders of non-controlling interests in partnerships and subsidiaries	261	15	261	2	-
Investment in oil and gas assets	101	210	101	186	148
Leasing assets against receivables	-	247	-	247	275
Receivables for disposal of available-for-sale financial assets	35	-	-	-	-
Dividend payable to equity holders of the Company	-	-	-	-	70
Transfer of loans and shares from holders of non-controlling interests in subsidiaries	-	-	-	-	7

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

**Consolidated Statements of Cash Flows**

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
<b>(e) Cash and cash equivalents</b>					
Cash and cash equivalents at the beginning of the period:					
Cash and cash equivalents	2,716	6,212	3,027	6,465	6,212
Performance-based cash and cash equivalents in insurance companies	2,241	1,700	2,588	1,620	1,700
	<u>4,957</u>	<u>7,912</u>	<u>5,615</u>	<u>8,085</u>	<u>7,912</u>
Cash and cash equivalents at the end of the period					
Cash and cash equivalents	4,042	3,452	4,042	3,452	2,716
Performance-based cash and cash equivalents in insurance companies	2,739	2,585	2,739	2,585	2,241
	<u>6,781</u>	<u>6,037</u>	<u>6,781</u>	<u>6,037</u>	<u>4,957</u>
<b>(f) Additional information on cash flows</b>					
Cash paid during the period for:					
Interest	770	639	455	246	1,577
Taxes on income	248	305	124	200	793
Cash received during the period for:					
Interest	452	601	241	302	857
Dividends	122	47	61	23	299
Taxes	34	93	32	31	86

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

**Notes to the Consolidated Interim Financial Statements**

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**NOTE 1: GENERAL**

These financial statements have been prepared in condensed format as of June 30, 2014 and for the six and three months then ended ("the Consolidated Interim Financial Statements"). The financial statements should be read in the context of the Company's annual financial statements as of December 31, 2013 for the year then ended, and their accompanying notes ("the Annual Financial Statements"). For information about assets held for sale and discontinued operations, see Note 3.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES****A. Preparation format of the Consolidated Interim Financial Statements**

The Consolidated Interim Financial Statements have been prepared in accordance with generally accepted accounting principles for the preparation of interim financial statements as prescribed in 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 the provisions of these standards apply to insurance subsidiaries, insofar as the provisions of these standards apply to insurance subsidiaries.

**B. Adoption of new standards, interpretations and amendments for the first time**

The main accounting policy and calculation methods applied in the preparation of these Consolidated Interim Financial Statements are consistent with those applied in the preparation of the Annual Financial Statements, except for the following:

**Amendment to IAS 32 Financial Instruments: Presentation, regarding offsetting financial assets and financial liabilities**

The IASB published amendments to IAS 32 regarding offsetting financial assets and financial liabilities. The Amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right to set off".

Application of the Amendments to IAS 32 for the first time did not have a significant effect on the financial statements.

**C. Disclosure of new IFRSs in the period prior to their adoption****Amendments to IFRS 11, Joint Arrangements, regarding acquisition of an interest in a joint operation which constitutes a business as defined in IFRS 3**

On May 6, 2014, the IASB published amendments to IFRS 11, Joint Arrangements ("the Amendments"), which address the accounting treatment for acquisition of interests in a joint operation constituting a business as defined in IFRS 3.

In accordance with the Amendments, interests acquired in a transaction will be accounted for as a business combination under IFRS 3 and additional relevant standards, including measurement of identifiable assets and liabilities at fair value, recognition of deferred tax assets and liabilities, accounting for transaction costs, and recognition of goodwill or gain on a bargain purchase.

The Amendments will be applied prospectively in financial statements for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**IFRS 15, Revenue from Contracts with Customers

In May 2014, IASB published IFRS 15.

IFRS 15 provides a five-step model to be applied to all revenue arising from contracts with customers:

**Step 1: Identify the contract with the customer**, including reference to combining contracts and accounting for contract modifications.

**Step 2: Identify the distinct performance obligations in the contract.**

**Step 3: Determine the transaction price**, including reference to variable consideration, significant financing component, non-cash consideration, and consideration payable to a customer.

**Step 4: Allocate the transaction price to each distinct performance obligation** based on relative standalone selling prices, using observable prices if available, or estimates and assessments.

**Step 5: Recognize revenue when the entity satisfies a performance obligation**, differentiating between between an obligation at a point in time and an obligation over time.

IFRS 15 also provides guidance on accounting for incremental costs of obtaining a contract and the direct costs incurred in fulfilling a contract.

The amendment to IFRS 15 is effective retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

The Company believes that IFRS 15 is not expected to have a material effect on the financial statements.

IFRS 9, Financial Instruments

Further to Note 2 to the Annual Financial Statements regarding disclosure of new IFRSs in the period prior to their adoption with regard to IFRS 9, in July 2014, the IASB published the final and full version of IFRS 9, Financial Instruments ("the Final Standard"), which includes the following issues: classification and measurement, impairment and hedge accounting.

The main changes in the Final Standard compared to the steps in the standard published prior to publication of the Final Statement, are as follows:

**Classification and measurement**

The Final Standard includes an additional category for classification and measurement of financial assets that are debt instruments. Financial assets classified in this category will be measured at fair value through other comprehensive income (FVOCI), and the differences recognized in other comprehensive income will be reclassified to profit or loss under certain conditions, such as upon derecognition of the asset.

**Impairment**

The Final Standard includes impairment of financial assets, which determines the expected credit loss instead of the existing model in IAS 39, which is an incurred credit loss. The expected credit loss model is applied to assets representing debt instruments measured at amortized cost or at fair value through other comprehensive income and to the receivables item. The model presents a general and simplified approach for calculation of impairment:

The final standard is effective retrospectively, subject to certain exemptions set out therein, for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

## Notes to the Consolidated Interim Financial Statements

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

D. Restatement and reclassification (see also Note 2(II) to the Annual Financial Statements)

1. Further to Note 2(II) to the Annual Financial Statements, the Group's financial statements as of June 30, 2013 and for the six and three months then ended were restated by way of reconciliation to reflect retrospectively the change in accounting treatment of Ad 120 Residence Centers for Senior Citizens Ltd. ("Ad 120"), held by the subsidiary The Phoenix Holdings Ltd. ("The Phoenix"), for the assisted living units owned by the Group, as investment property instead of presentation in fixed assets, as in the past.  
The Group believes that the nature and extent of the services provided by Ad 120 to the tenants are not significant compared to the overall arrangement with the tenants.
2. Further to Note 3 below, regarding the disposal of and/or agreements and intentions dispose of the holdings in Delek US Holdings, Inc., Delek Europe BV, Republic Companies Inc., and Barak Capital Ltd. ("Delek US", "DEBV", Republic" and "Barak Capital", respectively, the operating results of these companies were restated in the statement of income under income from discontinued operations, net.
3. The table below presents the effect of the change in accounting policy following presentation of the assisted living units as investment property and the effect of reclassification on the results of discontinued operations in the statement of income, as aforesaid:

Consolidated statement of financial position as of June 30, 2013

	<u>As previously reported</u>	<u>Change (1) Unaudited</u>	<u>As presented in these financial statements</u>
	<u>NIS million</u>		
Investment property	1,542	1,057	2,599
Property, plant and equipment, net	5,648	(751)	4,897
Deferred taxes	(3,394)	(73)	(3,467)
Retained earnings	(4,073)	(104)	(4,177)
Capital reserve for transactions with non-controlling interests	(373)	(26)	(399)
Non-controlling interests	(5,323)	(103)	(5,426)

(1) The effects of the change in accounting policy following restatement for investment property

## Notes to the Consolidated Interim Financial Statements

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

## Consolidated statements of income for the six months ended June 30, 2013

	As previously reported	Reclassification (1)	Restated (2)	As presented in these financial statements
	Unaudited			
	NIS million (other than net earnings (loss) per share)			
Revenues	18,737	(8,477)	7	10,267
Cost of revenues	15,345	(7,281)	-	8,064
Gross income	3,392	(1,196)	7	2,203
Selling, marketing and gas station operating expenses	1,769	(910)	-	859
General and administrative expenses	781	(147)	(24)	610
Other revenue, net	101	1	-	102
Operating income	943	(138)	31	836
Finance expenses, net	665	(61)	-	604
Gain from disposal of investments in partnerships and investees, net	3	-	-	3
Group share in profits (losses) of affiliates, net	(164)	350	-	186
Income before taxes on income	117	273	31	421
Taxes on income	185	69	7	261
Gain (loss) from continuing operations	(68)	204	24	160
Income from discontinued operations, net	1,076	(204)	-	872
Net income	1,008	-	24	1,032
Attributable to:				
Equity holders of the Company	555	-	14	569
Non-controlling interests	453	-	10	463
Total comprehensive income	1,008	-	24	1,032
Net earnings (loss) per share attributable to equity holders of the Company (NIS)				
Basic earnings per share from continuing operations	(22.8)	18.1	1.2	(3.5)
Basic earnings per share from discontinued operations	72.1	(18.1)	-	54.0
Basic earnings	49.3	-	1.2	50.5
Diluted loss per share from continuing operations	(22.9)	18.1	1.3	(3.5)
Diluted loss per share from discontinued operations	71.8	(18.1)	-	53.7
Diluted earnings	48.9	-	1.3	50.2

- (1) Due to presentation of the operating results of Delek US, DEBV, Republic, and Barak Capital under profit (loss) from discontinued operations, net (see Note 3)
- (2) Effects of the change in accounting policy for assisted living units

## Notes to the Consolidated Interim Financial Statements

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

## Consolidated statements of income for the three months ended June 30, 2013

	As previously reported	Reclassification (1)	Restated (2)	As presented in these financial statements
	Unaudited			
	NIS million (other than net earnings (loss) per share)			
Revenues	9,619	(4,549)	7	5,077
Cost of revenues	7,930	(3,969)	-	3,961
Gross income	1,689	(580)	7	1,116
Selling, marketing and gas station operating expenses	904	(463)	-	441
General and administrative expenses	407	(70)	(12)	325
Other revenue, net	114	(5)	-	109
Operating income	492	(52)	19	459
Finance expenses, net	386	(33)	-	353
Gain from disposal of investments in partnerships and investees, net	3	-	-	3
Group share in profits (losses) of affiliates, net	(303)	364	-	61
Income (loss) before taxes on income	(194)	345	19	170
Taxes on income	46	86	5	137
Gain (loss) from continuing operations	(240)	259	14	33
Income from discontinued operations, net	959	(259)	-	700
Net income	719	-	14	733
Attributable to:				
Equity holders of the Company	505	-	8	513
Non-controlling interests	214	-	6	220
Total comprehensive income	719	-	14	733
Net earnings (loss) per share attributable to equity holders of the Company (NIS)				
Basic earnings per share from continuing operations	(29.2)	22.9	0.7	(5.6)
Basic earnings per share from discontinued operations	73.9	(22.9)	-	51.0
Basic earnings	44.7	-	0.7	45.4
Diluted loss per share from continuing operations	(29.3)	23.0	0.7	(5.6)
Diluted loss per share from discontinued operations	73.7	(23.0)	-	50.7
Diluted earnings	44.4	-	0.7	45.1

- (1) Due to presentation of the operating results of Delek US, DEBV, Republic, and Barak Capital under profit (loss) from discontinued operations, net (see Note 3)
- (2) Effects of the change in accounting policy for assisted living units

## Notes to the Consolidated Interim Financial Statements

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

## Consolidated Statements of Income for the Year Ended December 31, 2013

	As previously reported	Reclassification (1)	As presented in these financial statements
	Audited		
	NIS million		
	(Other than earnings (loss) per share)		
Revenues	38,455	(16,559)	21,896
Cost of revenues	31,304	(14,108)	17,196
Gross income	7,151	(2,451)	4,700
Selling, marketing and gas station operating expenses	3,653	(1,898)	1,755
General and administrative expenses	1,551	(283)	1,268
Other revenue, net	201	(27)	174
Operating income	1,746	(243)	1,503
Finance expenses, net	1,415	(127)	1,288
Loss from disposal of investments in partnerships and investees, net	(8)	-	(8)
Group's share in earnings of associates, net	437	(7)	430
Income before taxes on income	760	(123)	637
Taxes on income	501	(30)	471
Gain from continuing operations	259	(93)	166
Income from discontinued operations, net	1,076	93	1,169
Net income	1,335	-	1,335
Attributable to:			
Equity holders of the Company	740	-	740
Non-controlling interests	595	-	595
Total comprehensive income	1,335	-	1,335
Net earnings (loss) per share attributable to equity holders of the Company (NIS)			
Basic earnings per share from continuing operations	(6.3)	(8.2)	(14.5)
Basic earnings per share from discontinued operations	71.3	8.2	79.5
Basic earnings	65.0	-	65.0
Diluted loss per share from continuing operations	(6.3)	(8.3)	(14.6)
Diluted loss per share from discontinued operations	70.8	8.3	79.1
Diluted earnings	64.5	-	64.5

- (1) Due to presentation of the operating results of Delek US, DEBV, Republic, and Barak Capital under profit (loss) from discontinued operations, net (see Note 3)

## Notes to the Consolidated Interim Financial Statements

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Statements of changes in equity	As previously reported	Presentation Restated (1)	As presented in these financial statements
	NIS million		
January 1, 2013			
Retained earnings	3,890	90	3,980
Non-controlling interests	7,787	134	7,921
Statements of changes in equity	As previously reported	Presentation Restated (1)	As presented in these financial statements
	NIS million		
As of April 1, 2013			
Retained earnings	3,716	96	3,812
Non-controlling interests	8,353	97	8,450

(1) Effects of the change in accounting policy for assisted living units

## NOTE 3: BUSINESS COMBINATIONS AND INVESTMENTS IN INVESTEES

A. Fuel operations in the United States

- In March 2014, Delek Hungary Holdings Ltd. (a wholly-owned foreign subsidiary, linked, ("Delek Hungary") sold 3,000,000 shares of Delek US for NIS 315 million. Subsequent to the sale, Delek Hungary held 25.4% of the share capital of Delek US. Following the sale, the Group included a loss of NIS 16 million in the first quarter of 2014.
- As of March 31, 2014, the Group assessed the recoverable amount of the balance of its investment in Delek US, partially due to the decrease in the market value of Delek US. Due to the difference between the carrying amount of the investment in Delek US in the financial statements of Delek Hungary and its recoverable amount (fair value less selling costs), in the first quarter of 2014, the Group included a provision of NIS 240 million for impairment of the investment in Delek US, which was recognized under Company's share in earnings (losses) of investees, net and tax revenue of NIS 64 million (a decrease in tax reserve).
- In May 2014, Delek Hungary issued, through Delek US, an offering for Delek US shares owned by Delek Hungary ("the Seller"). The price was set at USD 30 per share. 10,350,000 shares of Delek US were sold in the offering (including underwriting options that were exercised) for a total consideration of NIS 1.097 billion (before fees). Subsequent to the exercise, Delek Hungary holds 7.5% of the shares of Delek US. Following the sale, in the second quarter of 2014, the Group recognized a gain of NIS 59 million (after tax, and including a gain of NIS 13 million following disposal of a cash flow hedge fund credit balance). In addition, following the low rate of Delek US shares held by Delek Hungary, and since the equity method is no longer applied for this investment as set out below, the Group concluded that following the decrease in the rate of holding in Delek US and the fact that the decrease in the rate of the holding is equal to fundamental dissolution of Delek Hungary, it should dispose of the reserves arising from translation of the financial statements of Delek Hungary amounting to NIS 263 million and recognize the loss for their recognition in the statement of income. The total loss from disposal of Delek US shares in the second quarter of 2014, as set out above, amounted to USD 204 million.

## Notes to the Consolidated Interim Financial Statements

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

In view of the decrease in the holding as set out above, Delek Hungary no longer applies the equity method for its investment in Delek US as from the second quarter of 2014, and recognizes its investment in Delek US at its market value, with market value changes recognized in the statement of income. As of June 30, 2014, the investment in Delek US amounted to NIS 433 million.

4. Following the sale of Delek US shares, as described above, and discontinuation of the equity method, the Company's share in the results of Delek US, including the results for the sale of the shares in May 2014, were presented in the statement of income under net profit (loss) from discontinued operations, until the date of loss of control, with restatement of comparative figures.

- (a) The table below presents information on the results of operations attributable to the discontinued operations of Delek US.

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
Loss from disposal of investments in partnerships and investees, net Group's share in losses of associates, net	(230)	-	(204)	-	-
Loss before taxes on income	(459)	(377)	(204)	(377)	(47)
Tax benefit	(82)	(89)	(13)	(89)	-
Loss from discontinued operations of Delek US, net	<u>(377)</u>	<u>(288)</u>	<u>(191)</u>	<u>(288)</u>	<u>(47)</u>

- (b) Composition of net cash flows attributable to the discontinued operations of Delek US:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013 *)	2014	2013 *)	2013 **)
	Unaudited				Audited
	NIS million				
Net cash flows from (used in) operating activities	20	195	6	(107)	500
Net cash flows from (used in) investment activities	1,392	(1,672)	1097	(1,543)	(798)
Net cash flows from (used in) finance activities	-	656	-	(323)	867
	<u>1,412</u>	<u>(821)</u>	<u>1,103</u>	<u>(1,973)</u>	<u>569</u>

\*) As included up to the date of loss of control in June 2013

\*\*\*) As included up to the date of loss of control in June 2013 plus cash flows up to the end of 2013

#### B. Fuel operations in Europe

In June 2014, Delek Europe Holdings Ltd. ("Delek Europe") signed an agreement for the sale of its entire holdings in DEBV and the loans provided by Delek Europe to DEBV, for EUR 355 million (approximately EUR 1.7 billion). Payment of the consideration for the transaction will be as follows: EUR 180 million will be paid in two equal installments of EUR 90 million each. The first will be paid on completion of the transaction and the second will be paid 12 months after completion of the transaction plus annual interest at a rate of 5%.

Delek Europe provided the remaining consideration of EUR 175 million to the buyer as a loan for five years and six months, plus annual interest at a rate of 5%. All parent company shares held by the acquiring company will be provided as collateral for the loan to Delek Europe. In addition, so long as the loan is not fully repaid, the loan agreement sets out terms for appointing an observer to the board of directors of DEBV on behalf of Delek Europe and information that the buyer is required to disclose to Delek Europe.

## Notes to the Consolidated Interim Financial Statements

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

The agreement includes a mechanism for additional compensation, limited to a maximum of an additional EUR 40 million, if the buyer sells the shares while achieving the yield defined in the agreement, and a mechanism for reduction of up to EUR 11.5 million depending on DEBV's results in 2014.

Subsequent to the balance sheet date, all conditions were met and the transaction was closed.

As of June 30, 2014, the Group's investment in DEBV amounts to NIS 1.382 billion (including debit of capital reserves from translation of financial statements and others amounting to NIS 257 million).

The transaction results will be recognized in the statement of income at the completion date and will be affected mainly by the results of DEBV up to the completion date, the estimated fair value of the transaction consideration (including contingent consideration), selling costs, recognition of the negative capital reserves in the statement of income as set out above, and the NIS-EUR exchange rate.

In view of the agreement for the sale of Republic shares, as stated above, the assets and liabilities of Republic are presented in Republic's balance sheet as of June 30, 2014 under groups of assets and liabilities held for sale. In addition, the operating results of DEBV were presented in the statement of income under profit (loss) from discontinued operations, net, with restatement of comparative figures.

1. Groups of assets and liabilities relating to DEBV's discontinued operations classified as held for sale:

	<b>June 30 2014</b>
	<b>Unaudited</b>
	<b>NIS million</b>
<u>Current assets</u>	
Cash and cash equivalents	858
Trade receivables	831
Inventory	498
Other current assets	98
	<u>2,285</u>
<u>Non-current assets</u>	
Property, plant and equipment, net	2,176
Goodwill	694
Other intangible assets, net	552
Other non-current assets	282
	<u>3,704</u>
<b>Total assets</b>	<u><u>5,989</u></u>
<u>Current liabilities</u>	
Liabilities for trade payables	(761)
Other payables	(1,306)
Other current liabilities	(177)
	<u>(2,244)</u>
<u>Non-current liabilities</u>	
Loans from banks and others	(1,870)
Provisions and other liabilities	(232)
Other non-current liabilities	(246)
	<u>(2,348)</u>
<b>Total liabilities</b>	<u><u>(4,592)</u></u>

## Notes to the Consolidated Interim Financial Statements

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

2. The table below presents information on the results of operations attributable to the discontinued operations of DEBV:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
Revenues	7,146	7,874	3,644	4,261	15,401
Cost of revenues	6,209	6,902	3,137	3,748	13,446
Gross income	937	972	507	513	1,955
Selling and gas station operating expenses	789	784	400	398	1,646
General and administrative expenses	69	75	29	35	138
Other expenses (income), net	5	1	-	(5)	(3)
Operating income	74	112	78	85	174
Finance expenses, net	68	53	34	29	110
	6	59	44	56	64
Group's share in earnings of associates, net	7	5	3	2	11
Income before taxes on income	13	64	47	58	75
Taxes on income (tax benefit)	(1)	24	10	25	13
Income from discontinued operations of DEBV, net	14	40	37	33	62

3. Composition of net cash flows attributable to the discontinued operations of DEBV:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
Net cash from operating activities	336	85	286	114	424
Net cash used for investment activities	(150)	(255)	(40)	(145)	(443)
Net cash flows from (used in) finance activities	81	(88)	(15)	(10)	(38)
	267	(258)	231	(41)	(57)

C. Insurance and finance operations abroad

In April 2014, Delek Finance US Inc. ("Delek Finance"), a wholly owned foreign subsidiary of the Company, signed an agreement (which was amended in July 2014) for the sale of 34% of the share capital of Republic for USD 75 million (approximately NIS 263 million) in cash.

The buyers were granted options to acquire 21% of the shares in Republic, up to a holding of 55% for up to three years from completion of the transaction, in accordance with the mechanism set out in the agreement.

In addition, the buyers were granted an additional option to acquire the remaining share capital of Republic (45%) for two years from completion of the transaction, in accordance with the mechanism set out in the agreement.

If the options are exercised, the consideration of the exercise will be based on a value of USD 220 million for Republic plus annual interest set for each period in accordance with the periods for exercising the different options.

## Notes to the Consolidated Interim Financial Statements

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

The buyers were granted rights of control in Republic as from the completion date, which will be returned to Delek Finance after three years if the buyers do not exercise any of the options granted to them for acquisition of Republic shares, and which will bring their holding to at least 55% of the share capital of Republic.

Completion of the transaction is subject to regulatory approvals and preconditions.

As of June 30, 2014, the Group's investment in Republic arising from this transaction amounted to USD 207 million, taking into account the estimated value of the options described above (approximately NIS 710 million). In the reporting period, the Company included its share of USD 13 million (approximately NIS 46 million) in the comprehensive income of Republic, and on the other hand, included a loss of USD 17 million (approximately NIS 60 million) for impairment of goodwill attributable to Republic, in view of the estimated value of Republic, as stated above.

In view of the agreement for the sale of Republic shares, as stated above, the assets and liabilities of Republic are presented in Republic's balance sheet as of June 30, 2014 under groups of assets and liabilities held for sale. In addition, items of profit or loss for Republic were presented in the statement of income under income (loss) from discontinued operations, net, with restatement of comparative figures.

Upon completion of the transaction and the decrease in control, Delek Finance will no longer consolidate the financial statements of Republic, and will use the equity method to present its investment in Republic.

As of June 30, 2014, the balance of capital reserves from translation of financial statements and others amounts to a debt of NIS 121 million.

1. Groups of assets and liabilities relating to Republic's discontinued operations classified as held for sale:

	<b>June 30 2014</b>
	<b>Unaudited</b>
	<b>NIS million</b>
<u>Current assets</u>	
Cash and cash equivalents	123
Insurance premium receivable	285
Reinsurance assets	1,286
Other current assets	287
	<u>1,981</u>
<u>Non-current assets</u>	
Financial investments of insurance companies	616
Reinsurance assets	1,650
Goodwill	60
Other non-current assets	151
	<u>2,477</u>
<b>Total assets</b>	<u><u>4,458</u></u>
<u>Current liabilities</u>	
Other payables	262
Liabilities for insurance contracts	2,021
Other current liabilities	53
	<u>2,336</u>
<u>Non-current liabilities</u>	
Debentures	306
Liabilities for insurance contracts	970
Other non-current liabilities	134
	<u>1,410</u>
<b>Total liabilities</b>	<u><u>3,746</u></u>

## Notes to the Consolidated Interim Financial Statements

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

2. Results of operations attributable to the discontinued operations of Republic:

	Six months ended June 30		Three months ended June 30		Year ended December 31 2013
	2014	2013	2014	2013	Audited
	Unaudited				
	NIS million				
Revenues	469	603	232	288	1,158
Cost of revenues	315	379	198	221	662
Gross income	154	224	34	67	496
Sales expenses	89	126	48	65	252
General and administrative expenses	62	72	29	35	145
Other revenues (expenses), net	(58)	-	-	-	(30)
Operating income (loss)	(55)	26	(43)	(33)	69
Finance expenses, net	8	8	4	4	17
Income (loss) before taxes on income	(63)	18	(47)	(37)	52
Taxes on income (tax benefit)	(1)	(4)	(15)	(22)	17
Income (loss) from discontinued operations of Republic, net	(62)	22	(32)	(15)	35

3. Composition of net cash flows attributable to the discontinued operations of Republic:

	Six months ended June 30		Three months ended June 30		Year ended December 31 2013
	2014	2013	2014	2013	Audited
	Unaudited				
	NIS million				
Net cash used for operating activities	(44)	(27)	(29)	(20)	46
Net cash flows from (used in) investment activities	(1)	(172)	(18)	(192)	(217)
Net cash used for finance activities	8	3	12	10	(17)
	(37)	(196)	(35)	(202)	(188)

#### D. Barak Capital

In June 2014, the Company signed an agreement to sell all its holdings in Barak Capital. The consideration amounted to NIS 237 million and includes payment for the sale of shares, repayment of shareholder loans and dividends. Payment of the consideration for the transaction will be as follows:

NIS 100 million will be paid in two installments: NIS 40 million on completion of the transaction and NIS 60 million within 45 days after signing the agreement

The remaining consideration of NIS 137 million will be provided as a loan to Barak Capital for three years. The loan will bear interest at a rate of 7% and will be repaid in accordance with a repayment schedule set by the parties. To secure the loan, all the shares that were sold were pledged in favor of the Company and financial covenants were set.

The transaction was completed in July 2014. Consequently, in the second quarter of 2014, the Company recognized a loss of NIS 34 million for impairment of the investment less the Group's share in the gain of Barak Capital for the period.

Following the agreement for the sale of Barak Capital shares, as described above, the investment in Barak Capital is presented under group of assets held for sale. In addition, the Company's share in the results of Barak Capital, including impairment of the investment, was presented in the statement of income under income (loss) from discontinued operations, net, with restatement of comparative figures.

## Notes to the Consolidated Interim Financial Statements

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

The balance of the Group's investment in Barak Capital as of June 30, 2014, which was classified as held for sale, amounted to NIS 68 million.

The table below presents information about the results of operations attributable to the discontinued operations of Barak Capital:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
Group's share in profits (losses) of Barak Capital	(21)	22	(34)	11	43
Income (loss) from discontinued operations of Barak Capital, net	(21)	22	(34)	11	43

E. Summary of assets held for sale and attributable liabilities and of discontinued operations as described in sections A-D above.

1. Assets and liabilities classified as available for sale

	June 30, 2014 Unaudited NIS million
<u>Assets</u>	
Delek Europe	5,989
Republic	4,458
Barak Capital	68
<b>Assets held for sale</b>	<b>10,515</b>
<u>Liabilities</u>	
Delek Europe	4,592
Republic	3,746
Barak Capital	-
<b>Liabilities associated with assets classified as held for sale</b>	<b>8,338</b>

2. Income (loss) from discontinued operations

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
Delek US in view of loss of control *)	-	1,076	-	959	1,076
Delek US	(377)	(288)	(191)	(288)	(47)
Delek Europe	14	40	37	33	62
Republic	(62)	22	(32)	(15)	35
Barak Capital	(21)	22	(34)	11	43
Income (loss) from discontinued operations, net	(446)	872	(220)	700	1,169

\*) As reported in the financial statements as of June 30, 2013

**NOTE 3: BUSINESS COMBINATIONS AND INVESTMENTS IN INVESTEES (CONTD.)**F. Insurance and finance operations in Israel

1. Further to Note 20 B(1)(a) to the Annual Financial Statements, among other things, in view of publication of the Law to Promote Competition and Reduce Concentration, 2013 ("the Concentration Law"), as of December 31, 2013, the Group assessed the recoverable amount (value in use) of its investment in The Phoenix using an external independent assessor, who estimated the present value of projected cash flows for The Phoenix up to the projected disposal date of the investment by the Company (no later than December 2019) and the estimated amount for the Company from disposal of The Phoenix shares at the end of the period, based on the market value of The Phoenix shares as of December 31, 2013, plus the required adjustments. In accordance with the above assessment, the value in use of the investment in The Phoenix amounted to NIS 2.123 billion and the Group recognized an impairment loss of NIS 165 million for goodwill attributable to The Phoenix.

As of March 31, 2014, the Company revised the required parameters in the assessment model (use of market value as of March 31, 2014 and shortening of the projection and discounting period in view of the prior quarter), and accordingly the value in use was set at NIS 2.189 billion.

Accordingly, in the first quarter of 2014, the Company included its share in the comprehensive income of The Phoenix amounting to NIS 116 million and on the other hand, included an additional impairment loss for goodwill amounting to NIS 50 million, which was included in other income (expenses), net, based on the value in use that was determined.

As of June 30, 2014, in view of the increase in the certainty in respect of disposal of the investment in The Phoenix in a period of less than six years, partially due to the binding memorandum of understanding for the sale of control in The Phoenix (see section 2 below), the Company changed the expected disposal period to a period of two years and updated the assessment model that was established (using the market value as of June 30, 2014, at the end of the forecast period, with the addition of required adjustments). Accordingly, the net value in use as calculated by an independent external appraiser, and also taking into account expected disposal costs, was set at NIS 1.838 billion. It is noted that as of June 30, 2014, the market value of the Company's investment in The Phoenix amounted to NIS 1.652 billion.

In view of the aforesaid, in the second quarter of 2014, the Company included an additional impairment loss of NIS 350 million for goodwill and other intangible assets, which is included in other income (expenses), net, in accordance with the value in use that was established. For further information, see the valuation attached to the Group's interim financial statements.

2. Subsequent to the balance sheet date, in July 2014, the Company signed a non-binding memorandum of understanding setting out principles for a binding agreement to sell control in The Phoenix (47% of the share capital).

The memorandum of understanding includes a number of fundamental conditions for the transaction in the Binding Agreement. The full consideration will be an amount equal to the equity of The Phoenix as of 30th December 2013, multiplied by the percentage of shares sold, in addition to the interest rate agreed that will be added to the consideration as from January 1, 2014 until completion of the transaction

As part of the agreed principles, the buyer will be entitled to receive a loan from the Company and/or a guarantee from the Company to finance part of the consideration.

The memorandum of understanding is not binding, other than the obligation of exclusivity for a specified period agreed on by the the parties.

The transaction is subject to due diligence, successful completion of negotiations between the parties and the signing of a binding agreement. The binding agreement, if signed, will be subject to obtaining all the regulatory approvals required by law. As of June 30, 2014 and the approval date of the financial statements, it is uncertain whether this transaction will be completed.

## Notes to the Consolidated Interim Financial Statements

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

G. Automotive operations

In view of the difference between the value of the Group's investment in shares of Delek Automotive Systems Ltd. ("Delek Automotive") and its market value as of June 30, 2014, the Group estimated the recoverable amount (value in use) of its investment in Delek Automotive. The value in use was estimated by an independent external assessor, estimating the net value in use of the Company's investment in Delek Automotive at between NIS 863 million and NIS 954 million (based on discounting the cash flow, at a discount rate after tax of 10.5%, assuming the representative cash flow as from the sixth year will increase by 2.5% annually).

In view of the aforesaid, the Group concluded that the investment in the shares of Delek Automotive, amounting to NIS 940 million as of June 30, 2014, is not lower than its value in use, therefore no provision is required for impairment of the investment.

As of June 30, 2014, the market value of the investment in Delek Automotive amounted to NIS 800 million (shortly before the approval date of the financial statements, NIS 830 million).

H. Fuel operations in Israel

In March 2014, all the permits required for the sale of the holdings in Delek The Israel Fuel Corporation Ltd. ("Delek Israel") in the shares of Pi-Gliloth Petroleum Terminals and Pipelines Ltd. ("Pi Gliloth") for NIS 69 million. In accordance with the sale agreement, Delek Israel received NIS 34.5 million up to March 31, 2014. The remaining consideration of NIS 34.5 million will be paid to Delek Israel in December, 2014. After payment of the balance of the consideration, the shares will be registered in the name of the buyers. Following the transaction, Delek Israel recognized a gain of NIS 44 million after tax and sales expenses (mostly transfer of capital reserve for available for sale financial assets to the statement of income).

J. Condensed information for a company accounted for at equity

The Group owns 50% of the shares of IDE Technologies Ltd. ("IDE"). The Group's investment in IDE is accounted for using the equity method. Following is condensed information from the financial statements of IDE for each reporting period:

	June 30		December 31
	2014	2013	2013
	Unaudited		Audited
USD millions			
Current assets	220	262	283
Non-current assets	615	545	608
Current liabilities	149	237	257
Non-current liabilities	441	355	385
Equity attributable to equity holders of the investee	234	206	237
Equity attributable to holders of non-controlling interests	11	9	12

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2014	2013	2014	2013	2013
Unaudited					Audited
USD millions					
Revenues	112	110	60	65	263
Gross income	27	17	20	17	60
Operating income (loss)	5	(2)	8	7	21
Finance income, net	2	1	2	2	12
Net earnings attributable to equity holders of the investee	7	4	10	9	30

The exchange rate as of June 30, 2014, used to translate the financial statements of IDE, is USD 1 = NIS 3.438 (change in the reporting period – a decrease of 0.95%).

**NOTE 4: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION**

The Group operates mainly through Avner Oil Exploration - Limited Partnership and Delek Drilling - Limited Partnership (jointly: "the Limited Partnerships") in a number of joint ventures for the exploration, development, and production of oil, natural gas, and condensate in the exclusive economic zone of Israel and Cyprus, and sells natural gas and condensate to a variety of customers (see also Note 16 to the Annual Financial Statements).

**A. Ratio Yam joint venture**

On January 26, 2014, the Commissioner of Petroleum Affairs announced that the Leviathan field is a discovery as defined in the Petroleum Law, 1952 ("the Petroleum Law").

**1. Leviathan leases**

On March 27, 2014, the Commissioner of Petroleum Affairs at the Ministry of National Infrastructures, Energy and Water ("the Commissioner") granted the partners in the license two leases: Lease I/14 Leviathan South and Lease I/15 Leviathan North. The leases include provisions for schedules for developing the lease, planning and construction, sales to the Israeli market and for export, guarantees, warranties, indemnification, and insurance. The leases were granted for 30 years and may be extended by another 20 years in accordance with and subject to the provisions of the Petroleum Law.

In order to secure compliance with the lease and the approvals, to secure payments which the leaseholder is required to make by law to the State and as a precondition to granting the lease, the lease-holder is required to provide an unconditional and irrevocable autonomous bank guarantee made out to the State of Israel ("the Guarantee"). The Guarantee provided on April 10, 2014 (total, for both leases together) is USD 50 million (100%) and when approval is granted for operating the production system, the Guarantee will be increased to a total amount of USD 75 million (100%) and will be further increased to a total amount of USD 100 million (100%) when production for export starts, under an extension of the development plan, or on December 31, 2020 (the earlier of the two). The Guarantee will remain in effect throughout the lease term and will remain in effect after the lease expires, provided the Commissioner of Petroleum Affairs does not announce that it is no longer required and subject to section 57C of the Petroleum Law.

It is noted that on deposit of the guarantees of USD 50 million (the share of the limited partnerships is USD 23 million) for the Leviathan North and Leviathan South lease, in April 2014, the guarantees provided for the Leviathan 2 well and extension of the Rachel and Amit licenses were returned.

**2. Updated resource appraisal for the Leviathan Reservoir**

Further to Note 16E(4) to the Annual Financial Statements, subsequent to the balance sheet date, in July 2014, NSAI submitted an appraisal of the contingent natural gas and condensate resources classified as development pending in the Leviathan Reservoir as of June 30, 2014, which are between 751.2 BCM (high estimate) and 469.6 BCM (low estimate) and the condensate reserves in the Leviathan discovery classified as contingent resources as of June 30, 2014, which are between 47.7 million barrels (high estimate) and 29.8 million barrels (low estimate).

This appraisal of the contingent natural gas and condensate resources in the Leviathan Reservoir is partially based on geological, geophysical, engineering, and other information received from the operator, from wells drilled in the reservoir and from wells drilled in nearby reservoirs. These estimates are the professional estimates and assumptions only of NSAI, for which there is no certainty. Estimates for actual quantities of natural gas and/or condensate consumed may be different from these estimates and assumptions, partly due to technical and operational conditions and/or regulatory changes and/or the supply and demand conditions in the natural gas and/or condensate market and/or commercial conditions and/or from actual performance of the reservoir. The estimates and assumptions may be revised if additional information becomes available and/or as the result of a range of factors related to oil and natural gas exploration and production projects.

**NOTE 4: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (Contd.)**3. Memorandum of understanding for the joining of Woodside to the Leviathan project

Further to Note 16K to the Annual Financial Statements, regarding the non-binding memorandum of understanding for the participation of Woodside Energy Mediterranean Pty. Ltd., which is an indirect wholly owned subsidiary (tiered) of Woodside Petroleum Ltd. ("Woodside") in the Leviathan project, on May 21, 2014, the Limited Partnerships announced that the parties have decided to cancel the non-binding memorandum of understanding signed on February 6, 2014.

4. Letter of intent (non-binding) between the Leviathan Partners and BG International Limited for the export of natural gas

On June 27, 2014, the Limited Partnerships and the Leviathan Partners signed a non-binding letter of intent with BG International Limited ("BG") in which the parties confirmed their intent to negotiate an agreement ("the Binding Agreement") for the supply of natural gas from the Leviathan Project to BG's LNG plant in Idku, Egypt ("the Letter of Intent").

The Letter of Intent includes a number of fundamental conditions for the transaction in the Binding Agreement. The estimated scope of the Binding Agreement is for annual supply of 7 BCM, for a period of 15 years. Natural gas will be supplied to BG from the floating production, storage and offloading ("FPSO") platform at the Leviathan Project, which is planned to be connected directly to the LNG facility through a subsea pipeline.

In accordance the Letter of Intent, the price of the gas sold under the Binding Agreement will be determined in a formula to be agreed upon between the Parties.

It is clarified that the Letter of Intent is not binding (except for exclusivity for a certain period as agreed in the Letter of Intent) and the above transaction will be subject to successful completion of the negotiations between the parties and signing of the Binding Agreement. As of the date of this report, the parties estimate that the Binding Agreement will be subject to a number of preconditions, including development of the Leviathan Project, which is subject, among other things, to a final investment decision by each of the Leviathan Partners, and to receipt of all required approvals from the authorities in Israel and Egypt.

B. Alon joint venture

## 1. Subsequent to the balance sheet date, on August 12, 2014, the Commissioner informed the partners that the Karish and Tanin natural gas reservoirs in the 366/Alon C and 364 Alon A licenses, respectively, are a discovery as defined in the Oil Law.

2. Agreement with the Antitrust Authority regarding the Karish and Tanin natural gas reservoirs

On March 27, 2014, a consensual decree was signed in accordance with section 50B of the Antitrust Law, 1988 ("the Agreement"), replacing the decision regarding a restrictive arrangement between the partners in the Leviathan reservoir, whereby the Limited Partnerships and Limited Noble Energy Mediterranean ("the Sellers") will sell all their holdings in the 366/Alon C license in the area of the Karish natural gas reservoir and all their holdings in the 364/Alon A license in the area of the Tanin natural gas reservoir ("the Asset"), subject to several conditions, including the following: the Sellers' undertaking to sell their holdings in the Asset to a party that is not related to any of them or to the other partners in the Tamar and Leviathan reservoirs, no later than the date set out in the Agreement; an option not to sell the condensate rights in the asset to a potential buyer but to a third party; and the Sellers may retain the right to royalties from any oil sales from the Asset, at a rate that will not exceed that set out in the agreement out of the consideration received from the sale of oil produced by the Asset. The Seller's rights will be sold without an obligation to pay royalties from the Asset to related parties, therefore the Sellers and royalty holders will be required to reach agreements for distribution of the consideration from the sale of the Asset.

The agreement is subject to the approval of the Commissioner of Petroleum Affairs and the Antitrust Tribunal. It is noted that as of the approval date of the financial statements, the Sellers are negotiating with various parties for the sale of their rights in the Asset.

**NOTE 4: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)**C. Michal and Matan joint venture (Tamar and Dalit leases)1. Letter of intent to export natural gas from the Tamar project:

On May 5, 2014, the Tamar partners and Union Fenosa Gas SA ("UFG") signed a non-binding letter of intent ("the Letter of Intent") under which the parties confirmed their intent to negotiate an agreement for the supply of natural gas from the Tamar project to UFG, for use in UFG's liquefaction facilities in Egypt ("the Binding Agreement"). The parties intend to conclude the negotiations and sign the Binding Agreement within six months. The Letter of Intent includes a number of commercial terms for the proposed transaction, which will be used as the basis for negotiations on the terms of the Binding Agreement. The estimated scope of the Binding Agreement is for annual supply of 4.5 BCM, for a period of 15 years. The gas will be supplied at the point to be determined on the Israel- Egypt border. The price of gas in the Letter of Intent is similar to the prices in other agreements for export of gas from Israel and is mainly based on linkage to Brent oil prices and includes a minimum price.

It is noted that the Letter of Intent is not binding and the above transaction is subject to the completion of negotiations between the parties and the signing of the Binding Agreement. At this stage, the parties estimate that the Binding Agreement will be subject to certain preconditions, including completion of the expansion project, which is subject, among other things, to investment decisions that are binding for all the Tamar partners and receipt of all required approvals from the authorities in Israel and Egypt.

## 2. Subsequent to the balance sheet date, on July 22, 2014, the partners in the Tamar I/12 lease ("the Applicants" and "the Tamar Lease", respectively) filed a petition at the High Court of Justice regarding the non-approval of the Commissioner of Petroleum Affairs ("the Respondent") for development of the Tamar South-West reservoir by connecting it to the existing facilities of the Tamar Project ("the Petition" and "the Tamar SW Reservoir", respectively).

The Petition mainly includes a motion for an order nisi against the Respondent, instructing him to explain why the plans for development of the Tamar SW Reservoir were not approved.

The Respondent's refusal to approve the Tamar SW development plan is probably because the Tamar SW Reservoir covers a small part of the 353/Eran license ("the Eran License"), in which some of the partners in the Tamar Lease held rights, which expired despite their application for an extension. Following the Respondent's decision not to extend the Eran License, on October 3, 2013, the holders of the rights appealed to the Minister of National Infrastructures, Energy and Water Resources, who dismissed the appeal on August 10, 2014. In view of the Minister's decision, the Limited Partnerships and the other partners in the Eran License are exploring their legal options for exercising their rights in respect of the Eran License.

## 3. Further to Note 16C(3) to the Annual Financial Statements, on June 30, 2014, the Tamar Project partners and the Yam Tethys Project partners agreed to extend the date set out in the memorandum of understanding for storage in the Mari B reservoir (which was set for June 30, 2014), to July 15, 2014.

By July 15, 2014, the Mari B reservoir had not been used for storage, and accordingly, the parties made a cash settlement for revenue from the sale of natural gas from the Tamar reservoir to Yam Tethys project customers between May 1, 2013 and June 30, 2014, in accordance with the principles set out in the memorandum, whereby subsequent to the balance sheet date, the Tamar partners were paid USD 77 million (100%). The net effect for the reporting period on the operating results attributable to equity holders of the Company is an expense of NIS 27 million.

**NOTE 4: INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)**D. Block 12, Cyprus

Further to Note 16G to the Annual Financial Statements, Noble Energy International Ltd. ("the Operator") informed the Limited Partnerships that it had received notice from the Cypriot Minister of Energy regarding the decision of the Council of Ministers of Cyprus to approve the second extension of the Block 12 license, by virtue of the production sharing contract ("the Production Sharing Contract"), for two years, until May 23, 2016 ("the Second Extension Period". In the Second Extension Period, the partners in the Block 12 License are obligated to drill another exploration well (beyond the borders of the Aphrodite discovery) by October 23, 2015. If another exploration well is not drilled in the Second Extension Period, the Republic of Cyprus will be entitled to forfeit the guarantee of USD 6 million (100%), which the Operator provided in favor of the Republic of Cyprus for all of the partners in Block 12, subject to the Production Sharing Contract. In accordance with the terms of the Production Sharing Contract, in view of this extension, the area of the Block 12 License was reduced by 25%.

E. Guidelines for providing collateral for oil rights

Further to Note 16(O) to the Annual Financial Statements regarding the guidelines of the Commissioner of Petroleum Affairs for providing collateral for oil rights, in June 2014, the Commissioner announced that the effective date for the guidelines has been postponed to September 15, 2014.

F. Issue of debentures

On May 19, 2014, the issue of debentures by Delek and Avner (Tamar Bond) Ltd. ("the Issuer") was completed. The Issuer is a special purpose company (SPC) held equally by the Limited Partnerships, according to which debentures amounting to USD 2 billion were issued. The Issuer provided the issue proceeds as loans to the Limited Partnerships, in equal shares between them, back to back with the terms of the debenture ("the Loan"). It is emphasized that the Limited Partnerships are not guarantors for each other and each is liable for repayment of its Loan.

The debentures were issued in five different series, as follows:

	<b>Amount</b> <b>USD million</b>	<b>Fixed interest</b>	<b>Repayment date</b>
Series 1	400	2.803%	December 2016
Series 2	400	3.839%	December 2018
Series 3	400	4.435%	December 2020
Series 4	400	5.082%	December 2023
Series 5	400	5.412%	December 2025

On May 15, 2014, the Issuer received approval from the Tel Aviv Stock Exchange Ltd. ("the TASE") to list the debentures on the TACT-Institutional.

In the transaction, the Issuer and the Limited Partnerships undertook, among other things, that if withholding tax is applicable for the amounts payable to a foreign resident, in accordance with the debenture terms, then subject to certain exceptions that were defined, the Issuer and/or the Limited Partnerships, as the case may be, will pay additional amounts as required so that the foreign resident will receive the same net amount as the amounts that the foreign resident would have received, had no tax withholding been required. In this context, it is noted that on March 27, 2014, the Limited Partnerships received approval from the Tax Authority that the debentures that will be traded on the TACT-Institutional system of the TASE are debentures that are traded on the stock exchange in Israel in respect of section 9(15D) of the Income Tax Ordinance (for an exemption from tax on interest paid to a foreign resident on debentures traded on the TASE) and section 97(B2) of the Ordinance (for an exemption from tax for a foreign resident on capital gains in the sale of debentures traded on the TASE), subject to the terms set out in the Tax Authority's approval and the provisions of the Income Tax Ordinance and the relating regulations.

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

As collateral for payment of the debentures, the Limited Partnerships pledged their rights in the Tamar project, and mainly the rights of each one of the Limited Partnerships in the Tamar I/12 lease (the "Tamar Lease"), agreements for the sale of gas and condensate, the joint operating agreement between all Tamar project partners and the parties' rights in the joint equipment (including the platform, wells, facilities, production system and additional equipment), the agreement for right of use of the Yam Tethys facilities, bank accounts (which include the accounts used for the Limited Partnerships' revenues from the sale of gas and condensate from the Tamar project), insurance policies (with the exception of liability insurance) for the Tamar project assets, and the Issuer's shares (jointly below: ("the Collateral" or "the Pledged Assets").

The Collateral for repayment of the debentures is from the Tamar project, without any guarantees or collateral unrelated to the Tamar project. However, until certain conditions are fulfilled, or four years from the issue date of the debentures, whichever is later, the debenture holders will have a right of recourse to other assets of the Limited Partnerships for one half of the amount that the Limited Partnerships will withdraw from the pledged accounts. The debenture holders' right of recourse is limited both in amount and to assets that have not been pledged by the Limited Partnerships (limited recourse). It is noted that the pledges are subject to the state's royalty rights and to the rights of other royalty holders who are entitled to receive royalties from the Limited Partnerships (including interested parties), and that pledges are registered in favor of the royalty holders on the Limited Partnerships' rights in the Tamar Lease to secure the undertaking to pay the royalties, which will be valid until repayment of the debentures.

As part of the transaction, the Issuer and the Limited Partnerships assumed several covenants towards the debenture holders, including the following covenants: restrictions on additional pledges on the pledged assets and their sale; restrictions on a merger or restructuring as set out in the issue documents; restrictions on amending or revising the joint operating agreement, the agreement for use of the facilities or agreements for the sale of gas, as set out in the issue documents; expansion of the debenture series or taking additional debt secured by the pledged assets, subject to compliance with several conditions; an undertaking to track the rating of the debentures by the international rating agencies that rated the debt. In addition, restrictions and conditions for withdrawal of the surplus cash flow from the Tamar project were defined.

The Issuer and the Limited Partnerships undertook, in certain cases, to indemnify the representatives that undertook to buy the debentures following the pricing process, in the event of a breach of representations provided by the Issuer and/or the Partnerships. In addition, events of default were defined, which if they occur, the trustee for the debentures will be entitled (and in the case of a demand of one quarter of the debenture holders will be obligated) to call for immediate repayment of the unpaid balance of the debentures. The main events are as follows: (1) non-payment of principal or interest; (2) breach of representations; (3) breach of covenants; (4) events of insolvency of Israel Electric Corporation Ltd. ("IEC") or of the operator of the Tamar project or of one of the Limited Partnerships, if the same constitute a significant deterioration (as defined) and subject to certain conditions and qualifications; (5) early termination of the gas supply agreement with IEC, the joint operating agreement or the agreement for right of use for the Yam Tethys project facilities with the Limited Partnerships, if the same constitutes a significant deterioration, and subject to certain conditions and qualifications; (6) an event of default by IEC under the gas supply agreement with IEC, which constitutes a significant deterioration, and subject to certain conditions and qualifications; (7) abandonment or suspension of operation of the Tamar project for 15 days consecutive days, which is expected to constitute a significant deterioration; (8) damage to the Tamar project (including physical damage, revocation of a license or transfer of the Limited Partnerships' rights by the State of Israel) which constitutes significant deterioration and which is not remedied, in certain cases; (9) revocation of approval relating to the Tamar project by the State of Israel, which is expected to constitute a significant deterioration and subject to a remedy period of 30 days; (10) withdrawal of the debenture rating for a certain period; (11) cross default of another financial liability in an amount exceeding USD 50 million; (12) any of the issue documents expire, or the validity of collateral with an aggregate value exceeding USD 50 million expire; (13) an unappealable judgment to pay an amount exceeding USD 50 million, which was not settled after 90 days. In the event of insolvency (as defined in the deed of trust), the debentures will automatically be called for immediate repayment (in certain cases, only if not paid within 90 days).

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

It is clarified that the Limited Partnerships may sell up to 9.6% (together) of their rights in the Tamar lease (meaning, up to 3% of the total rights in the Tamar lease), without the duty of partial early repayment of the debentures and without receiving any approval from the trustee or debenture holders.

Each one of the Limited Partnerships has the right to prepay all or part of the loan, at any time, subject to a prepayment fee. Early repayment following events set out in the debenture will not be subject to a prepayment fee.

The Limited Partnerships used the issue proceeds (less raising expenses) mainly for repayment of the project financing and the bridge loan of USD 1 billion, as set out in Note 16I to the Annual Financial Statements, for the deposit of safety cushions (of USD 50 million for each one of the Limited Partnerships), and the balance mainly to finance the operating activities of the Limited Partnerships, including the expected investments in the Limited Partnerships' oil assets in Israel. It is further stated in this regard that as part of the Petroleum Commissioner's approval for the Limited Partnerships to pledge their rights in the Tamar lease, it was determined, among other things, that the debenture proceeds will be earmarked for credit to the Limited Partnerships to repay the balance of their previous loans in respect of the Tamar lease, a safety cushion for the debenture issue, activities in the areas in which they were granted oil rights under the Petroleum Law, and distribution of an amount that will not exceed USD 100 million for each partnership. It is further noted that a certain period before any repayment date of the principal of a debenture series, the Issuer is required to accrue moneys in the pledged account in preparation for the upcoming principal payment date.

In preparation for raising the above and to hedge the changes in the interest rates expected to apply to the debentures, the Limited Partnerships entered into interest rate swap hedge transactions ("the Hedge Transactions"). The Hedge Transactions, amounting to USD 500 million for each Limited Partnership, were carried out in accordance with the projected repayments that correspond to the debenture repayments, which were finalized at the raising date. The Limited Partnerships completed the Hedge Transactions at the pricing date of the debentures, which preceded completion of the raising, for an additional payment of NIS 45 million for each partner. The share of the Company's shareholders in the expense attributable to the Hedge Transactions entered into by the Limited Partnerships, as set out above, amounted to NIS 50 million.

- G. On May 14, 2014, the Limited Partnerships and Leviathan Project partners ("the Leviathan Partners") received a copy of a petition filed at the High Court of Justice, which includes a motion for an order nisi and an interim injunction by the Israeli Society for Sustainable Economics against the Minister of National Infrastructures, Energy and Water Resources, the Commissioner, and against the partners in I/14 Leviathan South and I/15 Leviathan North leases ("the Leases"), including the Limited Partnerships. The petition refers to certain sections in the Lease and the procedure for granting the Leases. As part of the interim injunction, the High Court of Justice was asked to order the Minister and the Commissioner to refrain from granting export permits until a ruling on the petition has been handed down.

On May 25, 2014, the Leviathan partners, through their legal counsel, filed their response to the interim injunction. On May 27, 2014 the Court dismissed the motion for an interim injunction, and recorded the state's announcement (in response to the motion for an interim injunction), whereby if a decision is made to grant export permits under the leases, notice will be filed at the Court at least ten days prior to granting the permit. The hearing of the petition is scheduled for November 17, 2014, before a panel of three judges and the partners will file their response to the petition no later than two weeks prior to this date.

**Notes to the Consolidated Interim Financial Statements**

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**NOTE 5: CONTINGENT LIABILITIES**

There are contingent claims against the Company and certain investees for significant sums, including certification for class actions that might reach hundreds or billions of 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 out below (see Note 31A to the Annual Financial Statements).

- A. Further to Note 31A(4) to the Annual Financial Statements, several law suits amounting to several hundred millions shekels have been filed against Gadot Biotechnical Industries Ltd., a wholly-owned subsidiary of the Company, and others, with regard to Gadot's activity in the Kishon River area (for further information, see also Gadot's financial statements, which are available to the public).
- B. Further to Note 31A(1) to the Annual Financial Statements, contingent claims have been filed against Delek Israel, its investees and others, amounting to significant sums that could reach several hundred million or billions of shekels. In some cases, it is not possible to assess their outcome at this stage, therefore no provision was recorded in the financial statements.
- C. Further to Note 31A(4) to the Annual Financial Statements, several lawsuits have been filed against The Phoenix, its investees and others, including motions for certification of class actions, amounting to significant sums (for further information see the reports of The Phoenix, which are available to the public).
- D. Further to Note 31A (7) the Annual Financial Statements, in April 2014, the District Court dismissed the motion for certification as a class action against the Company and its subsidiary, Cohen Development and Industrial Buildings Ltd. ("Cohen Development"), regarding the procedure for acquiring control in Cohen Development. In June 2014, an appeal and application for a repeat hearing was filed.
- E. On May 20, 2014, a claim and motion for certification as a class action was filed against the Company, the chairman of the board of directors and the CEO of the Company, for impairment of the value of the shares of the subsidiary Delek Energy Systems Ltd. The relief requested in the class action is financial compensation estimated at NIS 100 million. The management of the Company estimates, based partially on the opinion of its legal counsel, that in view of the preliminary stage of the proceeding, the outcome or risks of the motion cannot be assessed at this stage, therefore a provision for this motion was not included in the financial statements.
- F. On June 18, 2014, the Limited Partnerships received a claim and motion for its certification as a class action, which was filed at the Central District Court against the partners in the Tamar Lease, including the Limited Partnerships. According to the applicant, the partners in the Tamar lease abused their monopoly power regarding the selling prices of natural gas from the Tamar reservoir to Israel Electric Corporation ("the Motion" and "the Class Action", respectively). The relief sought in the class action includes financial relief which the applicant estimates at NIS 2.5 billion ( against all the Tamar partners), an order requiring the partners in the Tamar lease to refrain from selling natural gas from the Tamar reservoir in an amount that exceeds the amount set out in the class action, and an order declaring that the sale in an amount that exceeds this amount is an abuse of market monopoly status.  
The Limited Partnerships believe, based on the opinion of its legal counsel, that it is unlikely that the claim will be certified as a class action, therefore a provision for this was not included in the financial statements .

**NOTE 6: CAPITAL**

- A. On March 30, 2014, the Company declared a dividend of NIS 160 million, which was distributed on April 24, 2014 (the dividend per share is NIS 13.6278).
- B. Subsequent to the balance sheet date, in August 2014, the Company declared a dividend in the amount of USD 150 million (the dividend per share is NIS 12.776).

## Notes to the Consolidated Interim Financial Statements

## NOTE 7: OPERATING SEGMENTS

A. General

Under IFRS 8, the Company's operating segments are determined on the basis of management reports, which are mainly based on the investments in each subsidiary.

The Group has the following operating segments:

- Oil and gas exploration and production: The main operation is in the Tamar joint venture, the Ratio Yam joint venture, Yam Tethys joint venture, and other oil rights, mainly offshore the coast of Israel.
- Fuel in Israel: The main operation is marketing and sale of fuels and commodities at gas stations and other outlets, and storage and production of fuels in facilities.
- Automotive and spare parts: The main operation is importing and marketing of Mazda, Ford and BMW vehicles and spare parts. The Group recognizes its share of the operating income of Delek Automotive under segment reporting.
- Insurance and finances in Israel: The operation is carried out by The Phoenix.
- Insurance and finances in the US: The operation is carried out by Republic. As set out in Notes 2D and 3C, the Company presented the results of the insurance segment in the United States as a discontinued operation.
- Other: The main operation is investment in infrastructure, including mainly desalination and establishment of power stations, motorway services in the UK including motorway services which include the sale of retail products, restaurant and hotel services and the sale of fuels in motorway service areas in the UK, and the biochemical operation that includes mainly production and marketing of fructose, citric acid and ingredients for nutritional additives.

It is noted that following the classification of the operating results of Delek US and DEBV under income (loss) from discontinued operations, and since the main operational decision maker no longer reviews them, these companies and their operations are no longer presented as reportable segments. For comparative purposes, these operating results were not presented as reportable segments also when classified as discontinued operations. The Company continues to present the operating results of insurance in the United States as a segment since it expects to continue to report as a reporting segment (see Note 3C above) after the expected disposal of this investment (prior to exercising the options).

B. Segment reporting1. Revenues

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013 *)	2014	2013 *)	2013 *)
	Unaudited				Audited
	NIS million				
<u>Revenues from external sources</u>					
Oil and gas exploration and production	617	538	273	314	1,283
Fuel in Israel	2,974	3,320	1,528	1,621	6,492
Insurance and finance in Israel (***)	5,842	5,653	2,774	2,726	12,589
Insurance operations abroad (**) (***)	466	603	229	287	1,158
Other segments	749	756	407	416	1,532
Adjustments (**)	(466)	(603)	(229)	(287)	(1,158)
Total in statement of income	<u>10,182</u>	<u>10,267</u>	<u>4,982</u>	<u>5,077</u>	<u>21,896</u>

\*) Restated, see Note 2D

\*\*\*) The adjustments for insurance operations abroad refer, mainly, to revenues of Republic, which were reclassified in the statement of income as a discontinued operation, net.

\*\*\*\*) The amount includes insurance premiums on retention in life assurance and general insurance

## Notes to the Consolidated Interim Financial Statements

## NOTE 7: OPERATING SEGMENTS (CONTD.)

2. Segment results and reconciliation to net income (loss)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013 *)	2014	2013 *)	2013 *)
	Unaudited				Audited
	NIS million				
Oil and gas exploration and production	341	114	132	91	415
Fuel in Israel	49	64	35	42	126
Automotive (***)	71	68	27	32	112
Insurance and finance in Israel	323	684 *)	109	329 *)	1,143
Insurance operations abroad (**)	5	27	(43)	(33)	99
Other segments	43	(5)	39	30	73
Adjustments (**) (***)	(494)	(116)	(354)	(32)	(465)
Operating income (loss)	338	836	(55)	459	1,503
Finance expenses, net	617	604	422	353	1,288
Gain (loss) from disposal of investments in investees, net	-	3	-	3	(8)
Group's share in earnings of associates and partnerships, net	86	186	37	61	430
Taxes on income (tax benefit)	(1)	261	(94)	137	471
Income (loss) from discontinued operations, net	(446)	872	(220)	700	1,169
Net income (loss)	(638)	1,032	(566)	733	1,335

\*) Restated, see Note 2D

\*\*) The adjustments for insurance operations abroad refer to the results of Republic, which were reclassified in the statement of income as a discontinued operation, net.

\*\*\*) The Group's share of the results of Delek Automotive according to its proportionate share of the operating income of Delek Automotive

\*\*\*\*) Including expenses not attributed to segments and the Company's share in operating profit of associates as included in the segment results and insurance operations abroad, which were recognized under discontinued operations, as follows:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013 *)	2014	2013 *)	2013 *)
	Unaudited				Audited
	NIS million				
Insurance operations outside of Israel	(5)	(27)	43	33	(99)
Automotive	(71)	(68)	(27)	(26)	(112)
Company's share of the operating income of associates	(8)	(23)	(14)	(40)	(37)
Others	(410)	2	(356)	1	(217)
	(494)	(116)	(354)	(32)	(465)

\*) Restated, see Note 2D

**Delek Group Ltd.**

**Financial Information from the Interim Consolidated Financial  
Statements**

**Attributed to the Company**

**At June 30, 2014**

**Unaudited**

**Special Report in accordance with Regulation 38D**

**Financial Figures and Financial Information from the Interim Consolidated Financial Statements**

**Attributed to the Company**

Below are the separate figures and financial information attributed to the Company from the interim consolidated financial statements of the Group as at June 30, 2014, published as part of the periodic reporting ("Special Reports"), presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970:

## Breakdown of Financial Information from the consolidated statement of financial position attributable to the Company

	June 30		As of
	2014	2013	December 31
	Unaudited		2013
	NIS million		Audited
<u>Current assets</u>			
Cash and cash equivalents	842	1,086	881
Short-term investments	28	94	62
Customers	2	3	3
Other receivables	259	42	78
	1,131	1,225	1,024
Asset held for sale	68	-	-
Total current assets	1,199	1,225	1,024
<u>Non-current assets</u>			
Long-term receivables	101	112	113
Investments in other financial assets	19	21	19
Investments in investees and partnerships	10,509	11,137 *)	11,002
Loans to investees	863	1,090	1,295
Investments in oil and gas exploration and production	17	25	13
Property, plant and equipment, net	4	4	4
Total non-current assets	11,513	12,389 *)	12,446
	12,712	13,614 *)	13,470

\*) Reclassified, see Note 4

The accompanying additional information is an integral part of the financial information and of the separate financial information.

## Breakdown of Financial Information from the consolidated statement of financial position attributable to the Company

	June 30		As of
	2014	2013	December 31
	Unaudited		2013
	NIS million		Audited
<u>Current liabilities</u>			
Current maturities of debentures	551	655	662
Current bank borrowings and loan maturities	1	22	650
Loans to an investee	1,085	285	166
Dividend payable	-	-	70
Creditors and credit balances (particularly interest to be paid)	147	165	153
<b>Total current liabilities</b>	<b>1,784</b>	<b>1,127</b>	<b>1,701</b>
<u>Non-current liabilities</u>			
Long-term loans from banks	178	275	233
Debentures	6,077	6,579	6,083
Deferred taxes	-	97	82
Other liabilities (primarily liability for decommission of long term assets)	14	8	14
<b>Non-current liabilities</b>	<b>6,269</b>	<b>6,959</b>	<b>6,412</b>
<u>Equity attributable to equity holders of the parent</u>			
Share capital	13	13	13
Share premium	1,917	1,777	1,917
Warrants and receipts for conversion option	-	16	-
Retained earnings	3,198	4,177 *)	4,156
Adjustments from the translation of financial statements of foreign operations	(615)	(610)	(822)
Reserve from transactions with holders of non-controlling rights	363	399 *)	363
Other reserves	(55)	(104)	(108)
Treasury shares	(162)	(140)	(162)
<b>Total capital</b>	<b>4,659</b>	<b>5,528 *)</b>	<b>5,357</b>
	<b>12,712</b>	<b>13,614 *)</b>	<b>13,470</b>

\*) Reclassified, see Note 4

The accompanying additional information is an integral part of the financial information and of the separate financial information.

August 28, 2014

Date of approval of the financial statements

Gabriel Last  
Chairman of the Board of Directors

Asi Bartfeld  
CEO

Barak Mashraki  
CFO

## Breakdown of Financial Information from the consolidated statements of income attributable to the Company

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
Income (cancellation of income) from sale of gas net of royalties and super royalty	(4)	26	(8)	4	37
Company's share in earnings (losses) of partnerships and investees, net	(652)	816 *)	(508)	661 *)	1,263 *)
Administrative fees from investees	2	3	1	2	6
Total revenue (expenses)	(654)	845	(515)	667	1,306
Production cost for gas sold	7	48	6	31	69
General and administrative expenses	19	23	10	14	48
Other revenue, net	3	24	-	26	21
Operating profit (loss)	(677)	798	(531)	648 *)	1,210
Net financing income with respect to loans to investees	16	26	3	4	65
Financing income (mainly for financial investments), net	12	19	14	10	18
Financing expenses (mainly with respect to debentures)	206	300	133	160	614
Pre-tax income	(855)	543	(647)	502 *)	679
Tax benefit	82	4	82	-	18
Gain (loss) from continuing operations	(773)	547 *)	(565)	502 *)	697
Profit (loss) from discontinued operations, net	(22)	22 *)	(35)	11 *)	43 *)
Net profit (loss) attributed to Company shareholders	(795)	569 *)	(600)	513 *)	740

\*) Reclassified and restated, see Note 4

The accompanying additional information is an integral part of the financial information and of the separate financial information.

## Breakdown of Financial Information from the consolidated statements of comprehensive income attributable to the Company

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
Net profit (loss) attributed to Company shareholders	(795)	569 *	(600)	513 *	740
Other comprehensive income (loss)					
<u>Amounts not reclassified to profit and loss</u>					
Other comprehensive profit (loss) attributable to investees and partnerships (net of tax effect)	(3)	(1)	(2)	3	37
Total	(3)	(1)	(2)	3	37
<u>Amounts classified or reclassified to profit and loss under specific conditions:</u>					
Profit (loss) for available-for-sale assets, net	2	2	(2)	(3)	2
Transfer to the statement of income for disposal of available-for-sale financial assets	(1)	(4)	-	-	(5)
Adjustments for translation of financial statements of foreign operations	1	(9)	(2)	(2)	(16)
Other comprehensive income (loss) attributable to investees and partnerships (after effect of	258	(344)	198	(72)	(552)
Total	260	(355)	194	(77)	(571)
Total other comprehensive income (loss)	257	(356)	192	(74)	(534)
Total comprehensive income attributed to Company shareholders	(538)	213 *	(408)	439 *	206

\*) Reclassified, see Note 4

The accompanying additional information is an integral part of the financial information and of the separate financial information.

## Breakdown of Financial Information from the consolidated statements of cash flow attributable to the Company

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
<u>Cash flows from the Company's operating activities</u>					
Net profit (loss) attributed to Company shareholders	(795)	569 *)	(600)	513 *)	740
Adjustments to reconcile statement of cash flows from the Company's continuing operating activities (a):	856	(423 *)	466	(478 *)	(769)
Net cash from (used for) continuing operations	61	146	(134)	35	(29)
<u>Cash flows from the Company's investment activities</u>					
Investments in oil and gas assets	-	(5)	-	(1)	(4)
Purchase of property, plant and equipment	-	(1)	-	(1)	(1)
Receipts for leasing of oil and gas assets	19	-	6	-	-
Proceeds from disposal of financial assets	3	57	-	-	60
Proceeds from disposal of investments in an investee	-	154	-	154	263
Short-term investments, net	35	(2)	24	(78)	30
Maturity (deposit) of long-term bank deposits	6	-	6	-	(15)
Collection of loans from others, net	-	9	-	9	9
Collection (grant) of loans from investees, net	(24)	827	(36)	(10)	704
Net cash from the Company's investment operations	39	1,039	-	73	1,046
<u>Cash flows from the Company's financing activities</u>					
Dividend paid to Company shareholders	(230)	(371)	(160)	(371)	(531)
Proceeds from disposal of shares in subsidiaries	-	-	-	-	94
Exercise of warrants for Company shares	-	71	-	67	195
Sale of treasury shares	-	97	-	97	97
Receipt (repayment) of loans from investees, net	907	(598)	806	(15)	(725)
Short term credit from banks and others, net	(620)	(700)	(694)	(350)	(80)
Repayment of long-term loans from banks and debentures	(196)	(139)	(72)	(24)	(727)
Net cash used for the Company's financing activities	(139)	(1,640)	(120)	(596)	(1,677)
<u>Decrease in cash and cash equivalents</u>	(39)	(455)	(254)	(488)	(660)
<u>Cash and cash equivalents at the beginning of the period:</u>	881	1,541	1,096	1,574	1,541
<u>Balance of cash and cash equivalents at the end of the period</u>	842	1,086	842	1,086	881

\*) Reclassified, see Note 4

The accompanying additional information is an integral part of the financial information and of the separate financial information.

## Breakdown of Financial Information from the consolidated statements of cash flow attributable to the Company

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
(a) <u>Adjustments to reconcile statement of cash flows from the Company's continuing operating activities:</u>					
Adjustments for profit and loss items of the Company:					
Depreciation, depletion and amortization	(1)	46	(2)	30	59
Deferred taxes, net	(82)	(12)	(83)	-	(22)
Proceeds from disposal of property, plant and equipment	-	(26)	-	(26)	(26)
Loss from disposal of investment in an investee	-	-	-	-	4
Increase in value of investments and loans provided, net	(35)	(39)	(19)	(30)	(77)
Company's share in losses (earnings) of partnerships and investees, net*)	955	(447) **)	581	(451) **)	(824)
Cost of share-based payment	3	3	1	1	10
Impairment of liabilities, net	7	51	35	46	123
Change in fair value of short-term investments, net	(1)	2	(2)	3	2
Earnings from disposal of investment in available-for-sale financial assets	(2)	(4)	-	-	(4)
Changes in the Company's asset and liability items:					
Loss of customers	1	9	-	6	9
Decrease (increase) in other receivables	38	(2)	38	(3)	(1)
Decrease in other accounts payable	(27)	(4)	(83)	(54)	(22)
	<u>856</u>	<u>(423) **)</u>	<u>466</u>	<u>(478) **)</u>	<u>(769)</u>
*) Net of dividends and earnings received received	<u>281</u>	<u>391</u>	<u>38</u>	<u>221</u>	<u>482</u>

\*\*) Reclassified, see Note 4

The accompanying additional information is an integral part of the financial information and of the separate financial information.

## Breakdown of Financial Information from the consolidated statements of cash flow attributable to the Company

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	NIS million				
<b>(b) Company's significant non-cash activities</b>					
Increase in liability for decommission of assets	4	-	4	-	2
Leasing assets against receivables	-	58	-	58	58
Dividend receivable from partnerships and investees	215	-	215	-	22
Dividend to be paid to Company shareholders	-	-	-	-	70
Converting loans to an investee for equity	409	-	409	-	-
Transfer of loans and shares from holders of non-controlling interests in the consolidated Company	-	-	-	-	7
<b>(c) Additional information on cash flows</b>					
Cash paid by the Company during the period for:					
Interest	205	239	165	176	472
Taxes	-	-	-	-	6
Cash received by the Company during the period for:					
Interest	2	19	1	3	24
Dividends	304	391	61	221	482

The accompanying additional information is an integral part of the financial information and of the separate financial information.

## Additional information

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### 1. General

A. This separate financial information was drafted in a condensed format pursuant to the provisions of article 38(d) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. This separate financial information should be reviewed in relation to the separate financial information to the annual financial statements as at December 31, 2013, and for the year then ended and their accompanying notes, and in relation to the consolidated interim financial statements as at June 30, 2014.

### B. Deficit in working capital

As of June 30, 2014, the Company has a working capital deficit of NIS 585 million, mainly due to long-term liabilities assumed to finance long term investments, which are due for repayment in the coming year. The Company's management estimates that it is able to obtain long-term loans or to continue obtaining short- and long-term loans for further financing of its investments and repaying its liabilities, to receive dividends from investees and that it is able to dispose of investments and assets to repay its liabilities if necessary.

### 2. Contingent liabilities

There are certain contingent claims against the Company and certain investees for significant sums, including petitions to grant class actions, 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 in Note 6 to the consolidated interim financial statements as at June 30, 2014.

### 3. Equity

With regard to distribution of a dividend by the Company see Note 6 to the interim financial statements as at June 30, 2014.

### 4. Restatement and reclassification

1. Further to the contents of Note 1E to the "Financial information from the consolidated financial statements attributable to the Company" ("the Financial Information") as at December 1, 2013, the Company reconciled, by way of restatement, the financial information attributable to the Company at June 30, 2013 and for the six and three month periods then ended, to retrospectively reflect the accounting treatment by Ad 120 Residence Centers for Senior Citizens Ltd., a company held by the subsidiary Phoenix Holdings Ltd., of the protected residence centers owned by it as investment property (also see Note 2D to the interim consolidated financial statements).

2. In June 2014, the Company engaged in an agreement to sell its entire holdings in Barak Capital Ltd. ("Barak Capital") and in July 2014, subsequent to the balance sheet date, the transaction was concluded. As a result, the Company restated the equity income figures for Barak Capital for the six and three months ended on June 30, 2013 and for the year ended December 31, 2013, to profit (loss) from discontinued operations, net. The Company also presented the balance of its investment in Barak Capital in its statement of financial position as at June 30, 2014, as an asset held for sale, (also see Notes 2D and 3E to the interim consolidated financial statements as at June 30, 2014).

## Additional information

### 4. Restatement and reclassification (contd.)

Effects of the changes in the foregoing accounting treatment on financial information from the consolidated financial statements attributable to the Company:

Breakdown of Financial Information from the consolidated statement of financial position attributable to the Company

	<u>As previously reported</u>	<u>Restatement (1)</u>	<u>As presented in these financial statements</u>
	<u>NIS millions</u>		
At June 30, 2013			
Investments in investees and partnerships	11,007	130	11,137
Capital reserve from transactions with holders of non-controlling rights	373	26	399
Retained earnings	4,073	104	4,177

(1) The effects of changes in the accounting treatment of protected residence centers

Financial Information from the consolidated statements of income attributable to the Company for the six months ended June 30, 2013

	<u>As previously reported</u>	<u>Restatement (1)</u>	<u>Reclassification (2)</u>	<u>As presented in these financial statements</u>
	<u>Unaudited</u>			
	<u>NIS millions</u>			
Company's share in earnings of partnerships and investees, net	824	14	(22)	816
Income from discontinued operations, net	-	-	22	22
Net earnings attributable to equity holders of the Company	555	14	-	569
Total comprehensive income attributed to Company shareholders	199	14	-	213

(1) Effects of changes in accounting treatment of protected housing for the elderly

(2) As a result of presentation of the results of operations of Barak Capital as part of earnings from discontinued operations.

**Additional information**4. Restatement and reclassification (contd.)

Financial Information from the consolidated statements of income attributable to the Company for the three months ended June 30, 2013

	<u>As previously reported</u>	<u>Restatement (1)</u>	<u>Reclassification (2)</u>	<u>As presented in these financial statements</u>
	<b>Unaudited</b>			
	<b>NIS millions</b>			
Company's share in earnings of partnerships and investees, net	664	8	(11)	661
Income from discontinued operations, net	-	-	11	11
Net earnings attributable to equity holders of the Company	505	8	-	513
Total comprehensive income attributed to Company shareholders	431	8	-	439

(1) Effects of changes in accounting treatment of protected housing for the elderly

(2) As a result of presentation of the results of operations of Barak Capital as part of earnings from discontinued operations.

Financial Information from the consolidated statements of income attributable to the Company for the year ended December 31, 2013

	<u>As previously reported</u>	<u>Reclassification (1)</u>	<u>As presented in these financial statements</u>
	<b>Unaudited</b>		
	<b>NIS millions</b>		
Company's share in earnings of partnerships and investees, net	1,306	(43)	1,263
Income from discontinued operations, net	-	43	43

(1) As a result of presentation of the results of operations of Barak Capital as part of earnings from discontinued operations.

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## Chapter D



## Report on the Effectiveness of Internal Controls for Financial Reporting and Disclosure



Delek Group

## **Delek Group Ltd**

### **Quarterly report on the effectiveness of internal control for financial reporting and disclosure, pursuant to Ordinance 38C(a):**

Management, under the supervision of the Board of Directors of Delek Group Ltd. ("the Corporation"), is responsible for setting and maintaining an appropriate internal control for financial reporting and disclosure in the Corporation.

For this matter, the members of Management are:

1. Asi Bartfeld, CEO
2. Barak Mashraki, CFO
3. Leora Pratt Levin, Chief General Counsel
4. Amit Kornhauser, Controller

Internal control of financial reporting and disclosure includes controls and procedures existing in the Corporation, which were planned or overseen by the CEO and the most senior financial officer or under their supervision, or by whoever fulfills those functions in practice, under the supervision of the Board of Directors of the Corporation, and were designed to provide reasonable assurance as to the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Corporation is required to disclose in the reports it publishes in accordance with the provisions of the law is collected, processed, summarized and reported on the date and in the format laid down in law.

Internal control includes, inter alia, controls and procedures planned to ensure that the information that the Corporation is required to disclose as aforesaid, is accumulated and forwarded to the Management of the Corporation, including to the CEO and the most senior financial officer or to whoever fulfills those functions in practice, in order to enable decisions to be made at the appropriate time in relation to the disclosure requirements.

Due to its structural limitations, the internal control of financial reporting and disclosure is not intended to provide absolute assurance that misstatement in or omission of information from the reports will be prevented or will be discovered.

The Phoenix Insurance Company Ltd. (Phoenix Insurance), a subsidiary of the Corporation, is an institutional body, which is subject to the rulings of the Commissioner for the Capital

Market, Insurance and Savings at the Treasury, in respect of an assessment of the effectiveness of the internal controls on financial reporting.

In respect of Phoenix Insurance, the management of Phoenix Holdings, under the supervision of the Board, carried out a check and assessment of the internal controls on the financial reporting and its effectiveness, based upon the provisions of Institutional Bodies Circular 2009-9-10, "Responsibility of Management for Internal Controls on Financial Reporting", Institutional Bodies Circular 2010-9-6, "Responsibility of Management for Internal Controls on Financial Reporting - Modified", and 2010-9-7, "Responsibility of Management for Internal Controls on Financial Reporting, Financial Reporting and Disclosures".

In the quarterly report on the effectiveness of internal control for financial reporting and disclosure attached to the quarterly report for the period ended March 31 2014 ("the Last Quarterly Internal Control Report"), the internal control was found to be effective.

Up until the date of this report, no event or matter was brought to the attention of the Board of Directors and Management that leads them to change the assessment of the effectiveness of the internal controls, as is to be found in the Last Quarterly Internal Control Report.

For the period of this report, based upon the said Last Quarterly Internal Control Report, and based upon information brought to the attention of Management and the Board of Directors as stated above, the internal controls are effective.

**Declaration of the CEO in accordance with Ordinance 38C(d)(1):**

**Declaration of Executives**

**Declaration of the CEO**

I, Asi Bartfeld, declare that:

- (1) I have reviewed the quarterly report of Delek Group Ltd. ("the Corporation") for Quarter 2 of 2014 ("the Reports");
- (2) To the best of my knowledge, the reports do not include any representations that is not correct and do not lack any representation of any vital, material fact, so that was has been presented, within the context in which they have been provided, shall not be misleading in respect of the period covered by the reports;
- (3) To the best of my knowledge, the financial statements and other financial information in the Reports reflect fairly, from all material aspects, the financial condition, the results of operations and the cash flows of the Corporation at the dates and for the periods to which the Reports relate:
- (4) I disclosed to the auditor of the Corporation, to the Board of Directors, to the Audit and the Financial Statements Committees of the Board of Directors of the Corporation, based on my latest assessment of the internal control of the financial reporting and disclosure:
  - (i) all the significant flaws and material weaknesses in the determination or operation of the internal control of the financial reporting and disclosure that could reasonably have an adverse effect on the ability of the Corporation to collect, process, summarize or report on financial information in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and -
  - (ii) any deception, whether material or not material, in which the CEO or anyone directly subordinate to him is involved, or in which other employees are involved who fulfill an important function in the internal control of the financial reporting and disclosure;
- (5) I, alone or together with others in the Corporation:
  - (i) set controls and procedures or ascertained the setting and upholding of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities

(Annual Financial Statements) Ordinances, 2010, is brought to my knowledge by others in the Corporation and in the subsidiaries, particularly during the period of preparation of the Reports; and -

- (ii) I set controls and procedures or ascertained the setting and upholding of controls and procedures under my supervision, designed to reasonably ensure the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles.
  
- (iii) No event or matter has been brought to my attention during the period between the Last Report and the date of this report that changes the conclusion of the Board of Directors and Management in respect of the effectiveness of the internal controls on the Corporation's financial reporting and disclosure.

Nothing in the foregoing shall derogate from my responsibility or that of anyone else in law.

August 28, 2014

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Asi Bartfeld

Chief Executive Officer

**Declaration of the most senior financial officer pursuant to Ordinance  
38C(d)(2):**

**Declaration of Executives**

**Declaration of the most senior financial officer**

I, Barak Mashraki, declare that:

(1) I have reviewed the interim financial statements and other financial information of Delek Group Ltd. ("the Corporation") for the second quarter of 2014 ("the Reports" or "the Reports for the Interim Period");

(2) To the best of my knowledge, the interim financial statements and other financial information included in the Reports for the Interim Period do not include any representations that is not correct and do not lack any representation of any vital, material fact, so that was has been presented, within the context in which they have been provided, shall not be misleading in respect of the period covered by the reports.

(3) To the best of my knowledge, the interim financial statements and other financial information in included in the Reports for the Interim Period reflect fairly, from all material aspects, the financial condition, the results of operations and the cash flows of the Corporation at the dates and for the periods to which the Reports relate:

(4) I disclosed to the auditor of the Corporation, to the Board of Directors, to the Audit and the Financial Statements Committees of the Board of Directors of the Corporation, based on my latest assessment of the internal control of the financial reporting and disclosure:

(i) all the significant flaws and material weaknesses in the determination or operation of the internal control of the financial reporting and disclosure insofar as they refer to the financial statements and other financial information included in the Reports for the Interim Period that could reasonably have an adverse effect on the ability of the Corporation to collect, process, summarize or report on financial information in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and -

(ii) any deception, whether material or not material, in which the CEO or

anyone directly subordinate to him is involved, or in which other employees are involved who fulfill an important function in the internal control of the financial reporting and disclosure.

(5) I, alone or together with others in the Corporation -

(i) set controls and procedures or ascertained the setting and upholding of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities (Annual Financial Statements) Ordinances, 2010, is brought to my knowledge by others in the Corporation and in the subsidiaries, particularly during the period of preparation of the Reports; and

-

(ii) I set controls and procedures or ascertained the setting and upholding of controls and procedures under my supervision, designed to reasonably ensure the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles.

(iii) No event or matter has been brought to my attention during the period between the Last Periodic Report and the date of this report that refers to the interim financial statements and all financial information included in the Reports for the Interim Period that changes the conclusion of the Board of Directors and Management in respect of the effectiveness of the internal controls on the Corporation's financial reporting and disclosure.

Nothing in the foregoing shall derogate from my responsibility or that of anyone else in law.

August 28, 2014

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Barak Mashraki

CFO