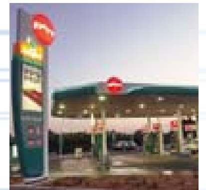
Delek Group

FINANCIAL STATEMENTS

UNAUDITED

AS OF MARCH 31, 2010



IMPORTANT

This document is an unofficial translation for convenience only of the Hebrew original of March 31, 2010 financial report of Delek Group Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on May 31, 2010.

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

Delek Group

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Update to Chapter A (Description of the Company's Business)

In the Periodic Report of Delek Group Ltd. (”the Company”) for 2009

1. General

This update includes material changes or new events that took place in the Company's businesses in the first quarter of 2010 and up to shortly before the date of this report with respect to all matters that require reporting the periodic report and that were not updated in the annual report. The update refers to the numbers in Chapter A (Description of the Company’s Business) in the Periodic Report for 2009 and is presented in addition to that stated in the report.

2. The Company’s activities and description of its business development

Further to section 1.1.4 of the annual report, in April 2010, the Company issued, in a private placement, NIS 255,378,000 par value debentures (Series DD) for their par value. The debentures were listed for trading. The total proceeds for Debentures (Series DD) amounted to NIS 255 million. For further information see the immediate report issued by the Company on April 25, 2010 (ref. 2010-01-457800.(

3. Distribution of dividends

Further to section 1.4.1. of the annual report, it is noted that on March 24, 2010, the Company declared the distribution of a dividend of NIS 100 million. The dividend was paid on April 28, 2010 .

Subsequent to the reporting date, on May 31, 2010, the Company announced the distribution of a dividend in the amount of NIS 150 million

4. Fuel products in Israel

A. Further to section 1.8.12 of the annual report, on May 16, 2010, the CEO of Delek Israel , Mr. David Kaminitz, informed the chairman of Delek Israel's board of directors of his resignation as CEO of the Company. The CEO of Delek Israel is expected to remain in his position for the next three months.

B. Further to Regulation 22 in Chapter D of the annual report, on May 24, 2010, the general meeting of Delek Israel approved the agreement between Delek Israel and a controlling shareholder and a third party. Under the agreement, Delek Israel will acquire from Delek Real Estate Income Producing Properties and from the third party the exclusive rights to the land of the gas station adjacent to the Ramlod shopping center for NIS 39 million.

5. Energy

A. Further to section 1.11.2(J)(1), on May 12, 2010, the ministerial tender committee for the establishment of a liquefied natural gas (LNG) facility informed Delek Energy that the six candidates, including Delek Energy, in the government tender for a BOT project for the LNG terminal have passed the preliminary screening stage and they will be invited to participate in the RFP stage.

B. Further to section 1.11.3, on March 28, 2010, the limited partnerships authorized Noble Energy Mediterranean Ltd., the operator of the Tamar project, to enter into an agreement to purchase gas pipelines and other equipment required to develop the Tamar natural gas field, for an additional amount of up to $157 million (for all the partners).

6. Insurance and finances in Israel

A. Further to section 1.12.18 to the annual reports, on April 21, 2010, The Phoenix announced that following settlement agreement of June 14, 2009 between The Phoenix Investments and Aharhon Biram, Gil Deutsch and Esther Deutsch,("the sellers), it had completed the acquisition of the second lot in accordance with the terms of the transactions in the settlement agreements, as follows: on the closing date (April 21, 2010), The Phoenix Investments acquired the second lot of shares of Excellence Investments Ltd. ("Excellence") from the sellers, as stipulated in the settlement agreement, of 869,855 Excellence shares, representing 5.11% of the issued and paid up share capital of Excellence, for NIS 76,300,000 .

It is noted that the sellers submitted the calculation of the annual consideration due to them in the amount of NIS 109.373 million to The Phoenix Investments, and The Phoenix contested this calculation, informing the sellers that it disagreed with the calculation of the consideration, and that the annual consideration for the second lot should be NIS 76.3 million. Under the provisions of the settlement agreement, the reservations of The Phoenix Investments do not defer the transfer date of the shares of the second lot, therefore the undisputed amount was paid for them. The sellers presented the dispute to an expert who will act as a ruler, in accordance with the acquisition agreement.

B. Further to section 1.12.3 of the annual report, on April 28, 2010 The Phoenix Holdings acquired, on the TASE, 295,574 shares of Excellence Investments, through The Phoenix Investments and Finances Ltd., which is a wholly-owned subsidiary of The Phoenix ("the Phoenix Investments"), for an average price of NIS 58.02 each and a total consideration of NIS 17,152,000 . The acquired shares represent 1.74% of the issued and paid up share capital of Excellence. Subsequent to the acquisition, The Phoenix Investments holds 72.73% of the issued and paid up share capital of Excellence.

7. Additional operations

Further to section 1.14.1 of the annual reports, on March 24, 2010, Gadot issued an immediate report on a shelf offering for the issue by way of rights of securities, offering its shareholders 4,043,373 ordinary shares of NIS .01 par value each of Gadot. On April 22, 2010, Gadot announced that it received notice of exercise of rights for 3,971,226 ordinary shares of NIS 0.1 par value each of Gadot. Gadod received NIS 38.521 million (gross) in consideration for the rights exercise). Subsequent to the rights issuance, the Company holds 63.88% of the issued and paid up share capital of Gadot.

8. Matters relating to the general operation of the Company

Financing

Further to section 1.17.5 of the annual report, which addresses the Company's credit rating, on April 13, 2010, Midroog announced a rating of 1A Stable for the Debentures (Series DD) issued by the Company .

Delek Group Ltd.

Date: May 31, 2010

Names and positions of signatories:

Gabriel Last – Chairman of the board of directors

Asi Bartfeld - CEO

May 31, 2010

Delek Group Ltd.

Directors' report on the state of the Company's affairs

For the three month period ended March 31, 2010

The board of directors of the Delek Group Ltd. "the Company"), hereby presents the Company's Directors' Report for the three months ended March 31, 2010.

A. The Board's explanations for the state of the Company's affairs

1. Description of the Company and its business environment

The Group is a holdings and management company which controls a large number of corporations (the Company and the companies it controls are hereinafter referred to as "the Group" or "Delek Group") with a range of investments in Israel and overseas in the fields of energy, gas stations, refining, infrastructure and water desalination, 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, inter alia, by dividends and management fees received from its investees, by receipts originating from the realization of its holdings in them, by its ability to raise foreign financing which depends, among other things, on the value of its holdings, and by investments made by the Group and the dividends it distributes to its shareholders.

2. Principal Operations

A) In February 2010 Delek Europe BV (100% owned by Delek Europe) submitted a binding offer to BP France SA ("BP") for the acquisition of its fuels marketing business in France, including 416 BP gas stations, convenience stores throughout the country and its holdings in three terminals (the "Marketing Activity"). The offer includes the grant of a license for the exclusive use of the BP brand in its French gas station network. In consideration of the acquisition of the Marketing Activity, Delek Europe has offered to pay EUR 180 million, subject to working capital and other adjustments at completion. Upon submitting the offer, Delek Europe paid a deposit of EUR 10 million in return for exclusivity from BP to negotiate completion of the transaction for the acquisition of the Marketing Activity. The offer is valid until October 15, 2010.

B) The Company announced a dividend amounting to NIS 150 million in respect of the results for Q1 2010.

3. Results of Operations

A) Contribution to net profit (attributed to the Company's shareholders) from principal operations (in NIS millions):

	1-3/10	1-3/09	4-6/09	7-9/09	10-12/09	2009
Fuel operations in the US	(42)	(2)	97	(14)	(54)	27
Fuel operations in Israel	24	32	29	9	12	82
Fuel operations in Europe	16	7	41	(2)	13	59
Expenditure on reorganization in Europe	-	(4)	-	-	(12)	(16)
Oil and gas exploration operations and gas production	30	(34)	2	52	3	23
Automotive operations	94	54	53	65	78	250
Insurance and finance operations	95	82	6	23	70	181
Capital gains and others[1]	(12)	27	(5)	(73)	314	263
Profit attributed to Company shareholders before results of real estate operations	**205**	**162**	**223**	**60**	**424**	**869**
Real estate operations[2]	-	(5)	-	-	-	(5)
Profit attributed to Company shareholders	**205**	**157**	**223**	**60**	**424**	**864**

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

(2) On March 31, 2009, the Group announced the distribution of shares of Delek Real Estate as a dividend in kind to the shareholders of the Group. The distribution was made in May 2009. Commencing April 1, 2009, the Group includes its share (5%) in the results of Delek Real Estate based on the equity method. Those results are included in the Capital gains and others item.

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

	1-3/10	1-3/09	2009
Revenue	11,365	9,118	43,447
Cost of revenue	9,669	7,482	37,032
Gross profit	**1,696**	**1,636**	**6,415**
Sales, marketing and operating expenses – gas stations	844	855	3,426
General and administrative expenses	402	422	1,768
Other income (expenses), net	(13)	68	386
Profit from operating activities	**437**	**427**	**1,607**
Financing income, net	217	174	633
Financial expenses, net	273	308	1,449
Profit after financing	**381**	**293**	**791**
Profit from realization of investments in investees and others, net	-	-	518
Group's equity in profits of investee companies and partnerships, net	70	65	92
Profit before income tax	**451**	**358**	**1,401**
Income tax	107	100	215
Profit from continuing operations	**344**	**258**	**1,186**
Profit from discontinued operations	**-**	**17**	**17**
Net profit	**344**	**275**	**1,203**
Attributable to:			
Company shareholders	205	157	864
Non-controlling interest	139	118	339
	344	**275**	**1,203**

C) **Movement in comprehensive income (in NIS millions):**

	1-3/10	1-3/2009	2009
Net profit	344	275	1,203
Other comprehensive income (loss):			
Profit in respect of financial instruments available for sale, net	95	224	296
Transfer to income statement in respect of financial assets available for sale	(43)	9	(11)
Loss in respect of cash flow hedging, net	(12)	(108)	(115)
Adjustments for translation of financial statements of overseas operations	(133)	316	19
Company equity in other comprehensive profit (loss) of investees, net	(27)	47	12
Other comprehensive profit (loss) from continuing operations, net	(120)	488	201
Other comprehensive profit (loss) from discontinued operations, net	-	198	198
Total other comprehensive income (loss)	**(120)**	**686**	**399**
Total comprehensive income	**224**	**961**	**1,602**
Attributed to:			
Company shareholders	88	603	1,113
Non-controlling interest	136	358	489
	224	**961**	**1,602**

D) **Revenue from continuing operations**

The Group's revenues in the reported period amounted to NIS 11.4 billion compared with NIS 9.1 billion in the corresponding period of the previous year, an increase of NIS 2.3 billion (an increase of 25%). The increase in revenue is due mainly to revenues from the US refinery which was shut down for repairs during Q1/2009 following the fire in late 2008, and due to compensation received from the insurance company for loss of profits which was recorded in the 'Compensation from Insurance Company' item as part of the Group's operating profit. The remaining increase stems primarily from increased gas station revenues, due mainly to the global rise in fuel prices in the reporting period as compared to the same period last year.

Profit from continuing operations

Profit from continuing operations in the reporting period amounted to NIS 437 million, compared with NIS 427 million in the corresponding period of the previous year. For further details regarding profit from continuing operations, see Note 8 to the financial statements – Information Regarding Segments of Operation.

Financing expenses, net

The Group's decline in financing expenses in the reporting period was affected primarily by the 0.9% decline in the Known Consumer Price Index compared with a decrease of 0.7% in the same period last year.

The Group's net financing expenses in the reporting period amounted to NIS 56 million compared with NIS 134 million in the corresponding period of the previous year, a net decline of NIS 78 million which stems mainly from a decline in the financing expenses of Delek Automotive and Delek Energy.

Financing income includes a profit of NIS 50 million from the Group's realizations mainly of Haifa Basic Oils Ltd. and Noble shares.

The Group's equity in the profits of investee companies and partnerships, net

The Group's equity in the profits of investee companies and partnerships in Q1 2010 amounted to NIS 70 million compared with a profit of NIS 65 million in the corresponding period of the previous year.

4. Financial condition

Total assets of the Group at March 31, 2010 amounted to NIS 86.2 billion, compared with NIS 84.3 billion at December 31, 2009.

Below is a description of the principal changes in assets and liabilities at March 31, 2010 compared with December 31, 2009:

Cash and cash equivalents and short-term investments

The Group has cash and short-term investment balances of NIS 3.7 billion, consisting mainly of balances of NIS 1.2 billion in the Company, Delek Investments and Delek Petroleum, NIS 0.3 billion in Delek Israel, NIS 0.4 billion in Delek Benelux, NIS 0.5 billion in The Phoenix, NIS 0.8 billion in Delek Energy and NIS 0.2 billion in Republic.

Total current assets

Total current assets at March 31, 2010 amounted to approximately NIS 33.4 billion compared with NIS 33.9 billion at December 31, 2009.

Balance of short- and long-term financial liabilities

Total financial liabilities (to banks, debenture holders and others) at March 31, 2010 amounted to NIS 19.3 billion, compared with NIS 19.6 billion at December 31, 2009.

Contingent claims

In their audit report, the Company's auditors draw attention to lawsuits against investees. For details, see Note 6 to the financial statements.

Additional information

For additional information regarding repayments of principal and interest in respect of debts of the headquarters companies, see Appendix A to this Directors' Report.

5. Sources of Finance and Liquidity

The financial liability net of the Company and the headquarters companies at March 31, 2010: (headquarter companies: Delek Group, Delek Investments and Properties Ltd. Delek Petroleum, Delek Finance US Inc., Delek Capital, Delek Infrastructures, Delek Europe Israel and Delek Hungary)

	NIS millions
Liabilities	
Debentures	(6,395)
Loans from banks	(1,218)
Loans from consolidated companies	(246)
Other	(257)
Total liabilities	**(8,116)**
Assets	
Cash	715
Short-term investments (*)	1,098
Loans to consolidated companies	1,489
Dormant shares	313
Other	160
Total assets	**3,775**
Financial liability, net – headquarter companies	**(4,341)**

(*) This item includes investments in marketable securities in Israel and overseas. It is emphasized that the investments in Delek Real Estate, Menorah and HOT are included in this item.

(**) As of the statements for Q1 2010, the method of presenting the RoadChef investment was changed, and therefore this balance is not included in the investments in financial liability, net.

Raising debt

After the balance sheet date, in April 2010, the Company (separately) completed the raising of NIS 255 million of debentures. For a more detailed explanation of raising debt through debentures after the balance sheet date, see Note 5 to the financial statements.

6. Analysis by Segment of Operation

A. Fuel operations in the US

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

	1-3/10	1-3/09	2009
	Total	Total	Total
	NIS millions	NIS millions	NIS millions
Revenue	3,334	1,513	10,413
Gross profit	**189**	**179**	**792**
Results of operations (excluding impairment and general and administrative expenses(	67	126	635
Impairment expenses	54	44	204
General and administrative expenses	56	59	247
Profit (loss) from operations	(44)	26	184
Financing expenses, net	32	19	100
Net profit (loss)	**(57)**	**(2)**	**33**

Delek US operates a refinery with a maximum daily capacity of 60,000 barrels, a crude oil pipeline and a system of terminals for marketing fuel in Texas, US, as well as gas stations and convenience stores in eight neighboring states in the Southeast United States. In addition, Delek US holds about 35% of Lion Oil, which operates an oil refinery with a capacity of 75,000 barrels per day, in El Dorado, Arkansas. The Company's holding in Delek US at the balance sheet date is approximately 72.6%. Delek US is a listed company in the US.

Analysis of the results of fuel operations in the US

Refining and marketing operation

The refinery was fully operational throughout Q1 2010, as compared to the same period last year in which it was offline following the November 2008 fire.

The contribution of refining and marketing to the results of operations in the reporting period was a profit of NIS 39 million, compared with a profit of NIS 93 million in the same period last year which was positively affected by material insurance income. Results of operations were adversely affected by the decline in the 5-3-2 Gulf Coast crack spread, which was USD 6.62 per barrel in Q1 2010, as compared to USD 9.14 per barrel in the corresponding quarter of the previous year (a decrease of 27%).

The Tyler refinery operated at 81.7% capacity in Q1 2010. On average, the Tyler refinery produced 53,580 barrels a day in Q1 2010, as compared to an average of 50,189 barrels a day in Q4 2009. Direct operating expenses per barrel sold totaled USD 5.14 in Q1 2010, compared to USD 5.73 per barrel sold in Q4 2009.

Total sales turnover in the marketing segment grew by 7.2% in Q1 2010 and reached 14,298 barrels a day, compared to 13,342 barrels a day in the same period last year.

Gas station and convenience store operations

The contribution of the gas station and convenience store segment in the reporting period totaled a profit NIS 28 million, as compared to a profit of NIS 33 million in the same period last year. During the reporting period, there was an increase in fuel marketing margins, which was offset by a decrease in the amount of fuel sold and the gross profit margins of the convenience stores compared to the same period last year.

Additional information

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

For more information about the operations of Delek US, see Note 4 to the financial statements.

B. Fuel Operations in Israel

Below are data from the financial statements of Delek Israel:

	1-3/10	1-3/2009	2009
	NIS millions	NIS millions	NIS millions
Revenue	1,173	856	4,290
Gross profit	186	174	737
Operating profit	50	48	229
EBITDA	70	67	304
Financing expenses, net	9	1	113
Profit before equity in results of investees	33	39	112
Delek Israel's equity in results of investees	1	(1)	(8)
Net profit	**34**	**38**	**95**
Attributable to:			
Shareholders of the Company	33	37	90
Non-controlling interest	1	1	5
	34	**38**	**95**

Delek Israel's operations include marketing and distribution of fuel products, operation of gas stations and the Menta chain of convenience stores. It has three main segments of operation – fuelling and commerce complexes, which includes the Group's operations at public gas stations; direct marketing, which includes the Group's operations in the marketing and distribution of oil products to its customers outside the fuelling and commerce complexes; and fuel storage and issue.

Net sales

Sales net of government levies ("Net Sales") in Q1 2010 amounted to NIS 1,173 million, compared with NIS 856 million in the same period last year.

A comparison of Q1 2010 to last year shows a NIS 317 million increase in net sales, for an increase of 37% in sales compared to the corresponding quarter last year. This increase is due mainly to the rise in fuel prices year-on-year, and increased sales turnover in the fuelling and commerce complexes in light of increased sales quantities and increased turnover in the Menta chain of convenience stores.

Gross profit

Gross profit in Q1 2010 was NIS 186 million, compared with NIS 174 million in the corresponding quarter last year.

Gross profit for the quarter grew year-on-year due to increased sales turnover in the fuelling complexes segment. This increase in sales turnover is due to the increase in Company-operated stations as well as increased sales in the Menta chain of convenience stores. Furthermore, compared to the corresponding quarter last year, the Company recorded an NIS 8 million increase in gross profits due to exchange rate differences in the corresponding quarter last year. This increase in gross profits was offset by a similar increase in financing expenses following hedging against exposure to changes in the USD exchange rate. As of Q3 2009, Delek Israel hedges these protections pursuant to the applicable accounting guidelines, such that any currency exchange differentials stemming from revaluation of trade payables and the results of these hedging transactions are recorded and offset in the financing item.

Sales, gas station operation and general and administrative expenses

These expenses in Q1 2010 amounted to NIS 135 million, compared with NIS 126 million in the corresponding period last year.

Most of the increase in the reporting period is due to an increase in gas station operating expenses as a result of the transition of Delek Israel's operation of these stations, and an increase in the operating expenses of Delek Israel's convenience store chain following the chain's expansion.

Financing expenses, net

Net financing expenses in Q1 2010 amounted to NIS 9 million compared with NIS 0.5 million in the same quarter last year. The difference between the periods is due mainly to income recorded in the corresponding quarter last year following the negative revaluation of index-linked loans following an 0.7% decrease in the CPI. In contrast, in the current quarter, Delek Israel incurred financing expenses through the hedging of index-based liabilities. The increase in financing expenses was offset by a profit of NIS 20 million in Q1 2010 from the sale of holdings in Haifa Basic Oils Ltd.

For more information about the operations of Delek Israel, see Note 4 to the financial statements.

C. Fuel operations in Europe

Fuel operations in Europe are managed by the consolidated company Delek Benelux BV ("Delek Benelux") and consist of about 850 gas stations in Belgium, The Netherlands and Luxembourg ("Benelux Fuel Operation"). The Benelux Fuel Operation also includes marketing and distribution of fuels and oils, operation of gas stations, operation of a chain of convenience stores and bakeries, and carwash facilities.

In 2009 Delek Benelux completed the relocation of its offices from Rotterdam and Brussels to a single site in Breda, The Netherlands. In addition, as part of its strategic plan, Delek Benelux started development of a new concept for the operation of convenience stores under a private brand it has established – GO The Fresh Way. In 2009 Delek Benelux also expanded its operation in highway stations in Belgium and has begun operating four restaurants and one hotel.

Condensed balance sheet of Delek Benelux at March 31, 2010 and 2009 and at December 31, 2009 (in EUR millions)

	March 31, 2010	March 31, 2009	December 31, 2009
Cash	89	59	81
Current assets (excluding cash)	207	167	195
Investments in investees and long term debit balances	38	36	29
Property, plant and equipment, net	222	228	226
Other assets, net	224	230	234
Short term loans and credit	42	49	44
Current liabilities (excluding short term loans)	276	220	262
Long term loans	298	296	297
Other long term liabilities	45	46	44
Equity (*)	119	109	118

* Equity balance at March 31, 2010, eliminating the negative balance of a capital fund in respect of hedging transactions for a variable-to-fixed interest rate swap, amounts to EUR 137 million..

Data from the income statement of Delek Benelux (in EUR millions)

Item	1-3/10	1-3/09	1-12/09
Revenue	537	456	1,952
Gross profit	55	53	230
Operating profit (loss)	6	(1)	18
Equity in profits of investee partnerships	0.4	0.4	2
EBITDA	14	9	57

Net profit	3	1	8

Analysis of Delek Benelux's results in the reporting periods

Revenue

Revenue in Q1 2010 amounted to EUR 537 million, compared with EUR 456 million in the corresponding quarter last year. The increase is due mainly to increased fuel prices.

Gross profit

Gross profit in Q1 2010 amounted to EUR 55 million, compared with EUR 53 million in the corresponding quarter last year, an increase of 4%.

The growth in gross profit was due mainly to improved gross profit in the fuels segment and continued growth in the convenience store segment.

Operating profit

Operating profit for Q1 2010, excluding non-recurring expenses, totaled EUR 6 million, compared to an operating profit of EUR 4 million in the corresponding quarter last year, an increase of 50%. The increase in operating profit is due to the increase in gross profit as aforesaid and a decrease in operating expenses in the reporting period.

EBITDA

EBITDA (operating profit after elimination of depreciation and amortization and of a one-time provision for reorganization) in Q1 2010 was EUR 14 million, compared with EUR 9 million in the corresponding quarter last year, an increase of 56%. The increase in EBITDA stems from the increase in gross profit from fuel sales, from continued growth in convenience store sales, and from the reduction of operating expenses through streamlining initiatives implemented by Delek Europe.

For more information about fuel operations in Europe, see Note 4 to the financial statements.

D. Oil and Gas Exploration and Gas Production

Delek Energy Systems Ltd. ("Delek Energy" or "DES") is a public company in which the Company has an 80% holding as at the balance sheet date.

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

Overseas operations are carried out by subsidiaries of Delek Energy, which concentrate mainly on the following operations:

- Operations in the U.S. are carried out through Elk Resources ("Elk"). Elk is a private company, wholly-owned by Delek Energy, and registered in the U.S., which produces and sells oil and gas, develops existing oil and gas assets and engages in low-risk oil and gas exploration.
- 29.25% of the capital of Matra Petroleum Plc ("Matra"), which owns the Sokolovskoe oil discovery in Russia.

Material events in the reporting period

1. On March 28, 2010 the Partnerships announced that they had authorized the operator of the Tamar and Dalit gas development fields to enter into agreements for the purchase of equipment and services required for the project amounting to an additional USD 157 million (for all the partners). The agreements for the purchase of equipment and services authorized by the partners for the project for the same date total approximately USD 614 million. Each of the partners holds 15.625% of the rights in the project.
2. On February 19, 2010 the partners in the Tamar and Dalit holdings ("Tamar Project") signed a letter of intent for the supply of natural gas with Southern Power Station Ltd. and DSI Dimona Silica Industries Ltd. For details see Note 4 to the financial statements at March 31, 2010.
3. The Partnerships confirmed their participation in the implementation of two additional production drills in the Mari gas field, Mari-B 8 and Mari-B 9, at a total cost (for all the partners) of USD 85 million.

The drills, which began in March 2010, were designed to increase the production capacity of the Mari gas field in order to comply with the supply requirements of various customers of the Yam Tethys project, and they will form part of the Mari field natural gas setup (if and when this is decided upon).

4. In March 2010 the Partnerships announced that, based on an updated report issued by NSAI, the proved natural gas reserves at December 31, 2009 in the Mari B field total 13.3 BCM (an increase of 1.89 BCM compared with the previous estimates) and the probable and proved natural gas reserves total 14.0 BCM (an increase of 1.16 BCM compared with previous estimates).

5. During the reporting period, DES completed a debenture raising totaling NIS 400 million, of which NIS 190 million are index-linked, and NIS 210 million are in NIS-based debentures.

Below are the results of the oil and gas exploration operations as included in the Group's results.

	1-3/10	1-3/2009	2009
	NIS millions	NIS millions	NIS millions
Revenue	103	90	450
Operating profit	50	34	187
EBITDA	73	61	306
Financing expenses, net	16	64	147
Group's equity in results of Avner and other investees	15	(3)	32
Net profit (loss)	**30**	**(34)**	**22**
Gas sales in BCM*	0.5	0.7	2.9

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

Analysis of the results of operations in the gas segment

Revenue

In the reporting period, the segment's revenue from the sale of gas and oil, net of royalties, was NIS 103 million, compared with NIS 90 million in the corresponding period of the previous year, an increase of 14%.

The increase in revenues in the reporting period compared with the corresponding period of the previous year stems primarily from a significant rise in revenue from the sale of natural gas to IEC. This results from a rise in sale prices in accordance with the memorandum of understanding signed with IEC as described below, and from the sales to ICL which started in December 2009.

Since July 1, 2009 quantities of gas are being sold to IEC in addition to the quantity stipulated in the agreement from 2002, in accordance with the memorandum of understanding signed with IEC for the supply of additional annual quantities of 1 BCM of gas for five years, totaling 5 BCM over the five-year period.

The quantities of gas sold to IEC decreased in comparison with the corresponding period in the previous year, because of the following reasons: an increase in EMG's sales of natural gas to IEC and the comfortable weather conditions in the reporting period which affected the market's electricity consumption. IEC's average daily purchase of natural gas varies, inter alia, in accordance with seasonal changes in electricity consumption, IEC's maintenance works and the rate at which EMG can supply natural gas to IEC.

In the second quarter of 2010 IEC's Tzafit power station was connected to the natural gas pipeline of Israel Natural Gas Pipelines.

Financing expenses, net

Financing expenses, net in the reporting period amounted to NIS 16 million, compared with NIS 64 million in the corresponding period of the previous year.

Financing expenses stemmed primarily from interest on bank loans and debentures for DES and its subsidiaries. The decrease in financing expenses is due mainly to exchange rate differences on USD-based loans to the amount of NIS 56 million, which were recorded in Q1 2009 as compared to revenues on exchange rate differences on USD-based loans, to the amount of NIS 10 million, recorded in the current quarter.

In addition, in Q1 2009 DES recorded losses from revaluation of hedging transactions on oil and gas prices to the amount of NIS 8.5 million, as compared to losses of NIS 1.1 million recorded in the current quarter.

Equity in the results of Avner and investee companies

In the reporting period, the energy segment included profits in respect of holdings in Avner, an investee partnership, to the amount of NIS 19 million, compared with a profit of NIS 10 million in the same period last year. (The increase in Avner's profits stems from increased revenues, due mainly to the terms of the memorandum of understanding signed with IEC as aforesaid).

On the other hand, DES posted losses in respect of its share in the guarantee given for VOGIL and in respect of its equity in the results of Matra's operations, to the amount of NIS 3.3 million and NIS 0.3 million, respectively.

Additional information

For more information, see Note 4 to the financial statements.

E. Automotive operations

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

	1-3/10	1-3/2009	2009
	NIS millions	NIS millions	NIS millions
Revenue	1,092	1,033	4,744
Gross profit	174	129	525
Sales, marketing, general and administrative expenses	18	16	68
Operating profit	156	112	457
EBITDA	160	116	471
Financing income	56	6	107
Net profit	**161**	**90**	**434**

At the balance sheet date, the Group holds 54.83% of Delek Automotive (Delek Automotive is a public company which publishes its financial statements).

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

Breakdown of vehicle sales in units:

	1-3/10	1-3/2009	2009
Sales of Mazda vehicles	7,889	6,169	31,685
Sales of Ford vehicles	1,817	3,325	12,489
Total vehicle sales	**9,706**	**9,494**	**44,174**
Delek Automotive's market share out of total vehicle sales in Israel (MOT data)	19%	24%	25%

In this quarter 50,213 vehicles were sold in Israel compared with 38,653 in the corresponding quarter of the previous year (according to data from the Licensing Office).

Net profit

The net profit of Delek Automotive in the first quarter of the year amounted to NIS 161 million, compared with net profit of NIS 90 million and total profit of NIS 95 million in the corresponding quarter of the previous year.

Gross profit increased to NIS 174 million as compared with NIS 129 million in the corresponding quarter of the previous year, where most of the increase in profit stemmed from the vehicle sector.

The gross profit margin increased in the first quarter to 16% compared with 12.5% in the corresponding quarter of the previous year, primarily as a result of the revaluation in the import currencies and the rise in the sale prices of most vehicles in January 2010.

Revenue

Sales turnover in the first quarter of the year amounted to NIS 1,092 million compared with NIS 1,033 million in the previous year (NIS 4,744 million in the whole of 2009). In the first quarter of the year 9,706 vehicles were sold compared with 9,494 vehicles in the corresponding quarter of the previous year.

Sales, marketing, general and administrative expenses

Sales and marketing expenses amounted to NIS 11 million compared with NIS 8.7 million in the corresponding quarter of the previous year. The increase stems primarily from increased advertising. General and administrative expenses amounted to NIS 7.1 million compared with NIS 7.4 million in the corresponding quarter of the previous year.

Financing income, net

In the first quarter of the year Delek Automotive generated net financing income of NIS 55.9 million, compared with net financing income of NIS 6.5 million in the corresponding quarter of the previous year.

Financing income in the first quarter of the year stemmed from an erosion of foreign currency loans amounting to NIS 20.3 million, a rise in the value of an investment in marketable securities, net amounting to NIS 18 million, a reappraisal of trade payables of NIS 18 million, and from interest debits to customers amounting to NIS 7.4 million.

This income was offset by payment of interest to the banking system amounting to NIS 4.2 million and recording NIS 3.6 million in results and fair value of hedging transactions.

F. Insurance and Finance Operations

Most of the Group's holdings in the insurance and finance segment are concentrated under Delek Capital Ltd., with the exception of a 29.2% direct holding of Delek Investments in The Phoenix Holdings Ltd. At the reporting date, the Group holds approximately 54% of the shares of The Phoenix Holdings Ltd. and all the shares of Republic which is an elementary insurance company operating in the U.S.

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

The Phoenix Insurance – Capital requirements at March 31, 2010:

The equity of the Phoenix Insurance at March 31, 2010, as defined in the Supervision of Insurance Business (Minimum equity required of an insurer) Regulations, 5758-1998 and its amendments ("the Capital Regulations") is NIS 870 million higher than the minimum equity required under those regulations. See also Note 10 to the financial statements.

Below are the principal data (in NIS millions) from the consolidated financial statements of The Phoenix:

	1-3/10	1-3/09	1-12/09
Profit from life assurance and long term savings segment	37.7	92.7	145.6
Profit from general insurance segment	60.5	21.7	118.0
Profit from health insurance segment	21.5	35.5	162.7
Profit from financial services segment	31.3	21.3	13.1
Total profit from segments of operations	151.0	171.2	**439.4**
Profit not attributed to the segments of operation	6.2	(27.6)	(133.6)
Equity in the net results of investee companies	24.3	26.5	40.7
Profit before income tax	181.5	170.1	**346.5**
Income tax	47.0	64.7	98.6
Profit for the period	134.5	105.4	**247.9**
Profit for the period attributable to shareholders of The Phoenix	127.1	100.1	**227.2**

In the reporting period, results from the segments of operation of The Phoenix were a profit of NIS 151 million, compared with a profit of NIS 171.2 million in the corresponding period of the previous year, a decrease of 11.8%. The decrease stems primarily from decreased profits in the life assurance and long term savings segment, due mainly to lower revenues from investments on The Phoenix's nostro investments and an increase in death and disability claims.

Material events during and after the reporting period

Regarding completion of the acquisition of the "second batch" pursuant to the terms of the transaction carried out under the settlement agreement signed with Excellence and additional

acquisitions of Excellence shares by The Phoenix after the balance sheet date, see Note 3 to the financial statements.

Analysis of life assurance and long-term saving

Life assurance

In the reporting period, life assurance and long term saving operations resulted in a profit of NIS 19.5 million compared with a profit of NIS 76 million in the corresponding quarter in the previous year, A decrease of 74.3%. The decrease stems primarily from decreased revenues from investments on The Phoenix's nostro portfolio and an increase in death and disability claims during the reporting period. However, a decrease was recorded in the reduction of deferred acquisition expenses due to a reduction in the cancellation rate, which maintained their relatively low level from late 2009.

Premiums earned during the reporting period totaled NIS 750.8 million, compared to NIS 663.2 million in the corresponding period last year, an increase of 13.2%. The increase stems from an increase in new sales and the lower cancellation rate.

In the reporting period, the redemption rate of life assurance policies from the average reserve for the period was down, totaling 0.68% as compared with 0.82% in the corresponding period in the previous year.

Due to the negative yield in 2008 from profit-sharing policies, The Phoenix did not collect variable management fees, nor will it be able to do so until attainment of a positive yield sufficient to cover the accumulated negative real yield. Estimated management fees not collected until the negative yield becomes positive were down from a total of NIS 627.3 million at December 31, 2008 to a total of NIS 229 million at December 31, 2009, to a total of NIS 122.1 million at March 31, 2010, and a total of NIS 134.3 at April 30, 2010. The decrease in this deficit stemmed from positive yields in 2009.

Pension and provident funds

At the reporting date, the assets of The Phoenix Pension and Compensation Fund Management Ltd. ("The Phoenix Pension") amounted to NIS 4,388 million, compared with assets of NIS 4,111 million at December 31, 2009. Profit before tax at The Phoenix Pension in the reporting period was NIS 2.3 million, compared with NIS 3 million in the corresponding quarter last year.

The results of the life assurance and long-term savings segment also included the long-term savings data of Excellence (mainly provident fund management) and amounted to a profit before tax of NIS 15.9 million and NIS 13.7 million for the three month periods ended March 31, 2010 and March 31, 2009, respectively. Total long-term savings assets of Excellence at December 31, 2010 amounted to NIS 18.1 billion, and NIS 17.7 billion at December 31, 2009.

General insurance

Revenue from premiums earned in the reporting period amounted to approximately NIS 464.3 million, compared with NIS 436.8 million in the corresponding period last year, an increase of 6.3%.

Profit from the general insurance segment in the reporting period amounted to approximately NIS 60.5 million compared with NIS 21.7 million in the corresponding quarter last year, an increase of 178.8%. The improvement in profit stemmed mainly from a real improvement in investment income. Results for the reporting period were influenced, inter alia, by increased insurance liabilities following the reduction of the risk-free interest rate used to capitalize pending claims, which was offset by lower negative indices as compared with the corresponding quarter last year.

Health insurance

Revenue from premiums earned in the health insurance segment in the reporting period amounted to NIS 274 million, compared with NIS 236.6 million in the corresponding period last year, an increase of 15.8%. Most of the increase is attributable to an increase in the collective business, and from moderate growth in the personal insurance segments.

Profit in the reporting period amounted to approximately NIS 21.5 million, compared with NIS 35.5 million in the corresponding quarter last year, an decrease of 39.4%. The decrease in profit stems mainly from lower income from investments attributed to the segment, and lower results from underwriting activities as compared with the corresponding quarter last year.

Financial services

Activity in this segment is carried out by Excellence, whose results were consolidated in the financial statements of The Phoenix commencing from January 1, 2009.

In the reporting period, financial services posted a profit of NIS 31.3 million, compared with NIS 21.3 million in the corresponding quarter last year. The increase in profit is due mainly to the reduction in the amortization of intangible assets created through the acquisition of Excellence compared to the corresponding period in the previous year.

According to the financial statements of Excellence, total assets under management by Excellence at March 31, 2010 amounted to NIS 57.3 billion, compared with NIS 55 billion at December 31, 2009, an increase of 4.2%.

During the first three months of 2010, the growth trend in assets under management continued in most of the segments of operation of the Excellence group. Assets under the Excellence Group's management are influenced, inter alia, by the market situation and by exchange rates to which some of the series issued by the SPCs are linked.

2) Republic Companies, Inc.

Republic Companies, Inc. ("Republic") is a holdings company that holds insurance companies and agencies involved mainly in property insurance and other general insurance, particularly in Texas, Louisiana, Oklahoma, Mississippi, Arkansas and New Mexico in the U.S.

The results of operations of Republic as included in the results of the Group:

	1-3/10	1-3/2009	2009
	USD millions	USD millions	USD millions
Premiums earned (retention)	79	97	365
Investment and other revenues, net	7	11	53
Total revenue	**86**	**108**	**418**
Increase in insurance liabilities less reinsurers	41	61	268
Commissions and other acquisition expenses	26	29	103
General and administrative expenses	9	8	34
Financing expenses	1	2	6
Total expenses	**77**	**100**	**411**
Profit before tax	9	8	7
Net profit	**6**	**6**	**6**

Analysis of the results of Republic's operations

Revenue from premiums (gross) in the reporting period amounted to USD 209.9 million, compared with USD 198.2 million in the corresponding period last year, an increase of 5.9%. The increase stems primarily from improvement in the field of program management. All segments of operation were profitable in the reporting period.

Insurance fees earned (in retention) in the reporting period amounted to USD 79 million, compared with USD 97 million in the corresponding period last year.

The decrease compared to the corresponding period last year is attributed to changes in net revenue from premiums due to quota share and an increase in expenses in respect of disaster reinsurance.

Republic's equity as included in the Group's financial statements at March 31, 2010 is USD 316 million (December 31, 2009 – USD 309 million), and profit for the reporting period as included in the Group's financial statements totaled USD 6 million.

Additional information

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

G. Additional Activities

1) Infrastructures

The Group operates in infrastructures through its wholly-owned subsidiary Delek Infrastructures Ltd., which holds 50% of IDE Technologies Ltd. ("IDE") and coordinates the development and operation of power stations in Israel and Brazil through subsidiaries. The contribution of the infrastructures sector to the net profit of the Group in the reporting period was NIS 32 million, mainly stemming from the profits of IDE and the power station in Ashkelon.

On March 14, 2010, IDE announced the distribution of a dividend of NIS 40 million to its shareholders, in which the Company's share is NIS 20 million. For more information about IDE, see Note 11 to the financial statements

In January 2010, Delek Infrastructures entered into an agreement with private entrepreneurs for the erection of a natural-gas-operated power station with an output of 240 megawatts, in the Kiryat Gat industrial zone. Completion of the engagement between the parties is contingent upon the fulfillment of preconditions, and in May 2010 all preconditions for the transaction were met.

2) Biochemicals

Gadot, a manufacturer of food supplements and chemicals for the food, health supplements, detergents and toiletries industries, is a public company in which the Group holds 63.88% at the balance sheet date.

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

The contribution of the biochemicals segment to the Group's profits in Q1 2010 amounted to a loss of NIS 1 million, compared with a profit of NIS 12 million in the corresponding quarter of the previous year.

For further details of other operations, see section 1.14 in Chapter A of the Periodic Report – A Description of the Corporation's Business.

B. Market Risk Exposure and Management

1. a) The activities of the Company focus mainly on holding and managing shares of its subsidiaries. The investments are long term and therefore these holdings are not hedged.

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

b) The market risk management officer for currency in the Company and in some of the associates is Mr. Ido Adar, MBA. In recent years, Mr. Adar has served as Treasurer of the Company, prior to which he served as head of the Treasury and Insurance department at Delek Israel.

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 investee companies ("Investees").

b) In the reporting period there were no material changes in the Company's policy regarding market risk management and methods, including the effect of sensitivity tests on the Group's reporting of these matters in the year ended December 31, 2009.

However, in the reporting period and particularly in the period prior to the approval of the financial statements, there has been a significant devaluation of the Euro versus the Shekel due to the recent economic instability in the Eurozone. The weakening Euro could affect the Company's investments in the equity of those companies using the Euro as their functional currency, as well as the liquidity of these companies, their financial condition, etc.

c) For disclosure regarding financial assets available for sale, see Appendix B to the Directors' Report.

3. Linkage bases report at March 31, 2010

No material changes have occurred during the reporting period.

	March 31, 2010												
	Israeli currency		Foreign currency							Monetary items in autonomous units			
	Unlinked	Index-linked	USD	JPY	EUR	Other foreign currency	Fair value	ETNs	Items from insurance operations	USD	EUR	Non-monetary item	Total
	NIS Millions												
Assets													
Current assets	3,670	73	918	-	21	19	564	-	-	1,188	1,475	828	8,756
Non-current assets	335	615	943	-	-	45	1,331	-	-	2,810	2,468	5,267	13,814
Assets from insurance operations	518	196	11	-	17	3	-	18,065	42,216	-	-	2,558	63,584
Total assets	**4,523**	**884**	**1,872**	**-**	**38**	**67**	**1,895**	**18,065**	**42,216**	**3,998**	**3,943**	**8,653**	**86,154**
Liabilities													
Current liabilities	1,466	669	1,218	901	295	122	60	-	-	1,147	1,592	6	7,476
Non-current liabilities	4,840	4,169	986	27	49	65	36	-	-	1,223	1,627	194	13,216
Liabilities from insurance operations	1,145	1,662	126	-	113	4	-	17,644	40,074	-	-	61	60,829
Total liabilities	**7,451**	**6,500**	**2,330**	**928**	**457**	**191**	**96**	**17,644**	**40,074**	**2,370**	**3,219**	**261**	**81,521**
Assets less liabilities, net	**(2,928)**	**(5,616)**	**(458)**	**(928)**	**(419)**	**(124)**	**1,799**	**421**	**2,142**	**1,628**	**724**	**8,392**	**4,633**

*) The assets and liabilities of the insurance companies and their consolidated companies were not divided according to linkage bases

C. Aspects of corporate governance

1. Proceeding for approval of the financial statements

The Company's Board of Directors is the body entrusted with overall supervision at the Company.

As part of the approval process of the Company's Financial Statements by the Board of Directors, a draft of the report is submitted for review by the board members several days before the scheduled meeting for approval of the financial statements. In the course of the board meeting during which the financial statements are discussed and approved, the Company's CEO and CFO review the key points of the financial statements in detail, the financial results, the financial position and cash flow of the Company, and data are presented regarding the Company's operations along with a comparison with prior periods.

Four of the seven members of the board of directors have accounting and financial expertise, and their knowledge and experience contribute to the board's discussions.

The Company's auditor is invited to and attends the Board meeting at which the financial statements are discussed and approved, and reviews the financial statements and answers any questions or requests for explanations concerning the financial statements prior to their approval. Also present are the Company's CFO, Comptroller, Internal Auditor and General Counsel. After the discussion, a vote is held for approval of the financial statements.

At its meeting on August 29, 2007, the Company's Board of Directors resolved to set up a balance sheet committee which would have ultimate responsibility for the preparation and approval of financial statements in the Company, commencing with the financial statements at September 30, 2007. The balance sheet committee members are Mr. Avi Harel, Moshe Amit, Mr. Ben Zion Zilberfarb (external director) and Mr Avi Harel, who all have accounting and financial expertise. The Company's auditor is invited to attend the meetings of the balance sheet committee as well as meetings of the Board of Directors at which the financial statements of the Company are discussed and approved.

At its meeting on May 26, 2010, the balance sheet committee discussed the financial statements at March 31, 2010. It reviewed the material issues in the financial reporting, including transactions outside the normal course of business, the material assessments and critical estimates used in the financial statements, the reasonableness of the data, the accounting policy applied and the changes that had occurred in it, the implementation of the principle of proper disclosure in the financial statements and in the accompanying information, and the effects of the accounting policy applied. The Deputy CFO and the auditors provided the balance sheet committee with comprehensive reviews of matters of especially significant influence. The balance sheet committee presented its principal findings and remarks concerning the financial statements to the Board of Directors, and recommended their approval.

D. Disclosure relating to the Company's financial reporting

1. Critical accounting estimates

There has been no change in the reporting period in comparison with the Periodic Report for 2009.

2. Events after the balance sheet date

For details of material events after the balance sheet date, see Chapter A of this Directors' Report.

3. Disclosure of financial assets available for sale

For details of disclosure of financial assets available for sale in accordance with FAQ 14, see Appendix B to this Directors' Report.

E. Dedicated disclosure for debenture-holders

Details of the Corporation's liability certificates:

After the balance sheet date, on April 13, 2010, Midroog announced a rating of A1 for debentures (series L) for raising up to NIS 450 million.

Below are data regarding series of debentures issued after the balance sheet date (NIS millions).

Series	Issue date	Balance of par value (in NIS millions)	Stated interest	Linkage	Repayment years	Rating	Rating company	Trustee
L	4/2010	255	4.1%	-	2012	A1	Midroog	Strauss Lazar Trust Ltd. 17 Yitzhak Sadeh St. Tel Aviv Tel: 03-7347777 Uri Lazar

F. Additional information

1. Exercise of options

A. In February – March 2010, 33,416 options Series 5 were converted to 33,416 ordinary shares of the Company. The exercise price paid amounted to NIS 16.3 million.

2. Dividend

A. On December 28, 2009, the Board of Directors of the Company resolved to distribute a dividend out of the profits of the fourth quarter of 2009, in the amount of NIS 150 million. The dividend was distributed on January 18, 2010.

B. On March 24, 2010, the Board of Directors of the Company resolved to distribute a dividend of NIS 100 million. The dividend was distributed on April 28, 2010.

C. On May 31, 2010, the Board of Directors of the Company resolved to distribute a dividend of NIS 150 million.

3. Company employees

The Board of Directors expresses its respect and appreciation to the management of the Company, to the management of its investees and to all the employees for their dedicated work and their contribution to the advancement of the Company.

Sincerely

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

Appendix A to the Directors' Report

Breakdown of payments of principal and interest of debentures and bank loans of the HQ companies at March 31, 2010 (in NIS millions).

Delek Group – Headquarters

		Q2-Q4 2010	2011	2012	2013	2014	2015 onwards	Total
Debentures	Principal	53	436	576	610	610	3,704	5,989
	Interest	294	331	311	284	254	729	2,203
	Total	**347**	**767**	**887**	**894**	**864**	**4,433**	**8,192**

Delek Investments and Properties

		Q2-Q4 2010	2011	2012	2013	2014	2015 onwards	Total
Bank loans	Principal	23	25	4	3	1	44	100
	Interest	3	3	3	3	2	4	18
	Total	**26**	**28**	**7**	**6**	**3**	**48**	**118**

Delek Finance US

		Q2-Q4 2010	2011	2012	2013	2014	2015 onwards	Total
Bank loans	Principal	138	299	397	-	-	-	834
	Interest	17	17	8	-	-	-	42
	Total	**155**	**316**	**405**	**-**	**-**	**-**	**876**

Delek Petroleum

		Q2-Q4 2010	2011	2012	2013	2014	2015 onwards	Total
Debentures [(1)]	Principal	28	117	-	117	86	83	431
	Interest	25	22	16	15	7	4	89
Bank loans	Principal	65	50	16	-	-	-	131
	Interest	1	1	1	-	-	-	3
	Total	**119**	**190**	**33**	**132**	**93**	**87**	**654**

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

Appendix B to the Directors' Report

Below are the financial instruments available for sale in respect of which the impairment was charged to equity at the rate of decline in the fair value of the asset in relation to its original cost (in NIS millions):

Marketable debt instruments:

Rate of decrease in fair value of the assets	Up to 6 months	6 – 9 months	9-12 months	More than 12 months	Total
Up to 20%	6	-	3	-	9
20% - 40%	-	-	-	-	-
More than 40%	-	-	-	-	-
Total	**6**	**-**	**3**	**-**	**9**

Shares and other marketable investments:

Rate of decrease in fair value of the assets	Up to 6 months	6 – 9 months	9-12 months	More than 12 months	Total
Up to 20%	1	-	-	-	1
20% - 40%	-	-	-	-	-
More than 40%	-	-	-	-	-
Total	**1**	**-**	**-**	**-**	**1**

Total:

Rate of decrease in fair value of the assets	Up to 6 months	6 – 9 months	9-12 months	More than 12 months	Total
Up to 20%	7	-	3	-	10
20% - 40%	-	-	-	-	-
More than 40%	-	-	-	-	-
Total	**7**	**-**	**3**	**-**	**10**

The considerations for determining that decreases in the fair value of financial assets were charged directly to equity and not to profit and loss:

When examining impairment of value of financial assets available for sale which are capital instruments, the Group also looks at the rate of the difference between the fair value of the asset and its original cost, noting changes in the fair value of the asset during the time when that fair value was less than its original cost, and changes in the technological, economic, legal or market environment in which the company that issued the instrument operates.

Impairment is usually considered significant when the decrease is 20% of the original cost, and is considered ongoing when the impairment continues over an entire year. Debt instruments are reviewed specifically for impairment in respect of every instrument for which the impairment is more than 20% of the balance of the investment, taking into account existing information on each entity that issued the debt instrument.

Delek Group Ltd.

Consolidated Interim Financial Statements as at March 31, 2010

Unaudited

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Consolidated Balance Sheets

	March 31		December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
Current assets			
Cash and cash equivalents	3,006	2,513	3,997
Performance-based cash and cash equivalents in insurance companies	672	683	1,103
Short-term investments in the finance sector (mainly exchange traded funds and deposit)	16,589	10,886	16,156
Short-term investments of insurance companies	2,412	2,168	2,097
Other short-term investments	725	704	662
Financial derivatives	16	127	20
Trade receivables	3,821	2,867	3,660
Insurance premium receivable	1,110	1,144	994
Receivables and debit balances	878	1,340	872
Taxes receivable	231	37	284
Reinsurance assets	2,061	1,803	2,022
Inventory	1,494	2,411	1,683
Deferred acquisition expenses in insurance companies	394	441	364
	33,409	27,124	33,914
Assets held for sale	-	4,037	29 **
	33,409	31,161	33,943
Non-current assets			
Financial investments of insurance companies	30,217	24,513	28,317
Loans, deposits and receivables	991	1,677 *	982*
Investments in other financial assets	1,331	1,271	1,418
Investment in investees and partnerships	2,375	2,580	2,383 **
Investment property	443	14,288	451
Land held for construction	-	449	-
Investments in oil and gas exploration and production	1,334	1,757	1,331
Reinsurance assets	1,660	1,442	1,571
Property, plant and equipment	7,086	7,297*	7,196*
Deferred acquisition expenses in insurance companies	684	727	680
Structured bonds	1,563	1,080	873
Goodwill	3,177	3,454	3,242
Other intangible assets	1,680	2,091	1,750
Deferred taxes	204	379	219
	52,745	63,005	50,413
	86,154	94,166	84,356

* Retrospective reconciliation, see Note 2
** Reclassified, see Note 3(F)(1)

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

Consolidated Balance Sheets

	March 31		December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
Current liabilities			
Borrowings from banks and others	3,955	6,632	3,741
Trade payables	2,691	2,297	2,879
Other payables	3,321	4,329	3,540
Exchange traded funds and deposit	16,298	10,291	15,639
Taxes payable	105	94	86
Financial derivatives	66	181	82
Insurance reserves and outstanding claims	5,448	5,134	5,430
Dividend due	100	-	183
Liability for declaration of a dividend in kind	-	163	-
	31,984	29,121	31,580
Liabilities for held for sale assets	-	2,738	-
	31,984	31,859	31,580
Non-current liabilities			
Loans from banks and others	4,678	16,700	5,161
Debentures convertible into shares of subsidiaries	-	108	-
Other debentures	10,708	9,562	10,702
Structured bonds	1,534	1,065	933
Option warrants and the convertible component of debentures	-	149	9
Financial derivatives	105	1,459	114
Liabilities for employee benefits	209	226	208
Insurance reserves and outstanding claims	30,541	25,285	29,352
Provisions and other liabilities	839	710	839
Deferred taxes	923	1,826	870
	49,537	57,090	48,188
Equity attributable to the Company's shareholders			
Share capital	13	13	13
Share premium	1,620	1,583	1,590
Option warrants	25	-	25
Retained earnings	974	1,038	869
Adjustments for translation of financial statements of foreign operations	(292)	(455)	(166)
Capital reserve from transactions with holders of non-controlling interests	(57)	-	-
Other capital reserves	(85)	(116)	(94)
Treasury shares	(126)	(106)	(129)
	2,072	1,957	2,108
Non-controlling interests	2,561	3,260	2,480
Total capital	4,633	5,217	4,588
	86,154	94,166	84,356

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

May 31, 2010			
Date of approval of the financial statements	Gabriel Last Chairman of the Board	Asi Bartfeld CEO	Barak Mashraki CFO

Consolidated Statement of Income

	Three months ended March 31		Year ended December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions (except net earnings per share)		
Revenue	11,365	9,118	43,447
Cost of revenue	9,669	7,482	37,032
Gross profit	1,696	1,636	6,415
Selling, marketing and gas station operating expenses	844	855	3,426
General and administrative expenses	402	422	1,768
Other revenue (expenses), net	(13)	68	386 *
Operating profit	437	427	1,607
Finance income	217	174	633 *
Finance expenses	(273)	(308)	(1,449)
	381	293	791
Gain from disposal of investments in investees, net	-	-	518
Group's share in profits of affiliates and partnerships, net	70	65	92 *
Income before taxes on income	451	358	1,401
Taxes on income	107	100	215
Income from continuing operations	344	258	1,186
Profit from discontinued operations	-	17	17
Net profit	344	275	1,203
Attributable to:			
Company shareholders	205	157	864
Non-controlling interests	139	118	339
	344	275	1,203
Net earnings per share attributable to Company shareholders (NIS)			
Basic net earnings			
Income from continuing operations	18.20	14.37	77.44
Loss from discontinued operations	-	(0.53)	(0.53)
	18.20	13.84	76.91
Diluted net earnings			
Profit from continuing operations	17.82	13.39	75.49
Loss from discontinued operations	-	(0.53)	(0.53)
	17.82	12.86	74.96

* Reclassified, see Note 3(F)(1)

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

Consolidated Statement of Comprehensive Income

	Three months ended March 31		Year ended December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
Net profit	344	275	1,203
Other comprehensive income (loss) from continuing operations			
Profit for available-for-sale assets *	53	233	285
Loss for cash flow hedges	(12)	(108)	(115)
Adjustments for translation of financial statements of foreign operations	(133)	316	19
Company's share in other comprehensive income (loss) of affiliates	(28)	47	12
Other comprehensive income from continuing operations	(120)	488	201
Other comprehensive profit (loss) from discontinued operations	-	198	198
Total other comprehensive income (loss)	(120)	686	399
Total comprehensive income	224	961	1,602
Attributable to:			
Company shareholders	88	603	1,113
Non-controlling interests	136	358	489
	224	961	1,602

* In the reporting period, including release of capital reserves amounting to NIS 46 million to the statement of income

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

Consolidated Statement of Changes in Equity

	Attributable to Company shareholders										
	Share capital	Premium on shares	Share options	Retained earnings	Adjustments for translation of financial statements of foreign operations	Other capital funds *	Treasury shares	Capital reserve from transactions with holders of non-controlling interests	Total	Non-controlling interest	Total equity
	Unaudited										
	NIS millions										
Balance at January 1, 2010 (audited)	13	1,590	25	869	(166)	(94)	(129)	-	2,108	2,480	4,588
Total comprehensive income	-	-	-	205	(126)	9	-	-	88	136 ***	224
Sale of treasury shares by a subsidiary		1	-	-	-	-	3	-	4	1	5
Dividend declared	-	-	-	(100)	-	-	-	-	(100)	-	(100)
Share options exercised	- **	29	-	-	-	-	-	-	29	-	29
Cost of share-based payment, net	-	-	-	-	-	-	-	-	-	7	7
Acquisition of non-controlling interests	-	-	-	-	-	-	-	(42)	(42)	(18)	(60)
Exercise of options for shares of subsidiaries	-	-	-	-	-	-	-	(15)	(15)	15	-
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(60)	(60)
Balance at March 31, 2010	13	1,620	25	974	(292)	(85)	(126)	(57)	2,072	2,561	4,633

* Primarily capital reserve for profit (loss) for available-for-sale financial assets, net
** Represents an amount of less than NIS 1 million
*** Composition of comprehensive income of the non-controlling interests:

Net profit attributable to non-controlling interests	139
Profit for available-for-sale assets, net	26
Loss for cash flow hedges, net	(1)
Adjustments for translation of financial statements	(27)
Share of non-controlling interests in other comprehensive loss of affiliates, net	(1)
Total comprehensive income attributable to non-controlling interests	136

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

Consolidated Statement of Changes in Equity

	Attributable to Company shareholders								
	Share capital	Premium on shares	Retained earnings	Adjustments for translation of financial statements of foreign operations	Other capital funds *	Treasury shares	Total	Non-controlling interest	Total equity
	Unaudited								
	NIS millions								
Balance at January 1, 2009 (audited)	13	1,583	1,044	(928)	(89)	(105)	1,518	2,845	4,363
Total comprehensive income (loss)	-	-	157	473	(27)	-	603	358 **	961
Acquisition of treasury shares	-	-	-	-	-	(1)	(1)	-	(1)
Acquisition of non-controlling interests	-	-	-	-	-	-	-	(44)	(44)
Cost of share-based payment, net	-	-	-	-	-	-	-	1	1
Consolidation of an affiliate	-	-	-	-	-	-	-	107	107
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	(7)	(7)
Declaration of a dividend in kind	-	-	(163)	-	-	-	(163)	-	(163)
Balance at March 31, 2009	13	1,583	1,038	(455)	(116)	(106)	1,957	3,260	5,217

* Primarily capital reserve for profit (loss) for available-for-sale financial assets, net. The balance includes NIS 120 million for assets held for sale.

** Composition of comprehensive income of the non-controlling interests:

Net profit attributable to non-controlling interests	118
Profit for available-for-sale financial assets, net	105
Loss for cash flow hedges, net	(22)
Adjustments for translation of financial statements	158
Share of non-controlling interests in other comprehensive loss of affiliates, net	(1)
Total comprehensive income attributable to non-controlling interests	358

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

Consolidated Statement of Changes in Equity

	Attributable to Company shareholders									
	Share capital	Premium on shares	Share options	Retained earnings	Adjustments for translation of financial statements of foreign operations	Other capital funds *	Treasury shares	Total	Non-controlling interest	Total equity
	Unaudited									
	NIS millions									
Balance at January 1, 2009	13	1,583	-	1,044	(928)	(89)	(105)	1,518	2,845	4,363
Total comprehensive income	-	-	-	864	188	61	-	1,113	*** 489	1,602
Acquisition of treasury shares	-	-	-	-	-	-	(33)	(33)	-	(33)
Sale of treasury shares by a subsidiary	-	6	-	-	-	-	9	15	8	23
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	(109)	(109)
Distribution of a subsidiary's shares as a dividend in kind	-	-	-	(679)	574	(66)	-	(171)	(835)	(1,006)
Dividend	-	-	-	(360)	-	-	-	(360)	-	(360)
Issue of option warrants	-	-	25	-	-	-	-	25	-	25
Debentures converted into Company shares	- **	1	-	-	-	-	-	1	-	1
Cost of share-based payment, net	-	-	-	-	-	-	-	-	44	44
Consolidation of an affiliate	-	-	-	-	-	-	-	-	55	55
Decrease in holding and issue of shares in subsidiaries	-	-	-	-	-	-	-	-	130	130
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	(147)	(147)
Balance at December 31, 2009	13	1,590	25	869	(166)	(94)	(129)	2,108	2,480	4,588

* Primarily capital reserve for profit (loss) for available-for-sale financial assets, net
** Represents an amount of less than NIS 1 million
*** Composition of comprehensive income of the non-controlling interests:

Net profit attributable to non-controlling interests	339
Profit for available-for-sale financial assets	92
Loss for cash flow hedges, net	(19)
Adjustments for translation of financial statements	78
Share of non-controlling interests in other comprehensive loss of affiliates, net	(1)
Total comprehensive loss attributable to non-controlling interests	489

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

Consolidated Statement of Cash Flows

	Three months ended March 31		Year ended December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
Cash flows from operating activities			
Net profit	344	275	1,203
Adjustments to reconcile cash flows from continuing operating activities (a)	(1,336)	420	2,107
Net cash provided by (used in) continuing operating activities	(992)	695	3,310
Net cash used for discontinued operations	-	(32)	(32)
Net cash provided by (used in) operating activities	(992)	663	3,278
Cash flow from investment activities			
Acquisition of property, plant and equipment and intangible assets	(181)	(559)	(1,517)
Acquisition of investment property	-	(1)	(7)
Proceeds from sale of property, plant and equipment and investment property	20	29	118
Net proceeds from an insurance company for damaged property, plant and equipment	-	-	162
Proceeds from sale (acquisition) of financial assets, net	127	102	(185)
Repayment (grant) of loans to affiliates, net	(40)	22	(13)
Short-term investments	(61)	(4)	36
Increase in joint ventures for oil and gas exploration	(36)	(123)	(353)
Proceeds from disposal of investments in affiliates	-	34	409 *
Proceeds from the sale of a previously consolidated company (c)	-	-	317
Investment in affiliates	(67)	(19) *	(109) *
Acquisition of operations and companies consolidated for the first time (b)	-	136	136
Collection (providing) of loans to others, net	9	(5)	(102)
Net cash used for continuing investment activities	(229)	(388)	(1,108)
Net cash from discontinued investment activities	-	333	333
Net cash used for investing activities	(229)	(55)	(775)
Cash flow from finance activities			
Sale of shares to non-controlling interests	-	-	95 *
Acquisition of non-controlling interests	(60)	(44) *	(103) *
Short-term credit from banks and others, net	26	435	(1,345)
Long-term loans received	936	668	3,992
Long-term loans repaid	(1,056)	(747)	(3,847)
Issue of shares to holders of non-controlling interests in subsidiaries	-	-	216
Dividend paid	(183)	-	(177)
Dividend paid to holders of non-controlling interests in subsidiaries	(60)	(5)	(169)
Share options exercised	16	-	-
Acquisition of treasury shares	-	(1)	(33)
Sale of treasury shares	5	-	31
Cash from a previously consolidated subsidiary distributed as a dividend	-	-	(349)
Payment of contingent liability for a put option to a minority	(10)	-	(340)
Issue of debentures and convertible debentures	395	-	2,769
Issue of options by the Company	-	-	25
Repayment of debentures and convertible debentures	(172)	(54)	(443)
Net cash from (used for) continuing financing activities	(163)	252	322
Net cash used for discontinued financing activities	-	(247)	(247)
Net cash from (used for) finance activities	(163)	5	75

* Retrospective reconciliation, see Note 2

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

Consolidated Statement of Cash Flows

	Three months ended March 31		Year ended December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
Translation differences for cash balances of foreign operations – continuing operations	(38)	67	6
Translation differences for cash balances of foreign operations – discontinued operations	-	16	16
Increase (decrease) in cash and cash equivalents – continuing operations	(1,422)	626	2,530
Decrease in cash and cash equivalents – discontinued operations	-	70	70
Balance of cash and cash equivalents at beginning of period (including performance-based balance)	5,100	2,500	2,500
Balance of cash and cash equivalents at end of period (including performance-based balance)	3,678	3,196	5,100

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

Consolidated Statement of Cash Flows

	Three months ended March 31		Year ended December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
(A) Adjustments to reconcile statement of cash flows from continuing operating activities:			
Income and expenses not involving cash flows:			
Profit from discontinued operation, net	-	(17)	(17)
Depreciation, depletion, amortization and impairment of assets	208	219	975
Deferred taxes, net	19	4	324
Increase (decrease) in employee benefit liabilities, net	4	-	(3)
Decrease (increase) in the value of loans provided, net	3	(17)	1 *
Earnings from issue of shares to a third party in an investee	-	-	(5)
Proceeds from the sale of property, plant and equipment, real estate and investments, net	(52)	(8)	(709) *)
Profit for compensation from an insurance company for damaged property, plant and equipment	-	-	(162)
Negative goodwill	-	-	(15)
Group's share in profits of partnerships and affiliates (1)	(66)	(63)	(68) *)
Net change in fair value of financial assets and derivatives	(3)	(49)	(5)
Increase (decrease) in value of long-term liabilities, net	(75)	(17)	845
Decrease (increase) in deferred acquisition expenses	(37)	(21)	36
Cost of share-based payment	22	3	54
Change in financial investments of insurance companies, net	(2,578)	(1,242)	(5,216)
Investments, less proceeds from the sale of available-for-sale financial assets in insurance companies, net	515	(646)	365
Increase in reserves and outstanding claims in insurance companies	1,376	1,870	6,102
Decrease (increase) in reinsurance assets	(165)	30	(532)
Proceeds from early redemption and exchange of debentures	-	-	(82)
Changes in asset and liability items:			
Increase in trade receivables	(168)	(202)	(1,482)
Decrease (increase) in other receivables	(201)	3	247
Decrease in inventory	159	100	289
Increase in other assets, net	(20)	(3)	(516)
Increase (decrease) in trade payables	(106)	402	997
Increase (decrease) in other payables	(171)	74	684
	(1,336)	420	2,107
(1) Net of dividends received	4	2	24

* Reclassified - see Note 3(F)(1)

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

Consolidated Statement of Cash Flows

		Three months ended March 31		Year ended December 31
		2010	2009	2009
		Unaudited		Audited
		NIS millions		
(B)	Acquisition of operations and companies consolidated for the first time (b)			
	Working capital, net (excluding cash)	-	124	124
	Short-term finance investments	-	(9,462)	(9,462)
	Long-term finance investments	-	(2,057)	(2,057)
	Property, plant and equipment, real estate, investments and other property (including goodwill)	-	(1,319)	(1,319)
	Short-term finance liabilities	-	9,307	9,307
	Long term liabilities	-	3,102	3,102
	Non-controlling interests	-	55	55
	Decrease in investments in investees	-	386	386
		-	136	136
(C)	Proceeds from the sale of a previously consolidated company			
	Oil and gas assets	-	-	332
	Capital reserve	-	-	(2)
	Loss from the disposal of an investment in a subsidiary	-	-	(4)
	Less receivables for the proceeds of the sale	-	-	(9)
		-	-	317
(D)	Significant non-cash activities			
	Acquisition of property, plant and equipment and intangible assets	21	14	395
	Liability for divesture of assets	-	1	1
	Dividend and profit payable to holders of non-controlling interests in subsidiaries	-	2	22
	Dividend declared	100	163	183
	Dividend and profits to receive from affiliates	20	-	-
	Exercise of options for shares	13	-	-
	Debentures converted into Company shares	-	-	1
	Investment in exploration assets and estimate against liability	2	-	-
	Investment in oil and gas assets	34	130	43
	Acquisition of participating units of an affiliate in return for allotment of shares in a subsidiary	-	-	250
	Receivables for the sale of an investee	-	-	9
	Acquisition of non-controlling interests in a subsidiary	-	-	6

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

Consolidated Statement of Cash Flows

	Three months ended March 31		Year ended December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
(E) Cash and cash equivalents			
Balance of cash and cash equivalents for beginning of period			
Cash and cash equivalents	3,997	1,895	1,895
Performance-based cash and cash equivalents in insurance companies	1,103	605	605
	5,100	2,500	2,500
Cash and cash equivalents at the end of the period			
Cash and cash equivalents	3,006	2,513	3,997
Performance-based cash and cash equivalents in insurance companies	672	683	1,103
	3,678	3,196	5,100
(F) Additional information on cash flows			
Cash paid during the period for:			
Interest	159	400	902
Taxes on income	31	86	111
Cash received during the period for:			
Interest	52	191	997
Income tax	68	-	-
Dividend	12	5	156

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

NOTE 1 – GENERAL

These financial statements were prepared in condensed format as at March 31, 2010 for the 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 at December 31, 2009 for the year then ended, and their accompanying notes ("the annual financial statements").

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated interim financial statements are 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), 5730-1970, taking into consideration that the information of the consolidated insurance companies has been prepared on the basis of accounting and reporting principles pursuant to the Financial Services (Insurance) Supervision Law, 5741–1981 and the regulations promulgated thereunder.

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:

IAS 17 – *Leases*

The amendment to IAS 17 eliminates specific guidance regarding classification of leases of land as operating or finance. As a result, leases of land are no longer classified as an operating lease when the title is not expected to pass to the lessee at the end of the lease term. Classification of a lease as operating or finance is based on the general instructions in IAS 17 when signing the original agreement with the Israel Land Administration, taking account of the fact that land normally has an indefinite economic life. Therefore, lease of land from the Israel Land Administration will be assessed by comparing the present value of the amount recognized as a deferred expense for an operating lease with the fair value of the land.

Some of the Group companies have capitalized lease rights from the Israel Land Administration for land with an option to extend the lease period for and additional 49 years in some cases.

Following application of the Amendment, the leases of land from the Israel Land Administration was reclassified, based on the information available when signing the lease. Accordingly, some of the leases of the Group companies from the Israel Land Administration are classified as a finance lease. Therefore, the amounts stated in the past under the advance expenses for operating lease (amounting to NIS 398 million and NIS 393 million at December 31, 2009 and March 31, 2009, respectively) are stated as land in these financial statements under property, plant and equipment, and continue to be depreciated over the lease period, including the option for extension.

In addition, the Group did not recognize an asset and liability for future payments when exercising the option to extend the lease, as these payments will be based on the fair value of the land at the future exercise date and constitute contingent lease payment which, under IAS 17, are not taken into account.

Initial application of the Amendment did not have a material effect on the results of the Group's operations during the reporting period.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

IFRS 3 (revised), *Business Combinations* and IAS 27 (revised), *Consolidated and Separate Financial Statements*

Under the new standards:

- The definition of a business has been broadened to include operations and assets that are not managed as a business, provided the seller is able to operate it as a business.
- A choice is allowed on a transaction-by-transaction basis for the measurement of non-controlling interests, and consequently, goodwill, either at full fair value or at the non-controlling interests' share of the fair value of the identifiable net assets of the acquiree at the acquisition date.
- Contingent consideration in business combinations is measured at fair value. Changes in fair value of the contingent consideration, which do not constitute adjustments to cost of acquisition in the measuring period, are not recognized as goodwill adjustment. When the contingent consideration constitutes a financial derivative in the scope of IAS 39, it is measured at fair value and changes are recognized in profit or loss.
- Direct acquisition costs attributed to a business combination are recognized in profit or loss as incurred.
- The adjusted balance of a deferred tax asset for temporary differences that were acquired and that do not comply with recognition requirements at the acquisition date, are recognized in profit or loss and not as adjusted goodwill.
- The losses of a subsidiary, even if they result in a deficit in the equity of the subsidiary, are allocated between the parent company and the non-controlling interests, even if the holders of non-controlling interests are not a guarantor or do not have a contractual liability to support the subsidiary or to make further investment.
- At the date of the loss or achievement of control in a subsidiary, the balance of the holding, if any, is revalued at fair value against profit or loss from the sale. This fair value will serve as the basis for its cost for subsequent accounting.
- A transaction with non-controlling interests, whether a sale or an acquisition, is accounted for as a capital transaction. Therefore, acquisition of non-controlling interests by a Group is recorded against a decrease in capital (capital reserve from transactions with non-controlling interests), calculated as the difference between the consideration paid by the Group and the amount of the part acquired in the non-controlling interests which is derecognized on the acquisition date. When this difference is negative, an increase in capital (capital reserve from transactions with non-controlling interests) is recognized in the amount of this difference. When disposing of the holding in a subsidiary that does not involve loss of control, an increase or decrease in capital (capital reserve from transactions with holders of non-controlling interests) is recognized in the amount of the difference between the consideration received by the Group and the balance in the financial statements of the non-controlling interests in the subsidiary, which were added to the capital of the Company, taking into account use of capital reserves from other comprehensive income (loss), including any translation differences, according to the decrease in the rate of holding in the subsidiary. These transactions are recognized in the statement of cash flow under financing activities, including by way of retrospective reconciliation of transactions carried out in prior periods.
- At the acquisition date, the assets and liabilities are reclassified and redesignated according to the contractual, financial and other relevant terms in force at the acquisition date, except for leases and insurance contracts.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

- In a step acquisition, the equity rights in the acquiree prior to acquisition of control are measured at fair value at the acquisition date and are included in the acquisition consideration. Profit or loss is recognized at fair value, including disposal of amounts recognized in other comprehensive income. At the date of the loss of control in a subsidiary, the balance of the holding, if any, is revalued at fair value against profit or loss from the sale. This fair value will serve as the basis for its cost for subsequent accounting.

The standards are applied prospectively as from January 1, 2010, except for accounting of the adjusted deferred tax balance for temporary differences acquired prior to application and which were not recognized at the acquisition date. In this case, the adjusted deferred tax will be recognized in the statement of income. Pursuant to the aforesaid, in the reporting period, an amount of NIS 57 million was recognized directly in capital under capital reserve from transactions with non-controlling interests

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

Under the amendment to IFRS 5, when the parent company decides on the disposal of part of its holdings in a subsidiary so that after the disposal the parent company is left with a non-controlling interest, for example rights that confer significant influence, all the assets and liabilities attributed to the subsidiary are classified as held for sale and the relevant guidelines of IFRS 5 apply, including presentation as a discontinued operation. In addition, another amendment clarifies the disclosure requirements for non-current assets (or disposal groups) classified as held for sale or discontinued operations. Under the amendment, the disclosures required in respect of non-current assets or disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5.

The amendment is effective prospectively from January 1, 2010. The consolidated interim financial statements include disclosure and classification in accordance with these amendments

IFRIC 17, *Distributions of Non-cash Assets to Owners*

IFRIC 17 provides guidelines for accounting of distribution of non-cash assets to owners, without controlling shareholders, including property, plant and equipment, a business as defined in IFRS 3 and ownership rights in another company.
Under the interpretation, the obligation for the distribution is to be accounted for when approved by the relevant organ in the company. The liability will be measured at the fair value of the transferred asset, and will be recognized directly in equity, under retained earnings. At each reporting date, until derecognition of the asset, the liability will be measured at the fair value of the asset, with changes recognized in retained earnings At the derecognition date, profit or loss is recognized in the statement of income in the amount of the difference between the amount of the liability and the balance of the asset in the financial statements at the derecognition date In addition, the scope of IFRS 5 was expanded to include distribution of non-cash assets to owners.

The interpretation is effective prospectively as from January 1, 2010.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

IFRS 3 – Business Combinations

Amendments to IFRS 3 addressing the following matters:

Measuring non-controlling interests

The amendment limits the cases where it is possible to choose the measurement method of non-controlling interests according to fair value to the acquisition date or according to their proportionate share in the net identifiable assets of the acquiree. Under the amendment, this only exists for types of non-controlling interests that confer on their owners ownership rights and rights to receive a proportionate share (pro rata) of the net assets of the acquired company in the event of dissolution (usually shares). Conversely, there is no choice for other types of non-controlling interests (for example, options that are equity instruments in the acquired company) therefore they are measured at fair value at the acquisition date, except for cases of other measuring guidelines under other IFRSs, for example, IFRS 2. The amendment is valid as from the financial statements for periods commencing on January 1, 2011. The amendment will be applied retrospectively from the application date of IFRS 3. Early adoption is permitted.

Share-based payments in a business combination

The amendment describes the accounting treatment under a business combination referring to an exchange of a share-based payment of the acquired company (whether the exchange is optional or voluntary) in a share-based payment of the acquiring company. Accordingly, the acquiring company refers to the amount of the proceeds of the transaction on the acquisition date and the amount as an expense subsequent to the acquisition date. However, if, as a result of the business combination the grant expires and it is replaced by a new grant, the value of the new grant under IFRS 2 will be recognized as an expense in the period subsequent to the acquisition date and will not be included in the proceeds of the acquisition. In addition, if the share-based payments are not exchanged and the instruments have vested, they constitute part of the non-controlling interests and are measured according to IFRS 2, and if the instruments have not vested, they are measured according to the value that would have served had they been reawarded at the acquisition date, and this amount is allotted between the non-controlling interests and the expense subsequent to the acquisition date. The amendment is valid as from the financial statements for periods commencing on January 1, 2011. The amendment will be applied retrospectively from the initial application date of IFRS 3 (revised). Early adoption is permitted.

The Company estimates that the amendments are not expected to have a material effect on its financial statements, the outcome of its operations and its cash flows.

IFRS 7 - *Financial Instruments:* Disclosure

The amendment to IFRS 7 clarifies the disclosure requirements in the standard. The amendment emphasizes the connection between quantitative and qualitative disclosure and the manner and volume of the risks arising from the financial instruments. Disclosure requirements were reduced regarding securities held by the Company and disclosure requirements for credit risk were amended. The standard is effective retrospectively for accounting periods commencing on or after January 1, 2011.

The required disclosures will be included in the Company's financial statements.

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NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

IAS 34 – *Interim Financial Reporting*

IAS 34 sets additional disclosure requirements for interim financial statements regarding the circumstances that are likely to affect the fair value of financial instruments and their classification, transfers of the financial instruments between different levels in the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. The standard is effective retrospectively for accounting periods commencing on or after January 1, 2011.

The required disclosures will be included in the Company's financial statements.

IAS 1 – *Presentation of Financial Statements*

Under the amendment, the movement between the opening balance and the closing balance can be presented for each component of other comprehensive income in the statement of changes in equity or in the notes to the annual financial statements. The standard is effective retrospectively for accounting periods commencing on or after January 1, 2011.

The amendment is not expected to have a material effect on the Company's financial statements.

NOTE 3 – BUSINESS COMBINATIONS AND INVESTMENTS IN INVESTEES

A. Insurance and finance operations

1. Further to Note 14(H)(1)(b) to the annual financial statements regarding a new agreement for the acquisition of additional Excellence shares, on April 21, 2010, The Phoenix Investments acquired from the sellers the second lot of Excellence shares, in accordance with the terms in the settlement agreements, amounting to 869,855 shares, representing 5.11% of the issued and paid up share capital of Excellence, for NIS 76 million.

   It is noted that the sellers submitted the calculation of the annual consideration due to them in the amount of NIS 109 million to The Phoenix Investments. The Phoenix Investments contested this calculation, informing the sellers that it disagreed with the calculation of the consideration, and that the annual consideration for the second lot should be NIS 76 million.

   Under the provisions of the settlement agreement, the reservations of The Phoenix Investments do not defer the transfer date of the shares of the second lot, therefore the undisputed amount was paid for them. The sellers presented the dispute to an expert who will serve as a judge and not as an arbitrator, in accordance with the acquisition agreement.

2. On January 5, 2010, The Phoenix Investments acquired 82,059 shares representing 0.48% of the share capital of Excellence for NIS 5 million in an off-floor transaction. The difference of NIS 2 million between the consideration paid and the share attributable to the holders of the acquired non-controlling interests was recognized directly in capital under capital reserve from transactions with non-controlling interests.

At March 31, 2010, The Phoenix Investments holds 71% of the issued and paid up share capital of Excellence. The share of The Phoenix in the equity and profit of Excellence includes outstanding shares, however they may be accelerated and represent 86.33% at the reporting date.

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

A. Insurance and finance operations (contd.)

3. Subsequent to the reporting date, on April 28, 2010, The Phoenix Investments acquired 295,574 shares of Excellence on the TASE, for an average price of NIS 58.02 each and a total consideration of NIS 17 million. The acquired shares represent 1.74% of the issued and paid up share capital of Excellence. Subsequent to the acquisition, The Phoenix Investments holds 72.73% of the issued and paid up share capital of Excellence (88.07% including outstanding shares with acceleration rights).

4. Subsequent to the reporting date, on May 13, 2010, the board of directors of The Phoenix resolved to grant 1,203,000 share options ("the offered share options") out of the Company's share options, for no consideration, to four officers in the Company and/or companies that it controls, directly and/or indirectly ("the offerees" and/or "the offeree", as the case may be), out of all its share options. Out of the offered share options, 600,000 share options will be granted to Mr. Shimon Kalman, deputy CEO of The Phoenix and head of the administration and finance division of The Phoenix Holdings and The Phoenix Group, and the other 603,000 share options will be granted to three officers in subsidiaries of The Phoenix.

   The exercise price for the share options for each of the offerees will be equal to the higher of: 1) The Phoenix's capital according to its most recent financial statements issued prior to the offeree's employment in The Phoenix or its subsidiary, as the case may be, divided into all the allotted shares in the issued share capital of The Phoenix (The Phoenix 1 shares and The Phoenix 5 shares); 2) the closing price of The Phoenix's shares on the TASE on the commencement date of the offeree's employment in The Phoenix or its subsidiary, as the case may be, subject to adjustments as set out in the options terms.

   The vesting periods for the share options for each of the offerees will be from the commencement of the offeree's employment in The Phoenix or its subsidiary, as the case may be, for the vesting periods set out in the outline.

   The total financial value of all the offered share options to be allotted to the offerees, based on the binomial method, is NIS 5 million at the allocation date.

   The following parameters were used to calculate the value:

Share price	NIS 11.22
Exercise price	9.70 – 9.15 NIS
Standard deviation	48.43%-60.35%
Risk-free interest rate	2.23%-3.86%

   In the three months ended March 31, 2010, The Phoenix recognized net expenses of NIS 3 million for options granted to employees (after offsetting revenue of NIS 2 million for forfeited options).

B. Fuel operations in the US

Further to Note 14(N)(3)(a) to the annual financial statements, in February 2010, the CEO of Delek US exercised the options into 638,909 shares, in accordance with the agreement. Following the exerciser, the Company holds, directly and indirectly, 72.6% of the share capital of Delek US.

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

C. Fuel operations in Europe

1. In February 2010, Delek Europe BV submitted a binding offer to acquire the fuel marketing operations of BP France SA ("BP"), including 416 BP gas stations, convenience stores and holdings in three terminals in France ("the marketing operations"). The transaction includes the grant of a license for exclusive use of the BP brand in the gas station chain in France.

   In consideration for the acquisition of the marketing operations, Delek Europe offered to pay €180 million before working capital adjustments and other adjustments, as they will be on the completion date of the transaction. At the submission date of the offer, Delek Europe paid an advance of €10 million (NIS 52 million) for exclusivity from BP to negotiate for completion of the transaction to acquire the marketing operations. The offer is valid up to October 15, 2010.

2. In the reporting period, Delek Benelux recognized a deferred tax asset for carry forward losses of EUR 1 million (NIS 5 million) that was not recognized when acquiring the fuel operations in Europe. Following the amendment to IAS 12, the Company recognized the tax benefit in the statement of income under taxes on income.

D. Fuel operations in Israel

1. In February 2010, Delek Israel sold all of its holdings (11.5%) in Haifa Basic Oils Ltd. to the controlling shareholder in this company (Oil Refineries Ltd.) for NIS 29 million. Delek Israel recognized a profit of NIS 20 million (before the impact of tax) for the sale (recognition of capital reserve accrued up to the date of the sale in the statement of income).

2. Subsequent to the reporting date, on May 16, 2010, the CEO of Delek Israel submitted notice of his resignation as CEO of Delek Israel to the chairman of the board of directors and asked for instructions to hand over the position. The CEO of Delek Israel is expected to remain in his position for the next three months. In view of the aforesaid, it is expected that most of the liabilities for the share-based payment granted to the CEO (see Note 14(N)(2) to the annual financial statements), amounting to NIS 8.7 million at March 31, 2010, will be cancelled and a reduction in payroll expenses will appear in the statement of income for the second quarter of 2010.

E. Energy sector

1. On January 17, 2010, a new chairman of the board of directors of DES was appointed, to replace the outgoing chairman of the board. At that date, the audit committee and the board of directors of DES approved a package of phantom units for the new chairman of the board of directors, for no consideration, in a scope of 2% of the issued and paid up share capital of DES, in other words, 100,108 phantom units, in four equal lots. The exercise price is NIS 1,007 for each phantom unit of the first lot, which is the share price of DES on the trading day on which the agreement was approved by the board of directors, plus 5% for each lot as from the second lot. The exercise price is subject to adjustments following the distribution of a cash dividend during the year of the lot. The exercise price is subject to adjustments following the distribution of a cash dividend during the year of the lot.

   The financial value of the options at March 31, 2010 amounted to NIS 34.4 million. The fair value of the option was estimated using the Merton method, based on the Black and Scholes calculation formula. On March 3, 2010, the general meeting of DES approved the options plan. The amount of the expense recognized in the statement of income in the reporting period is NIS 2.2 million.

2. In view of the change in the position of the chairman of the board of directors of the Group from chairman of the board of DES to active deputy chairman of the board of DES, in March 2010, the general meeting of DES approved a number of changes to the options plan granted in the past for DES shares, such that the fifth lot of options (11,069 options) will be cancelled and the fourth lot will remain valid. The other terms will remain unchanged.

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

F. Other operations

1. Further to Note 14(M)(2) to the annual financial statements regarding the decision to dispose of the investment in RoadChef, in February 2010, due to the stagnation in negotiations with a potential buyer, the managements of Delek Real Estate and Delek Petroleum concluded that there is a significantly lower likelihood of selling the asset at the required price and it is highly unlikely that the sale will be made in the required conditions (at the same time, Delek Real Estate and Delek Petroleum will continue to explore opportunities for disposing of the investment, either by selling the shares or by another transaction). As such, and under IAS 28, as from the first quarter of 2010, the investment in RoadChef is accounted for retrospectively according to the equity method.

   As a result of the aforesaid, the investment of NIS 177 million in RoadChef at December 31, 2009 was reclassified from available-for-sale assets to investments in companies and investees and other expenses of NIS 75 million from other income were reclassified from other income to finance income and to the Company's share in the profits of partnerships and investees, net. The effect on the Group's operating results for prior periods as a result of the change in the accounting treatment was not material.

2. On December 3, 2009, the Securities Authority conducted a search in the offices of Delek Real Estate, in respect of the assets belonging to subsidiaries of Delek Real Estate abroad.

   On January 2, 2010, Delek Real Estate reported that, to the best of its knowledge, the issues under investigation by the Securities Authority are in respect of the following issues:

   - Investigation of the accounting presentation of Delek Real Estate's investments in Hilton and Marriot hotels
   - Valuation of a foreign company holding parking lots in the UK, leased to NCP Ltd., as stated in the financial statements of Delek Real Estate in 2007-2009.
   - Investigation of the agreement of Delek Real Estate's foreign subsidiary with a third party in respect of operating RoadChef properties

   At the approval date of the financial statements, there is uncertainty regarding the results of this investigation and the results of the investigation carried out by the Securities Authority regarding the accounting treatment in these issues.

   The management of Delek Real Estate believes that, based on the information available at this stage, the aforesaid does not affect the financial statements. However, Delek Real Estate is unable to assess the final results of the investigation, and any implications they may have on the financial statements of Delek Real Estate in these matters.

   It is noted that further to Note 14(G)(1) to the annual financial statements, up to May 2009, Delek Real Estate was a subsidiary of the Group and as from this date (the distribution date of the shares of Delek Real Estate as a dividend in kind), the Group holds 5% of the shares of Delek Real Estate. It is further noted that the Group (through Delek Petroleum) holds 25% of the shares of RoadChef (see section 1 above). Any effect of the investigation on the financial statements of Delek Real Estate could affect the Group's financial statements for the reporting period.

3. In April 2010, Gadot Biochemical Industries Ltd. completed a rights issue for the acquisition of 3,971,226 shares for USD 10 million. The Group exercised the entire quantity of rights that it was offered in consideration of USD 6 million

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

F. Other operations (contd.)

4. Further to Note 14(G)(1) to the annual financial statements regarding the loan provided by the Company to Delek Real Estate, amounting to NIS 360 million on March 31, 2010 (including accrued interest), in view of the delay in the sales procedures of RoadChef, which is partially due to the economic slowdown in the UK and the impairment of RoadChef assets, in March 2010, the Company notified Delek Real Estate that at the approval date of the financial statements, the management of the Company is willing, if a request is received from Delek Real Estate, to recommend to the certified organs of the Company to extend the repayment date of the loan provided by the Company to Delek Real Estate as set out above and that the extension is subject to approvals as required by the law.

5. Subsequent to the reporting date, Delek Real Estate completed a rights offering. Under the rights offering, rights were exercised for the acquisition of 114,698,115 shares for a consideration of NIS 126 million. The Group exercised its right and acquired Delek Real Estate shares. The Group's holdings in Delek Real Estate subsequent to the acquisition remained unchanged.

NOTE 4 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION

A. Tamar and Dalit concessions

Further to Note 16(C) to the annual financial statements, on March 28, 2010, the partnerships announced that they had authorized the operator of the joint venture to enter into agreements for the purchase of gas pipelines and other equipment required to develop the Tamar natural gas field, for an additional USD 157 million (for all the partners) such that at that date, the project partners approved agreements for the purchase of equipment and services amounting to USD 614 million.
The operator informed the project partners that the development costs of the Tamar field, based on the development plan, are estimated at this stage (for 100% of the rights) at USD 2.8 billion (including a budget for unexpected expenses for the planning stage, which has not yet been completed, and for the establishment stage), in which all the partners in the project undertook USD 614 million, as aforesaid (the share of Delek Drilling and Avner is 15.625% each). It is clarified that the development budget has not yet been submitted to the partners for approval. It is noted that at this stage, the development costs are estimates only, received from the operator, and there is no certainty as to the actual costs.
The total investments for development of the Tamar and Dalit natural gas fields, at March 31, 2010, amounted to USD 88 million (the share of Delek Drilling and Avner is USD 14 million each).

B. Letters of intent for supply of natural gas

In February 2010, South Power Station Ltd. and DSI Dimona Silica Industries Ltd., and the partners in the Tamar and Dalit concessions signed a letter of intent for the supply of natural gas for 17 years, in a total scope of 2.8 BCM and an estimated financial scope of USD 0.5 billion. The actual revenue will be affected by a number of conditions.

It is noted that notwithstanding the aforesaid, there is no certainty that binding contracts will be signed under these terms or under other terms, and there is no certainty that the supply quantity and financial scope of the agreements will be as estimated above, even if a binding contract is signed.

NOTE 5 – DEBENTURES

A. In January 2010, DES issued two debenture series in a scope of NIS 190 million and NIS 210 million, respectively. The first series is linked to the CPI and bears annual interest of 5.15% and the second series is in shekels and bears annual interest of 7.19%. The debentures are repayable in 2013-2019. As collateral for the repayment of the debentures, DES pledged in favor of the trustee of the debentures participation units of Delek Drilling and Avner in a ratio defined in the deed of trust of the debentures.

B. Subsequent to the reporting date, in April 2010, the Company issued 255,378,000 par value Debentures (Series DD) ("the Debentures"). The debentures are payable in one payment on October 31, 2012 and bear annual interest of 4.1%, payable twice a year on April 30 and October 31, 2012. The debentures are unlinked (principal and interest). The debentures are convertible into ordinary shares of NIS 1 par value each of the Company, such that as from their listing on the TASE through to October 15, 2012, each NIS 1,225 par value debentures will be convertible into one ordinary share of NIS 1 par value of the Company, subject to adjustments for distribution of a dividend and so on.

The proceeds of the issuance amounted to NIS 253 million (after offsetting issuance expenses of NIS 2 million). Of this amount, NIS 246 million (net of issuance expenses) was attributed to the obligation component of the debentures and the other NIS 7 million (net of issuance expenses) was attributed to the conversion options and will be recognized directly in the Group's capital.

NOTE 6 – CONTINGENT LIABILITIES

There are contingent claims against certain investees for significant sums, including certification for class actions that might reach several hundred million or even 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 forth below (see Notes 33(A) to the annual financial statements).

A. Several lawsuits amounting to several hundred million shekels have been filed against Gadot Biochemical Industries Ltd. ("Gadot") and others, for bodily injury and damage to property with regard to Gadot's activity in the Kishon River area (for details, see Gadot's financial statements, which are available to the public).
Most of these suits are currently in the very early stages. In some cases, proceedings are yet to begin and in others, proceedings have only reached the preliminary stages. In some of the cases, evidentiary sessions are yet to be held and in most cases, the parties have not yet submitted all of the opinion papers and affidavits. Furthermore, in these cases there are serious factual disputes and there are many facts that need to be decided and are unknown to Gadot. Moreover, the aforementioned proceedings are very complex and problematic since, among other reasons, most of the suits pertain to ongoing events that occurred over decades, in which a very large number of entities are involved, including the State and local authorities, therefore it is not possible to assess the responsibility and the share of any one entity involved in the suits. It is also scientifically difficult to determine the degree of causal connection between the discharge of industrial wastewater and the damages alleged by the plaintiffs. In the estimate of the Group's management, based on the assessment of the management of Gadot and the opinion of legal counsel, considering all of the uncertainties existing in the entirety of these cases and because of the complexities and inherent difficulties therein, the chances of the aforementioned suits and proceedings cannot be assessed at this stage and therefore provisions in their regard have not been included in these financial statements.

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

B. In November 2006, three motions for certification as class actions were filed against Delek Israel, third parties and also against the former deputy CEO of Delek Israel, Mr. Yisrael Chelouche. The applicants claim that Delek Israel, together with the other defendants, acted, inter alia, in a fraudulent, misleading and negligent manner and violated their statutory duty. The motions and claims were filed following an investigation by the Israel Police concerning the dilution of fuels at several gas stations marketing Delek Israel fuels and in view of possible damages that may have been incurred as a result. The motions amount to NIS 1.4 billion.
In all of these proceedings, Delek Israel filed motions for summary dismissal, motions to try all three proceedings before the same judge and motions to extend the deadline for the submission of a response to the motion for approval until after the hearing on the summary dismissal. The court granted the motion to try the proceedings before the same judge.

In the third quarter of 2007, one motion, in the amount of NIS 90 million, was stricken off by consent and the court ordered the combination of the two remaining motions into one. Following combination of the two motions, the amount of the motion for certification as a class action was reduced from NIS 1.4 billion to NIS 554 million. Similarly, the former Deputy CEO of Delek Israel was removed from the petition. The applicants filed a motion for a continuance in the proceedings in the motion for certification as a class action until receipt of a peremptory decision against the other defendants (but not against Delek Israel) in a criminal proceeding instituted against them. The court allowed a continuance in the proceedings until a ruling is handed down in the criminal proceeding. Delek Israel filed a motion for leave to appeal the decision for a continuance in the proceedings and in August 2009, the court denied the motion for leave to appeal and upheld the stay of proceedings.

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

C. Further to Note 33(A) to the annual financial statements, several lawsuits have been filed against Delek Israel, its investees and others, including motions for certification as class actions, amounting to significant sums (several hundred million shekels). Most of the claims are for financial damage to gas station customers due to extra charges for fuel.

Further to Note 33(A)(16) regarding claims by consumers of 96 octane gasoline, in February 2010, the parties to the claim filed an application for its dismissal. The court gave the consent of the parties the validity of a ruling and ordered the class action to be dismissed.
In addition, further to Note 33(A)(16) regarding the claim on behalf of residents of the Haifa Bay area, at the beginning of 2010 the criminal proceeding was completed and the applicant asked the court to be removed from the application for certification as a class action. The application for removal is subject to court approval. The management of Delek Israel estimates, based on the opinion of its legal counsel, that it is more likely than not that the motion will be accepted, therefore a provision was not included in the financial statements.

Further to Note 33(A)(6), subsequent to the date of the financial statements, in April 2010, the motion was accepted for dismissal of the class action against Delek Israel and other fuel companies, in the amount of NIS 22 million (the applicant estimates the share of Delek Israel at 27%). In respect of the additional charge for full service from people with disabilities and the hearing of the case was concluded without material expenses for Delek Israel.

For some of the other lawsuits, the management of Delek Israel estimates, based on the option of its legal counsel, that it is unlikely that the claims will be accepted, and for some of the

lawsuits, it is not possible to assess the likelihood of their success, therefore a provision was not included in the financial statements.

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

D. Further to Note 33(A)(26) to the annual financial statements, several lawsuits have been filed against The Phoenix, its investees and others, including motions for approval as class actions, amounting to significant sums (several hundred million shekels). Some of the suits are for high insurance premiums that were collected unlawfully, damages at the time of insurance events for reduced amounts and more. For most of these claims, no provisions were included in these financial statements because, inter alia, in the estimation of the Group's management, based on the assessment of the management of The Phoenix and the opinion of its legal counsel, The Phoenix has defensive claims that are likely to result in dismissal of the claims.

In addition, in 2010, a number of motions for certification as class actions were filed against investees of The Phoenix. As the claims were filed recently, in the initial stages it is not possible to estimate the chances of these motions and therefore no provisions were included in the financial statements.

E. Further to Note 33(A) to the annual financial statements, in 2006-2008, motions for certification as class action suits were filed against subsidiaries of Republic, following Hurricane Katarina that hit Louisiana in 2005. The plaintiffs contend that the subsidiaries are in breach of their insurance policies because they did not pay insurance claims as appropriate and did not apply the law properly on various matters

These proceedings are in the preliminary stages and have not yet been certified as class actions, therefore at this stage, the management of Republic is unable to estimate the outcome of these proceedings and therefore provisions in their regard have not been included in these financial statements.

NOTE 7 – CAPITAL

A. In February-March 2010, 33,416 Warrants (Series 5) were exercised for 33,416 ordinary shares of the Company for NIS 16.3 million. Following the exercise, the Company's capital increased by NIS 29 million, reflecting the additional exercise and recognition of the value of the liability shortly before the exercise into capital. Subsequent to the exercise, the issued and paid up share capital amounted to 11,723,669 ordinary shares of the Company of NIS 1 par value each. The balance of Warrants (Series 5) expired in March 2010.

B. In the first quarter of 2010, the special purpose companies sold Group shares for a net consideration of NIS 5 million.

C. On March 24, 2010, the Group declared distribution of a dividend to its shareholders in the amount of NIS 100 million. The dividend was paid in April 2010.

D. Subsequent to the reporting date, on May 31, 2010, the Group declared the distribution of a dividend to its shareholders in the amount of NIS 150 million.

NOTE 8 – OPERATING SEGMENTS

A. General

Further to the annual financial statements, the Group has the following operating segments:

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

NOTE 8 – OPERATING SEGMENTS (CONTD.)

B. Segment reporting

1. Revenue

	Three months ended March 31		Year ended December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
Fuel operations in Israel	1,173	856	4,286
Fuel operations in the United States	3,334	1,513	10,413
Fuel operations in Europe	2,779	2,413	10,681
Automotive	1,091	1,033	4,743
Oil and gas exploration and production	100	87	449
Insurance and finance in Israel *	2,394	2,573	10,483
Insurance operations abroad *	323	439	1,668
Other segments	171	204	724
Total in statement of income	11,365	9,118	43,447

* Represents insurance premiums on retention in life assurance and general insurance

2. Results for the segment and adjustment to net profit

	Three months ended March 31		Year ended December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
Fuel operations in Israel	51	48	230
Fuel operations in the United States	(44)	26	189
Fuel operations in Europe	29	(17)	97
Automotive	157	112	460
Oil and gas exploration and production	68	44	265
Insurance and finance in Israel	155	161	300
Insurance operations abroad	37	41	77
Other segments	50	77	212 **
Adjustments *	(66)	(65)	(223)
Total profit from operating profit	437	427	1,607
Finance expenses, net	56	134	816 **
Gain from disposal of investments in investees, net	-	-	518
Group share in profits of associates and partnerships, net	70	65	92 **
Income tax	107	100	215
Profit from discontinued operations	-	17	17
Net profit	344	275	1,203

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

** Reclassified, see Note 3(F)(1)

NOTE 9 – INTERESTED AND RELATED PARTIES

A. Further to Note 46(A) to the annual financial statements, in January 2010, after approval by the audit committee, the board of directors of the Company approved the renewal of the loan of NIS 4.4 million that had been extended to the CEO of the Company to acquire shares in Delek Group companies, instead of repayment that was due on January 29, 2010. The repayment date for the new loan is April 29, 2013, under the same terms as the previous loan (the balance of the loan that was not extended is payable in 2011).

B. During the reporting period and subsequent to the reporting date, Delek Israel entered into an agreement with Delek Real Estate and its investees to acquire shares and rights in gas stations and adjacent commercial areas, for a total of NIS 80 million.

C. In February 2010, The Phoenix acquired shares of Industrial Buildings Corporation Ltd. for a total of NIS 20 million.

NOTE 10 – MINIMUM CAPITAL REQUIRED OF AN INSURER

A. **1.** Information regarding the required and existing equity of The Phoenix Insurance in accordance with Control of Financial Services Regulations (Insurance) (Minimum Capital Required of an Insurer) 5758-1998 (Amended), 5764-2004 ("the equity regulations") and the Supervisor's instructions.

	March 31 2010	December 31 2009
	Unaudited	Audited
	NIS millions	
Minimum capital:		
Amount required under the revised capital regulations	2,094	2,133
Amount required under the equity regulations immediately before publication of the amendment	1,376	1,392
Difference (a)	718	741
Amount required at the reporting date under the regulations and guidelines of the Supervisor (a)	1,592	1,614
Actual amount calculated in accordance with the equity regulations		
Primary capital	1,627	1,489
Secondary capital, subordinated notes	835	788
Total actual amount at the reporting date calculated in accordance with the equity regulations	2,462	2,277
Excess	870	663
Apart from the general requirements in the Companies Law, distribution of a dividend from excess capital in insurance companies is also subject to liquidity requirements and compliance with the investment regulations; in this matter, the amount of the investment in investees, against which it is mandatory to place excess capital under the Supervisor's guidelines, therefore constituting non-distributable excess (b)	320	309

NOTE 10 – MINIMUM CAPITAL REQUIRED OF AN INSURER (CONTD.)

1. (contd.)

(a) Under the amendment, by the publication date of the financial statements, an insurer is required to increase its capital for the difference between the capital required pursuant to the regulations, before and after the amendment ("the difference"). The difference will be calculated at each reporting date. The capital will be increased at the dates and rates set out below:

Up to the publication date of the financial statements as at December 31, 2009, at least 30% of the difference
Up to the publication date of the financial statements as at December 31, 2010, at least 60% of the difference
Up to December 31, 2011, the entire difference will be paid.

These rates will be increased by 15% at the publication dates of the six-month financial statements following the abovementioned dates of the financial statements.

(b) If the amount of the investments in investees exceeds the required excess capital, the capital required from The Phoenix Insurance will increase to the amount of the difference.

2. In accordance with the Supervisor's circular of March 29, 2009, as from the financial statements for 2008 and until December 30, 2010, an insurance company and a management company require the consent of the Supervisor before distributing a dividend. Pursuant to the circular, in general, the amount of the dividend shall not exceed 25% of the profit permitted for distribution.

Following the circular, in March 2010 a clarification was issued in respect of criteria for approval of the distribution of a dividend by an insurer ("the clarification").

In accordance with the clarification, an insurance company may apply to the Supervisor for approval to distribute a dividend, as from the publication date of the periodic reports for 2009, subject to capital as set out in the clarification and the submission of an annual profit forecast for 2010-2011, an updated debt service plan approved by the board of directors of the holdings company, an operative plan to raise capital approved by the board of directors of the insurance company and the minutes of the meetings of the board of directors of the insurance company in which distribution of the dividend was approved.

At the same time, the clarification prescribed that a company with capital, subsequent to distribution of the dividend, that is 110% higher than the amount required in the clarification, may distribute a dividend without the prior approval of the Supervisor, provided the Supervisor was notified of such and the relevant documents were submitted to the Supervisor prior to distribution of the dividend.

NOTE 10 – MINIMUM CAPITAL REQUIRED OF AN INSURER (CONTD.)

3. In June 2009, a draft amendment was published to the Supervision of Financial Services Regulations (Provident Funds) (Minimum Capital Required from a Management Company), 5769-2009 and the second draft of a circular for institutions regarding capital requirements from management companies ("the regulations").

Pursuant to the regulations, it is recommended to expand the capital requirements from management companies. The new capital requirements will include capital requirements in accordance with the scope and holding of the managed assets, but no less than the primary capital of NIS 10 million. In addition, if the Company decided to hold the capital in its accounts (and not in trust), it will be required to place additional capital in the amount of the deferred acquisition expenses, the balance of the original difference attributable to acquisition of operations and investees and assets held contrary to the investment regulations.

Pursuant to the regulations, on the publication date of the regulations, a management company with capital that is lower than the capital required under the regulations, will be required to increase its capital to at least one half of the required amount by March 31, 2010, and the balance of the amount by December 31, 2010.

Following the transfer of the funds from The Phoenix Provident to The Phoenix Pension in 2010, The Phoenix Provident will no longer be a management company as defined in the Provident Funds Law, and therefore these provisions will not apply to it and it will not be required to increase its capital.

According to a preliminary estimate, at March 31, 2010, the capital requirements from The Phoenix Pension and Provident and the management company of Excellence would have increased by NIS 42 million.

B. In accordance with the US National Association of Insurance Commissioners (NAIC), Republic requires minimum capital of USD 48 million. At March 31, 2010, the capital of Republic amounted to USD 250 million.

NOTE 11 – CONDENSED INFORMATION OF AN EQUITY-ACCOUNTED COMPANY

The Group holds 50% of the shares of IDE Technologies Ltd. ("IDE"). The Group's investment in IDE is accounted for using the equity method. In the three months ended March 31, 2010, the Group's share in the profits of IDE amounted to NIS 24 million, representing 11.7% of the Group's net profit attributable to the Group's shareholders. Condensed information about IDE for each reporting period (USD millions):

	March 31		December 31
	2010	2009	2009
	Unaudited		Audited
	USD millions		
Current assets	181	210	212
Non-current assets	365	259	346
Current liabilities	128	145	138
Non-current liabilities	266	232	270
Equity attributable to the Company's shareholders	152	92	150

	Three months ended March 31		Year ended December 31
	2010	2009	2009
	Unaudited		Audited
	USD millions		
Revenue	78	101	377
Gross profit	21	29	96
Operating income	15	23	68
Finance income (expenses), net	4	(7)	12
Net profit	12	20	71