Delek Group

FINANCIAL STATEMENTS

UNAUDITED

AS OF JUNE 30, 2010

IMPORTANT

This document is an unofficial translation for convenience only of the Hebrew original of June 30, 2010 financial report of Delek Group Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on August 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 BUSINESSES) IN THE PERIODIC REPORT OF DELEK GROUP LTD. (THE "COMPANY") FOR THE YEAR 2009

1. General

This update includes material changes and innovations that took place in the Company's businesses during the second quarter of 2010 and up until shortly prior to the date of this report with respect to all matters that require reporting in the periodic report and that were not updated in the annual report. The update refers to the section numbers in Chapter A (Description of the Company's Business) in the Periodic Report for 2009 and is in addition to it.

2. The Company's activities and description of its businesses

With reference to section 1.1.4 of the annual report, on April 26, 2010, the Company issued a total of 255,378,000 par value Debentures Series DD ("the Debentures"). The debentures are repayable in a lump sum on October 31, 2012 and bear annual interest of 4.1% payable twice per year on April 30 and October 31, 2012. The debentures are unlinked (principal and interest). The debentures are convertible to shares of NIS 1 par value of the Company so that as at the date of their listing for trade until October 15, 2012, each NIS 1,225 par value debentures will be convertible to one NIS 1 par value share of the Company, subject to adjustments for the distribution of dividends, etc.

In June 2010 the Company issued NIS 300,000,000 par value Debentures Series N and NIS 500,000,000 par value Debentures Series R to the public. Debentures Series D and Debentures Series R were issued by way of the expansion of the series. The total gross return on the issue amounted to NIS -844 million. For further information see the Company's Immediate Report dated June 15, 2010 (Ref. No: 2010-01-521109) and (Ref. No.: 2010-01-521718) presented herein by way of reference.

3. Distribution of dividends

With reference to section 1.4.1 of the annual report, on May 31, 2010 the Company announced the distribution of a dividend in the overall amount of NIS 150 million. On June 30, 2010 the dividend was paid. Subsequent to the balance sheet date, on July 26, 2010 the Company announced the distribution of a dividend in the overall amount of NIS 120 million. On August 23, 2010 the dividend was paid.

4. The fuel product sector in Israel

A. With reference to section 1.8.12 of the annual report, on August 1, 2010 the board of directors of Delek Israel resolved, subsequent to receiving the approval of Delek Israel's audit committee, to approve the appointment of Mr. Avi Ben Asayag as CEO of Delek Israel commencing August 22, 2010 and Delek Israel signing of an employment contract with him. The audit committee and the board of directors of Delek Israel also resolved to approve the allocation of 283,099 options exercisable to Delek Israel shares, which constitute 2.5% of Delek Israel's issued and paid-up share capital, as at the reporting date.

B. With reference to section 1.8.16D of the annual report, on June 9, 2010 Standard & Poor's Maalot announced its verification of a ilA rating with stable outlook for Debentures (Series A) and Debentures (Series B) of Delek Israel.

5. The fuel products sector in Europe

With reference to section 1.9.29 of the annual report, on June 18, 2010 BP France SA ("BP") gave notice to Delek Europe of acceptance of Delek Europe's offer to acquire BP's fuel marketing and convenience store operations in France. On June 23, 2010 Delek Europe signed the agreement to acquire BP's marketing operations in France and paid an additional advance in the amount of EUR 10 million. The balance of the consideration will be paid upon closing of of the transaction. On August 19, 2010 the

European Commission approved the transaction to acquire BP's marketing operations in France, thereby fulfilling the contingent terms of the agreement and there are no other contingencies to concluding the transaction. The transaction is expected to be concluded during the fourth quarter of 2010. For further information see the Company's immediate reports of June 22, 2010 (Ref. No.: 2010-01-528750), of June 24, 2010 (Ref. No.: 2010-01-531060), and of August 19, 2010 (Ref. No.: 2010-01-591771), whereby the information therein is indicated herein by way of reference.

6. The Energy Sector

A. In accordance with section 1.11.24A of the annual report, on April 13, 2010 the Minister of Finance appointed a commission to examine the fiscal policies concerning oil and gas resources in Israel, headed by Prof. Eitan Sassinsky ("the Sassinsky Commission"). The Commission was empowered to formulate recommendations for changing the foregoing policies and to present its recommendations to the Minister of Finance during the fourth quarter of 2010. Delek Automotive Systems Ltd. and the Partnerships (Delek Drilling and Avner) object to any changes (in taxes/royalties) with respect to oil rights (licenses and holdings) which have already been granted to the Partnership pursuant to the Oil Law, and are preparing to present to the Commission a position supported by financial and legal opinions. If and should the Commission recommend raising the rate of royalties or changes to the taxation policies, and if and should the Ministers of Finance and National Infrastructures adopt such recommendations, and if this leads to any obligatory law that will stand up under the Supreme Court investigation, this could have material adverse impact on the energy market in Israel in general and on Delek Automotive Systems Ltd. and the Partnerships in particular. On August 25, 2010 the Group, Delek Energy and the partnerships filed position statements to the Commission to examine the physical policiesconcerning oil and natural gas resources in Israel.

B. With reference to section 1.11.2H of the annual report, on June 2, 2010 Noble notified the Partnerships in the Yam Tethys project that, based on production data, including data concerning pressure and historical production data from the Mari-B reservoir, it estimates that the natural gas reserves in the Mari-B field could be between 50 – 100 BCF (approximately 1.4 – 2.8 BCM) and that this estimate is currently under examination at Netherlan, Sewell and Associates, INC.

C. With reference to section 1.11.3(2) of the annual report, on June 2, 2010 the Tamar field project operator received from Netherland, Sewell Associates, INC ("NSAI") a report updating the natural gas reserves in the Tamar field. According to the NSAI report, the natural gas reserves in the Tamar field were updated to 8.7 TCF (247 BCM) compared with 7.7 TCF (218 BCM) as reported in its previous report (an increase of 13%). These natural gas reserves include proved reserves (P1) of 6.5 TCF (184 BCM) compared with 6 TCF (170 BCM) as reported in its previous report (an increase of 8%). Accordingly, NSAI updated the gross mean resources of the natural gas reserves in the Tamar field to 8.4 TCF (238 BCM) compared with 7.3 TCF (207 BCM) as reported in its previous report (an increase of 15%).

D. With reference to section 1.11.3(A)(3) of the annual report, the Ministry of National Infrastructure gave notice on August 10, 2010, the Minister of National Infrastructures granted the partners in the Tamar project approval to develop the Tamar gas field as a dual pipeline for the delivery of natural gas from the field to a rig that will be constructed next to the Yam Tethys rig and from there, through the existing pipeline to the Yam Tethys receiving terminal in Ashdod.

E. Noble issued a press release stating that this development plan will enable conveyance of natural gas from the Tamar field to the Israeli market by the end of 2012 and that the project budget will be similar to its projected budget based on the original development plan according to which the natural gas is expected to be conveyed to a reception facility in the north of the country.

F. With reference to section 1.11.4D of the annual report, on June 1, 2010 the Partnerships announced that the Petroleum Commissioner in the Ministry of National Infrastructures extended the Avia/337 and Keren/338 licenses ("the Licenses") until June 8, 2011 and September 30, 2010 respectively, and set out the procedures that are to be carried out during the extended period of each of the licenses. On August 9, 2010 the Petroleum Commissioner in the Ministry of National Infrastructures

confirmed changes to the terms of the Avia license, including rejection of presentation of a signed agreement to carry out a 3D seismic survey, by September 15, 2010.

G. With reference to section 1.11.4G of the annual report, on June 2, 2010Noble Energy Mediterranean Ltd. (hereinafter: ("Noble"), one of the project operators, held a meeting of the partners during which it presented initial findings from processing and interpretation of the 3D seismic survey conducted in the Amit and Rachel licenses, and in part of the Hannah, David and Eran licenses ("the Ratziv Yam Licenses") and the Alon A and Alon B licenses. Noble first focused on processing and initial interpretation of the seismic data, covering the prospect known as "Leviathan". Based on the forgoing information, Noble estimates that the gross unrisked mean resources of natural gas of the prospect are approximately 16 CF (453 BCM). This estimate does not include the geological probability of finding hydrocarbons in the prospect. The probability of geological success (PG) of finding hydrocarbons at the Leviathan prospect is 50%.

H. With reference to section 1.11.4(G) of the annual report, on August 26, 2010, the partners in the Ratio Yam licenses approved a plan and budget for initial exploratory drilling of the Leviathan prospects in the Rachel and Amit license areas. The drilling is planned to commence in October 2010 using the Sedco Express drilling rig and to continue for five months. This drilling is planned to be the deepest drilling to ever be executed in this area off the coast of Israel and therefore there are at present no information concerning the pressures and other prevailing conditions at the secondary target depths. In view of the foregoing, it is possible that during the deepening of the drilling to the secondary targets and due to technical or other considerations, the rig may be replaced with the Pride North America rig, which will continue the drilling. The Sedco Express rig is expected, when completing the Leviathan 1 drilling, to move to the Tamar project exploration drillings. It is noted that if the Leviathan project (Lower Cretaceous) will be found at a deeper level than currently estimated, it will not be possible to complete this prospect drilling using this rig, for technical reasons. If it is decided to conduct production tests in the event of a discover, the Pride North America rig is planned to carry out such production tests. The total budget approved by the partners for the Leviathan 1 drilling is estimated at USD 150 million (including forecasted transportation costs of the rig). This budget does not includethe cost of production tests which, if it is decided to conduct such tests, will be approved by the partnerships in a separate budget.

I. With reference to section 1.11.7 of the annual report, on May 26, 2010 Delek Energy published an update concerning Matra operations in Russia, inter alia, that the results of the verification drilling at Well 13 in the Sokolovskoe field indicate low levels of porosity and permeability compared with Well 12.

J. With regard to section 1.11.21 of the annual report, in June 2010 Delek Energy issued NIS 171,500,000 par value Debentures Series D and NIS 241,800,000 par value Debentures Series E to the public. Debentures Series D and Debentures Series E were issued by way of the expansion of the series. The total gross consideration for the issuance amounted to NIS 411 million.

K. With reference to section 1.11.21G of the annual report, on June 24, 2010 Delek Energy gave notice that a bridging loan agreement was signed between the Partnerships and HSBC Bank Plc and Barclays Bank Plc, according to which the Partnerships will received non-recourse loans to finance their share in part of the development costs for Tamar field, subject to compliance with certain restrictions as is generally accepted for this type of financing transaction.

L. With reference to section 1.11.21 I of the annual report, on July 1, 2010 Standard & Poor's international rating agency (""S&P") published . an update to the rating of the Yam Tethys project financing transaction, according to which the debentures issued by the designated company of the Israeli partners in the Yam Tethys project (Delek Drilling Ltd. Partnership, Avner Oil Exploration Ltd. Partnership, and Delek Investments and Properties Ltd.) were rated BBB- with stable outlook. The rating update also determined that the debentures were no longer rated Credit Watch with negative implications.

7. The insurance and finance sector in Israel

A. With reference to section 1.12.18 of the annual report, on April 21, 2010 the Phoenix announced that further to the Phoenix Investments settlement agreement of June 14, 2009 ("the Settlement Agreement") with Aharon Biram, Gil Deutsch and Esther Deutsch, ('the Sellers"), the acquisition of the second portion was concluded, in accordance with the terms of the transaction dealt with in the settlement agreement On the closing date (April 21, 2010), The Phoenix Investments acquired the second portion of shares in Excellence Investments Ltd. ("Excellence") from the sellers, as stipulated in the settlement agreement, of 869,855 shares, representing 5.11% of the issued and paid up share capital of Excellence, for NIS 76,300 million.
It is noted that the Sellers presented Phoenix Investments a calculation of the annual return due to them in the amount of NIS 109,373, and whereas Phoenix Investments disputes this calculation and informed the Sellers of its reservations concerning their calculation of the proceeds, whereby it was agreed that the annual return for the second portion should be NIS 76,300,000. Pursuant to the provisions of the settlement agreement, Phoenix Investments reservations do not delay the transfer of the second portion of shares and therefore the consideration that is not in dispute were paid. The Sellers noted their disagreement to the decision of an expert who will act as an arbiter, under the purchase agreement. On July 7, 2010 the Arbitor decided in the matter of the disagreement that the amount of the annual return for the second portion due to the Sellers is NIS 103.57 million with the addition of linkage differentials and interest, based on the settlement agreement. On July 9, 2010 Phoenix Investments paid the balance of the consideration in the amount of NIS 28.73 million, including linkage differentials and interest.

B. With reference to section 1.12.3 F of the annual report, on June 1, 2010 Phoenix Holdings acquired, in a TASE transaction, 100,508 shares in Excellence Investments through Phoenix Investments and Finances Ltd., which is a subsidiary of the Company (100%) ("Phoenix Investments"), at the price of NIS 5,729 per share. The number of shares acquired, as aforesaid, constitute 0.59% of the issued and paid-up share capital of Excellence. As at June 30, 2010 Phoenix Investments holds 73.32% of the issued and paid up share capital of Excellence. The share of Phoenix shareholders in the equity and profit of Excellence includes shares that have not been purchased however they may be accelerated and represent 88.65% at the purchase date.

C. With reference to section 1.12.12D of the annual report, on May 13, 2010 the board of directors of Phoenix resolved, following approval of the Phoenix audit committee, to change the base price of the options currently in the Phoenix options reserves and which are yet to be allocated, as well as the base price of the options which will be returned to the options reserves in the future, if at all. In addition, the board of directors of Phoenix resolved to allocate, free of consideration, to four officers in Phoenix and/or its investees, directly and/or indirectly ("the Offerees" and/or "Offeree", accordingly) (one of the offerees is a senior executive in the Company) and subject to each of the offerees signing an options agreement with Phoenix, 1,203,000 options

D. With reference to section 1.12.14 of the annual report, on July 8, 2010 Phoenix announced that it is conducting negotiations with respect to the sale of its entire holdings in Protected Housing until 120 chain to Malibu Israel Ltd.

8. Other operations

Investment in Noble

With reference to section 1.16.5 of the annual report, on July 8, 2010 the Company's board of directors resolved to increase its financial investment in Noble Energy Inc shares (hereinafter: ("Noble") in an additional amount that will not exceed 1% of the issued and paid-up share capital of Noble and in a total

financial investment that will not exceed USD 140 million. For further information see the Company's immediate report of July 8, 2010 (Reference No.: 2010-01-549138), whereby the information appearing in said reports are indicated herein by way of reference. On August 4, 2010, the Company's board of directors decided to increase its financial investment in Noble shares to an overall holding of 4% of Noble's issued and paid-up share capital. For further information see the Company's immediate report of August 4, 2010 (Reference No.: 2010-01-576300), whereby the information appearing in said reports are indicated herein by way of reference.

9. Issues concerning the Company's comprehensive operations

Financing

With reference to section 1.17.5 of the annual report pertaining to the Company's credit rating, it is noted that on June 8, 2010 Midroog announced an A1 Stable rating for Debentures (Series N and Series R) issued by the Company.

Human Capital

With reference to section 1.16.3 of the annual report and to Standard 21 in Chapter D of the annual report, on May 31, 2010 the Company's board of directors resolved to update the monthly salary of the Company's CEO. For further information see the immediate report published by the Company on May 31, 2009 (Ref. No.: 2010-01-504450) presented herein by way of reference.

DELEK GROUP LTD.
Date: August 31, 2010
Signatories and their positions:
Gabriel Last – Chairman of the board of directors
Asi Bartfeld - CEO

August 30, 2010

Delek Group Ltd.

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

For the six month period ended June 30, 2010

The board of directors of the Delek Group Ltd. ("the Company"), hereby presents the Company's Directors' Report for the six months ended June 30, 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 fuels and energy, 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

- 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.

  On June 18, 2010, BP notified Delek Europe of its acceptance of Delek Europe's offer to acquire the Marketing Activity. On June 23, 2010, Delek Europe signed an agreement for the acquisition of BP's aforesaid activity in France and paid an additional deposit of EUR 10 million (NIS 47 million).

  At the time of approval of the financial statements, all suspending conditions have been met, and the Company estimates that the transaction will be completed during the fourth quarter of 2010.

- In June 2010, Noble Energy Mediterranean Inc. ("Noble"), the project operator, notified the partners in the Tamar lease that it had received a report updating the natural gas reserves in the Tamar field from Netherland, Sewell and Associates, Inc. ("NSAI"), an engineering consultancy company engaging in assessment of oil field reserves. This update was made following results received from continued analysis of the drill findings, and particularly analysis of the core samples extracted during the Tamar 2 drill.

  According to the aforesaid NSAI report, the natural gas reserves in the Tamar field which are to be classified as 2P (Proved + Probable Reserves) upon approval of the Tamar field development plan (which will also include reasonable forecasts for the sale of natural gas to be produced in the field) is estimated at 8.7 TCF (247 BCM), an increase of 13% from the previous estimate of 7.7

TCF (218 BCM). These gas reserves include 1P-category (Proved) gas reserves, to the amount of 6.5 TCF (184 BCM), an increase of 8% compared with the previous estimate of 6 TCF (170 BCM). Furthermore, NSAI updated the gross mean resources for the Tamar gas field to 8.4 TCF (238 BCM), an increase of 15% from the previous estimate of 7.3 TCF (207 BCM).

In June 2010, Noble presented the Partnerships with preliminary findings from the data obtained from the 3D seismic survey carried out in the Amit, Rachel and parts of the Hannah, David and Eran licenses ("the Ratio Yam Licenses"), as well as in the Alon A and Alon B licenses.

In the first stage, Noble focused on processing and interpretation of the seismic data covering the Leviathan prospect in tertiary sand layers corresponding to the reservoir sands identified in the Tamar drillings ("Tertiary Sands"), located in the Rachel and Amit licenses in which Delek Drilling and Avner each hold a 22.67% interest. Based on this data, Noble estimates the gross unrisked mean gas resources of the prospect to be 16 TCF (453 BCM). This estimate does not include the geologic probability for finding hydrocarbons in the prospect. The probability of geologic success in the Leviathan prospect is 50%. On August 26, 2010, the partners in the Ratio Yam Licenses approved budgets and plans for initial exploration drilling in the Leviathan prospects, situated in the Rachel and Amit licenses. Drilling is slated to begin in October 2010. The total budget approved by the partners for the Leviathan 1 drilling is estimated at USD 150 million (including expected rig transportation costs). The budget does not include production testing costs. If it is decided that production testing be carried out, the partners will approve such costs under a separate budget.

- In May 2010, the Company announced a dividend of NIS 150 million in respect of the results for Q1 2010. This dividend was paid in June, 2010. The dividend was distributed in June 2010. On July 26, 2010, the Company's board of directors resolved to distribute NIS 120 million in dividends. This dividend was distributed on August 23, 2010.

3. Results of Operations

A) Revenue from continuing operations

The Group's revenues in the reporting period amounted to NIS 21.8 billion compared with NIS 19.9 billion in the corresponding period of the previous year, an increase of NIS 1.9 billion (an increase of 9.5%). The increase in revenue is due mainly to revenue from the US refinery which was shut down for repairs during Q1 and part of Q2 2009 following the fire in late 2008, and due to compensation received from the insurance company for loss of profits which was attributed to the 'Other income' item as part of the Group's operating profit. See also Note 8 to the financial statements - Information Regarding Operating Segments.

B) Operating profit

	1-6/10	1-6/09	4-6/10	4-6/09
Fuel operations in Israel (1)	101	116	50	68
Fuel operations in the US (2)	79	262	123	236
Fuel operations in Europe	98	45	69	62
Automotive operations (3)	332	191	175	79
Oil and gas exploration operations and gas production	175	73	107	29
Insurance and finance operations	370	344	198	142
Insurance operations abroad	45	52	8	11
Other segments	51	179	1	102
Adjustments	(138)	(322)	(55)	(216)
Operating profit	**1,113**	**940**	**676**	**513**

(1) Operating profit from fuel operations in Israel was influenced primarily by the erosion of sales margins due to stiff competition as well as by increased operating expenses - see the detailed analysis in Chapter 6B.

(2) Operating profit from fuel operations in the US was influenced primarily by insurance income received mainly in 2009, which compensated for decreased refining margins - see also Chapter 6A below.

(3) Operating profit in Delek Automotive improved due to the sale of inventory purchased at a lower NIS cost (prior to the revaluation of the Japanese Yen vs. the Shekel). However, Yen's revaluation vs. the Shekel and the increased value of the liability to the Japanese supplier had a negative effect on the financing item as detailed below. See also Chapter 6E below.

For analysis of the other segments of operation, see below.

C) **Financing expenses, net**

The average balance of the Group's financial liabilities at the consolidated level remained unchanged and amounts to NIS 20 billion. However, the Group's net financing expenses increased in the reporting period, and amounted to NIS 492 million compared with NIS 341 million in the corresponding period of the previous year, an increase of NIS 151 million. The increase stems mainly from an increase in the financing expenses of Delek Automotive amounting to NIS 95 million, due mainly to the strengthening Japanese Yen as compared to the Shekel, which increased the value of liabilities to the Japanese vehicle supplier.

D) **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 the reporting period amounted to NIS 83 million, compared with a profit of NIS 122 million in the corresponding period of the previous year. The main change in this item stems from IDE's profits, which at the reporting date amounted to NIS 27 million, as compared with NIS 112 million in the corresponding period of the previous year.

E) **Contribution to net profit (attributable to the Company's shareholders) from principal operations (in NIS millions):**

	1-3/10	4-6/10	1-6/10		1-3/09	4-6/09	1-6/09	2009
Fuel operations in the US	(42)	40	(2)		(2)	97	95	27
Fuel operations in Israel	24	10	34		32	29	61	82
Fuel operations in Europe	14	55	69		3	41	44	59
Oil and gas exploration operations and gas production	30	22	52		(34)	2	(32)	23
Automotive operations	94	36	130		54	53	107	250
Insurance and finance operations	95	27	122		82	6	88	181
Capital gains and others[1]	(10)	(126)	(136)		27	(5)	22	247
Profit attributable to Company shareholders before results of real estate operations	**205**	**64**	**269**		**162**	**223**	**385**	**869**
Real estate operations[2]	-	-	-		(5)	-	(5)	(5)
Profit attributable to Company shareholders	**205**	**64**	**269**		**157**	**223**	**380**	**864**

(1) Included in this item are non-attributed financing expenses, tax expenses and results of other operations in respect of infrastructure and investments. Furthermore, in 2009 this item also includes NIS 16 million in re-organization expenses in Delek Benelux.

(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 interest (5%) in the results of Delek Real Estate based on the equity method. Those results are included in the Capital gains and others item.

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

	1-6/10	1-6/09	4-6/10	4-6/09	2009
Revenue	21,788	19,883	10,423	10,765	43,447
Cost of revenue	18,209	16,640	8,540	9,158	37,032
Gross profit	**3,579**	**3,243**	**1,883**	**1,607**	**6,415**
Sales, marketing and gas station operating expenses	1,696	1,754	852	899	3,426
General and administrative expenses	807	816	405	394	1,768
Other income (expenses), net	37	267	50	199	386
Profit from operating activities	**1,113**	**940**	**676**	**513**	**1,607**
Financing income	221	307	47	133	633
Financing expenses	(713)	(648)	(483)	(340)	(1,449)
Profit after financing	**621**	**599**	**240**	**306**	**791**
Profit from realization of investments in investees and others, net	-	31	-	31	518
Group's equity in profits of investee companies and partnerships, net	83	122	13	57	92
Profit before income tax	**704**	**752**	**253**	**394**	**1,401**
Income tax	210	199	103	99	215
Profit from continuing operations	**494**	**553**	**150**	**295**	**1,186**
Profit from discontinued operations	**-**	**17**	**-**	**-**	**17**
Net profit	**494**	**570**	**150**	**295**	**1,203**
Attributable to:					
Company shareholders	269	380	64	223	864
Non-controlling interest	225	190	86	72	339
	494	570	150	295	1,203

G) **Movement in comprehensive income (loss) (in NIS millions):**

	1-6/10	1-6/09	4-6/10	4-6/09	2009
Net profit	494	570	150	295	1,203
Other comprehensive income (loss):					
Profit (loss) in respect of financial assets available for sale, net	(60)	243	(113)	10	285
Profit (loss) in respect of cash flow hedging, net	(24)	(102)	(12)	6	(115)
Adjustments for translation of financial statements of overseas operations	(25)	153	108	(163)	19
Group's equity in other comprehensive profit (loss) of investees, net	8	11	36	(36)	12
Other comprehensive profit (loss) from continuing operations	(101)	305	19	(183)	201
Other comprehensive profit (loss) from discontinued operations	-	198	-	-	198
Total other comprehensive income (loss)	**(101)**	**503**	**19**	**(183)**	**399**
Total comprehensive income	**393**	**1,073**	**169**	**112**	**1,602**
Attributable to:					
Company shareholders	111	703	23	100	1,113
Non-controlling interest	282	370	146	12	489
	393	**1,073**	**169**	**112**	**1,602**

4. Financial Position

The Group total assets at June 30, 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 June 30, 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 3.9 billion, consisting mainly of balances of NIS 1.2 billion in the Company, Delek Investments and Delek Petroleum, NIS 0.3 billion in Delek US, NIS 0.6 billion in Delek Benelux, NIS 0.8 billion in The Phoenix, NIS 0.7 billion in Delek Energy and NIS 0.2 billion in Republic.

Total current assets

The Group's total current assets at June 30, 2010 amounted to NIS 32.1 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 June 30, 2010 amounted to NIS 20.4 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 headquarter companies, see Appendix A to this Directors' Report.

5. Sources of Finance and Liquidity

The net financial liability of the Company and the headquarters companies at June 30, 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	(7,526)
Loans from banks	(712)
Loans from consolidated companies	(251)
Other	(208)
Total liabilities	**(8,697)**
Assets	
Cash	697
Short-term investments (*)	1,466
Loans to consolidated companies	1,542
Dormant shares	300
Other	24
Total assets	**4,029**
Financial liability, net – headquarter companies	**(4,668)**

(*) 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

During Q2 2010, the Company (separately) completed the raising of NIS 255 million in debentures and the expansion of existing series to the amount of NIS 844 million. For a more detailed explanation of raising debt through debentures, see Note 5 to the financial statements.

6. Analysis of Operations by Segment

A. Fuel operations in the US

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

	1-6/10	1-6/09	4-6/10	4-6/09	2009
	Total	Total	Total	Total	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	7,111	4,011	3,777	2,498	10,413
Gross profit	487	445	298	266	792
Results of operations (excluding impairment and general and administrative expenses)	314	485	248	359	635
Impairment expenses	114	92	60	48	204
General and administrative expenses	121	131	65	72	247
Profit from operations	79	262	123	239	184
Financing expenses, net	66	50	34	31	100
Net profit (loss)	(2)	134	55	136	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 refining and marketing segment contributed profits to the amount of NIS 199 million to the Company's results in the reporting period, as compared to profits of NIS 400 million which was positively affected by material insurance income. The refinery was operational throughout the first six months of 2010, as compared to only 44 days of operation in the corresponding period of the previous year when the refinery resumed operations after the November 2008 fire.

Q2 2010 saw a sharp decrease in direct operating expenses per barrel sold, which averaged USD 4.39, as compared to USD 5.14 per barrel in Q1 2010. This decrease in the average operating expenses per barrel stems both from the increase in production and from lower natural gas prices during the second quarter of the year.

During Q2 2010, the 5-3-2 Gulf Coast crack spread averaged USD 9.54 per barrel, an increase of 45% as compared with the first quarter of the year. The Company's refining margin, plus inter-company marketing commissions, totaled USD 8.96 per barrel sold during the second quarter of 2010, as compared to USD 6.24 per barrel sold during the first quarter of the year.

Gas station and convenience store operations

In the reporting period, the Company recorded a sharp increase in the contribution of the retail segment to profits, which totaled NIS 115 million, as compared to NIS 85 million in the corresponding period of the previous year. The increase in profits stems both from increased same-store sales in convenience stores and gas stations, and from improved profit margins on fuel sales and store products.

Gross profit from fuel sales totaled 18.6 cents to the gallon during Q2 2010, as compared to 12.4 cents to the gallon in the corresponding period of the previous year. This increase is attributed to the positive margin between wholesale and retail fuel prices in the quarter, as well as to the increased profitability of selling ethanol fuel mixtures (E-10).

This is the fourth consecutive quarter of growth in same-store sales, after a 4.6% increase during Q2 2010, as compared to a 1.4% decrease in the corresponding quarter of 2009. The increase is due to increased turnover in re-branded stores, sales in the ready-to-eat food, beer, and dairy product categories, and from the launch of Delek US private label products.

Gross profit margins on products sold in the convenience stores increased in several leading categories and amounted to 31.3% in Q2 2010, as compared to 30.3% in the corresponding period of the previous year.

Additional information

Pursuant to the information provided in the annual financial statements regarding the fire that occurred in the refinery in Tyler, Texas, during the six month period ended June 30, 2010, Delek US received USD 17 million (NIS 65 million) from its insurance company, which includes USD 12.8 million (NIS 49 million) for loss of profits and USD 4.2 million (NIS 16 million) for property damages recorded in the financial statements net of incurred expenses amounting to USD 0.2 million (NIS 0.8 million). The net income was recorded in the income statement under the 'Other income, net' item. The moneys received in Q2 2010 constitute the final settling of accounts with the insurance company regarding the damages caused by the fire. Income from the insurance company during the period 2009-2010 amounts to USD 141.4 million (NIS 562 million).

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 3 to the financial statements.

B. Fuel Operations in Israel

Below are data from the financial statements of Delek Israel:

	1-6/10	1-6/09	4-6/10	4-6/09	2009
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	2,466	1,899	1,293	1,043	4,290
Gross profit	374	362	189	189	737
Operating profit	101	116	51	68	229
EBITDA	141	152	71	85	304
Financing expenses, net	37	33	28	33	113
Profit before equity in results of investees	64	83	23	35	112
Delek Israel's equity in results of investees	9	5	7	5	(8)
Net profit	**55**	**77**	**21**	**40**	**95**
Attributable to:					
Company shareholders	53	75	20	38	90
Non-controlling interest	2	2	1	2	5
	55	**77**	**38**	**40**	**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 Delek Israel's customers outside the fuelling and commerce complexes; and fuel storage and issue.

Net sales

Sales net of government levies ("Net Sales") in the reporting period amounted to NIS 2,466 million, compared with NIS 1,899 million in the same period last year. Net sales in Q2 2010 amounted to NIS 1,293 million, compared with NIS 1,043 million in the same quarter last year, an increase of 24%.

A comparison of the reporting period in 2010 to last year shows an increase in sales turnover for the six- and three-month periods ended June 30, 2010 as compared to last year. This increase is primarily

attributed to the rise in fuel prices, 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 the reporting period amounted to NIS 374 million, compared with NIS 362 million in the corresponding period last year. Gross profit for Q2 2010 amounted to NIS 189 million, similar to the gross profit in the corresponding quarter of the previous 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 turnover in the Menta chain of convenience stores. This increase was offset by stiffening competition in the segment during the reporting period, which eroded Delek Israel's profit margins. Furthermore, compared with the corresponding quarter in the previous year, the Company recorded a NIS 8 million decrease in gross profit, due to exchange rate differences in the corresponding quarter of the previous year. This decrease in gross profit was offset by a similar decrease 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 amounted to NIS 273 million in the reporting period, compared with NIS 247 million in the corresponding period last year. During Q2 2010, these expenses amounted to NIS 137 million, compared with NIS 120 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 to 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.

It is further noted that in Q2 2010, Delek Israel cancelled the provision in respect of an options benefit given its outgoing CEO to the amount of NIS 8 million.

Other operating income, net

This income amounted to NIS 20 million in the reporting period, compared with NIS 0.3 million in the corresponding period last year. The difference year-on-year stems from the sale of Delek Israel's holdings in Haifa Basic Oils, which yielded NIS 20 million in profits.

Profit from operations - general

Profit from operations in the reporting period amounted to NIS 101 million, compared with NIS 116 million in the corresponding period last year. Profit from operations in Q2 2010 amounted to NIS 51 million, compared with NIS 68 million in the corresponding quarter last year. The decrease is mainly due to stiff competition in the segment, which eroded the segment's profit margins.

Financing expenses, net

Net financing expenses for the reporting period amounted to NIS 57 million compared with NIS 33 million in the same period last year. Net financing expenses for Q2 2010 amounted to NIS 28 million, compared with NIS 33 million in the same quarter last year.

The increase in financing expenses in the reporting period is due mainly to the increase in Delek Israel's net liabilities, an increase in the linkage differentials on index-linked debt, as well as a decrease in financing income year-on-year (dividend of NIS 11 million from financial assets).

Q2 2010 saw a decrease in financing expenses compared with the corresponding quarter last year, due to recognition of an expense in respect of the revaluation of trade payables in the previous year (sorting from cost of sales), which was partially offset by income recorded in respect of a dividend as aforesaid. Furthermore, in the current quarter, Delek Israel incurred expenses in respect of lower index differentials as compared with the corresponding quarter last year through the hedging of index-linked liabilities in the reporting period.

Additional information

- In August 2010, Mr. David Kaminitz ended his tenure as CEO of Delek Israel. The audit committee and the board of directors of Delek Israel have approved the appointment of Mr. Avi Ben-Assayag as CEO, and he assumed this position during August 2010.

- For more information about the operations of Delek Israel, see Note 3 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 developed 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. For more information regarding Delek Europe BV's acquisition of activities in France, see Section A2 above.

Condensed statement of financial position of Delek Benelux at June 30, 2010 and 2009 and at December 31, 2009 (in EUR millions)

	June 30, 2010	June 30, 2009	December 31, 2009
Cash	116	49	81
Current assets (excluding cash)	196	176	195
Investments in investees and long term debit balances	31	37	29
Property, plant and equipment, net	218	228	226
Other assets, net	230	227	234
Short term loans and credit	45	47	44
Current liabilities (excluding short term loans)	269	207	262
Long term loans	298	297	297
Other long term liabilities	51	49	44
Equity (*)	129	117	118

* Equity balance at June 30, 2010, adjusted for the negative balance of a capital reserve in respect of hedging transactions for a variable-to-fixed interest rate swap, amounts to EUR 149 million..

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

Item	1-6/10	1-6/09	4-6/10	4-6/09	1-12/09
Revenue	976	942	439	486	1,952
Gross profit	123	116	68	63	230
Operating profit (loss)	21	11	15	12	18
Equity in profits of investee partnerships	1	1	1	1	2
EBITDA	36	29	21	20	57
Net profit	15	8	12	7	8

Analysis of Delek Benelux's results in the reporting periods

Revenue

Revenue in the reporting period amounted to EUR 976 million, compared with EUR 942 million in the corresponding period last year, an increase of 4%. Revenue for Q2 2010 amounted to EUR 439 million, compared with EUR 486 million in the same quarter last year, a decrease of 10%.

Gross profit

Gross profit in the reporting period amounted to EUR 123 million, compared with EUR 116 million last year, an increase of 6%. Gross profit for Q2 2010 amounted to EUR 68 million, compared with EUR 63 million in the corresponding quarter last year, an increase of 8%.

The increase in gross profit is due to increased sales turnover, improved gross profit in the fuels segment and continued growth in the convenience store segment.

Operating profit

Operating profit for the reporting period amounted to EUR 21 million, compared with EUR 11 million last year, an increase of 90%. Operating profit for Q2 2010 amounted to EUR 15 million, compared with EUR 12 million in the corresponding quarter last year, an increase of 25%. 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 adjusting for impairment and non-recurring expenses) for the reporting period amounted to EUR 36 million, compared with EUR 29 million, an increase of 24%. EBITDA for Q2 2010 amounted to EUR 22 million, compared with EUR 20 million in the corresponding quarter last year, an increase of 10%.

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 as aforesaid.

For more information about fuel operations in Europe, see Note 3 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 a 79% 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") (jointly, "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.
- 29.3% of the capital of Matra Petroleum Plc ("Matra"), which owns the Sokolovskoe oil discovery in Russia.

Material events in the reporting period

1. The reporting period saw developments in the Parternships' exploration activities in Israel, including:
   - An update of the reserves in the Tamar 2 field and progress in the field's development.
   - Receipt of the results of a seismic survey in the Ratio Yam, Alon and Ruth licenses.
   - An update of the reserves in the Mari B field.

   For more information, see Note 4 to the financial statements.
2. During and subsequent to the reporting period, Delek Energy completed a debenture raising totaling NIS 813 million, of which NIS 432 million are index-linked debentures, and NIS 381 million are in NIS-based debentures.
3. On April 13, 2010, the Minister of Finance appointed a committee, headed by Prof. Eytan Sheshinski, to examine the fiscal policies regarding oil and gas resources in Israel ("Sheshinski Committee"). The committee is charged with forming recommendations for changing the State's policies and with submitting those recommendations to the Minister of Finance during the final quarter of 2010.

Delek Energy and the limited partnerships oppose any change (in taxation/royalties) to oil rights (licenses and leases) already granted the Partnerships under the Petroleum Law, and are preparing to present the Committee with a position supported by expert economic and legal opinions.

If and to the extent that the committee recommend that royalties be increased or a change be made in taxation policy, and if and to the extent that the Minister of Finance and the Minister of National Infrastructures adopt such recommendations, and if and to the extent that the above is formulated as a binding law which passes scrutiny by Israel's High Court of Justice, such occurrence will have a materially detrimental effect on the Israeli energy market in general and on Delek Energy, Delek Drilling and Avner in particular. On August 25, 2010, the Group, Delek Energy, and the Partnerships submitted position papers and an expert opinion to the Committee for Examination of Fiscal Policies Regarding Oil and Natural Gas Resources in Israel.

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

	1-6/10	1-6/09	4-6/10	4-6/09	2009
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	241	186	140	96	450
Operating profit	118	67	68	33	187
EBITDA	173	113	100	52	306
Financing expenses, net	65	96	49	32	147
Group's equity in results of Avner and other investees	39	1	24	4	32
Net profit (loss)	**52**	**(32)**	**22**	**2**	**23**
Gas sales in BCM (*)	1.3	1.3	0.8	0.6	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 241 million, compared with NIS 186 million in the corresponding period of the previous year, an increase of 30%. In Q2 2010, revenue amounted to NIS 140 million, compared with NIS 96 million in the same quarter last year, an increase of 46%.

The increase in revenues in the reporting period compared with the corresponding period of the previous year stems primarily from the sale of natural gas at such prices and terms as set forth under the memorandum of understanding signed with IEC and from sales to ICL which started in December 2009.

It is noted that 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. Since July 1, 2009 additional quantities of gas are being sold to IEC 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, for a total amount of 5 BCM. 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

Net financing expenses in the reporting period amounted to NIS 65 million, compared with NIS 96 million in the corresponding period of the previous year, a decrease of 32%. In Q2 2010, financing expenses amounted to NIS 49 million, compared with NIS 32 million in the same quarter last year, an increase of 53%.

Financing expenses stemmed primarily from interest on bank loans and debentures for Delek Energy and its subsidiaries.

The decrease in financing expenses in the reporting period as compared with the corresponding period in the previous year is due mainly to decreased expenses in respect of the revaluation of hedging transactions on oil and gas prices to the amount of NIS 35 million, which were recorded in 2009 in light of the sharp increase in oil prices at that time.

Equity in the results of Avner and other investees

In the reporting period, the energy segment included profits in respect of holdings in Avner, an investee partnership, to the amount of NIS 46 million, compared with a profit of NIS 18 million in the corresponding period of the previous year.

The increase in Avner's profits stems primarily from increased revenues in the Yam Tethys project, as aforesaid.

However, in the reporting period, Delek Energy 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 4.7 million and NIS 1 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"):

	1-6/10	1-6/09	4-6/10	4-6/09	2009
	NIS millions				
Revenue	2,294	1,997	1,202	964	4,744
Gross profit	362	220	188	91	525
Sales, marketing and general and administrative expenses	36	33	18	16	68
Operating profit	326	187	170	74	457
EBITDA	333	194	173	77	471
Financing income (expenses), net	(36)	57	(92)	50	107
Gross profit	**221**	**192**	**60**	**103**	**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:

	1-6/10	1-6/09	4-6/10	4-6/09	2009
Sales of Mazda vehicles	16,132	12,631	8,243	6,462	31,685
Sales of Ford vehicles	4,796	5,349	2,979	2,024	12,489
Total vehicle sales	**20,928**	**17,980**	**11,222**	**8,486**	**44,174**
Delek Automotive's market share out of total vehicle sales in Israel (Licensing Bureau data)	20%	23%	20%	22%	25%

Vehicle sales in Israel were up 30% in the first half of 2010, with 104,000 vehicles sold as compared to 78,000 vehicles in the corresponding half of the previous year (according to Vehicle Licensing Bureau data).

Revenue

Sales turnover in the first six months of the year amounted to NIS 2,294 million compared with NIS 1,997 million in the corresponding period of the previous year (NIS 4,744 million in the whole of 2009). Sales turnover for the second quarter of 2010 amounted to NIS 1,202 million, as compared to NIS 964 million in the corresponding period of the previous year.

Sales, marketing, and general and administrative expenses

Sales, marketing and general and administrative expenses amounted to NIS 36.2 million in the first six months of the year, as compared with NIS 32.8 million in the corresponding period of the previous year. In Q2 2010, sales, marketing and general and administrative expenses amounted to NIS 18 million, as compared with NIS 16.7 million in the corresponding quarter of the previous year. The increase stems primarily from increased advertising.

Financing income, net

In the first six months of the year, Delek Automotive incurred net financing expenses of NIS 35.7 million, compared with net financing income of NIS 57 million in the corresponding quarter of the previous year. In Q2 2010, Delek Automotive incurred net financing expenses of NIS 91.6 million, compared with a net financing income of NIS 50.5 million in the corresponding quarter of the previous year.

Financing expenses in the first six months of 2010 stemmed mainly from the revaluation of trade payables (stated in Japanese Yen in light of the appreciation of this currency) to the amount of NIS 60 million, and NIS 7.4 million in financing expenses to banks.

In the second quarter, the Company posted expenses amounting to NIS 78 million in respect of the aforesaid revaluation of trade payables, NIS 12.7 million in expenses due to the depreciation of a securities investment, expenses in respect of the revaluation of loans in interest to banks amounting to NIS 15 million. These were offset by revenues amounting to NIS 8.5 million in respect of hedging transactions and NIS 7 million in income on interest from customers.

Financing income in the first six months of the year stemmed mainly from interest debits to customers, which amounted to NIS 14.5 million (compared with an income of NIS 4 million in the corresponding period of the previous year), income from the erosion of bank loans amounting to NIS 7 million, the recognition of the results and fair value of hedging transactions to the amount of NIS 4.9 million (compared with an income of NIS 35 million in the corresponding period of the previous year), and from the appreciation of an investment in securities to the amount of NIS 5 million (compared with an income of NIS 33 million in the corresponding period of the previous year).

Net profit

Delek Automotive's net and comprehensive profit for the first six months of 2010 totaled NIS 221.2 million, as compared to a net profit of NIS 192.2 million in the corresponding period of the previous year.

Delek Automotive's net profit for Q2 2010 totaled NIS 60.2 million, compared with NIS 102.5 million in the corresponding quarter of the previous year. This decrease in net profit for the quarter stems from the increase in net financing expenses, which totaled NIS 92 million in Q2 2010, compared with NIS 50 million in the corresponding quarter of the previous year.

During Q2 2010, gross profit increased to NIS 188 million, as compared with NIS 91 million in the corresponding quarter of the previous year. Most of this increase in profit stemmed from the vehicle segment.

The gross profit margin increased in the second quarter to 15.6% compared with 9.4% in the corresponding quarter of the previous year, primarily as a result of the decreased cost of vehicles sold (these vehicles were purchased at lower exchange rates than those sold in the corresponding period of the previous year).

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 54.7% of the shares of The Phoenix Holdxings 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 June 30, 2010:

The equity of the Phoenix Insurance at June 30, 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 801 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:

	1-6/10	1-6/09	4-6/10	4-6/09	2009
Profit from life assurance and long term savings segment	39.9	119.1	2.1	26.4	145.6
Profit from general insurance segment	117.1	63.3	56.6	41.6	118.0
Profit from health insurance segment	51.3	80.4	29.8	44.9	162.7
Profit from financial services segment	65.0	11.0	33.7	(10.3)	13.1
Total profit from segments of operations	**273.3**	**273.8**	**122.2**	**102.6**	**439.4**
Profit not attributed to the segments of operation	(21.5)	(82.2)	(27.8)	(54.6)	(133.5)
Equity in the net results of investee companies	14.6	15.4	(9.8)	(11.1)	40.7
Profit before income tax	**266.4**	**207.0**	**84.6**	**36.9**	**346.6**
Income tax	82.3	90.0	35.0	25.3	98.7
Profit for the period	**184.1**	**117.0**	**49.6**	**11.6**	**247.9**
Profit for the period attributable to shareholders of The Phoenix	**171.8**	**109.6**	**44.7**	**9.5**	**227.2**

Material events during and after the reporting period

- Regarding the 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 Investments, see Note 3 to the financial statements.
- In April 2010, the Bank of Israel issued an annual report which included reference to the characteristics of activities carried out by commercial groups in Israel, their market concentration, and the need for formulating regulatory policies regarding the system-wide risk that these characteristics may cause. In its report, the Bank of Israel proposes considering, inter alia, the enactment of measures such as separation between control of financial institutions and control of real corporations, the application of a dividend tax on capital transfers between companies and increasing the direct affinity between controlling shareholders in investees by setting a minimum threshold for direct ownership.

  These proposals by the Bank of Israel may, in the future, lead to the formation of regulatory policies which may also affect the Company, which controls financial institutions. At this time, the Company cannot estimate the implications of the above proposals due, inter alia, to the fact that the details of these proposals are not yet clear, nor is it clear if and when these proposals will materialize as regulatory changes.

  In July, 2010, the Ministers' Committee approved the amendment to the Restrictive Trade Practices Law for oligopolies. The law grants the Israel Antitrust Authority the power to declare oligopolies in such market segments as banking and cellular communications, and to issue directives aimed at increasing competition in those segments.

Analysis of life assurance and long-term saving

Life assurance

In the reporting period, life assurance operations resulted in a profit of NIS 9.1 million, compared with a profit of NIS 86.7 million in the corresponding period of the previous year, a decrease of 89.5%. In Q2 2010, losses amounted to NIS 10.4 million, compared with a loss of NIS 10.7 million in the same quarter last year.

Premiums earned during the reporting period totaled NIS 1,491.9 million, compared to NIS 1,305.7 million in the corresponding period last year, an increase of 14.3%. 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 1.24% as compared with 1.49% in the corresponding period in the previous year.

Pension and provident funds

At the reporting date, the assets of The Phoenix Pension and Compensation Fund Management Ltd. amounted to NIS 4,468 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 5.1 million, compared with NIS 4.6 million in the corresponding quarter last year, an increase of 10.9%.

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 25.7 million and NIS 27.8 million for the six month periods ended June 30, 2010 and June 30, 2009, respectively, a decrease of 7.6%. Excellence's total long-term savings assets at June 30, 2010 amounted to NIS 17.7 billion, similar to its total assets at December 31, 2009.

General insurance

Revenue from gross premiums earned in the reporting period amounted to NIS 1,099.7 million, compared with NIS 1,002 million in the corresponding period of the previous year, an increase of 9.8%.

Profit from the general insurance segment in the reporting period amounted to NIS 117.1 million, compared with NIS 63.3 million in the corresponding quarter last year, an increase of 85%.

Health insurance

Revenue from premiums earned in the health insurance segment in the reporting period amounted to NIS 526.6 million, compared with NIS 487.2 million in the corresponding period last year, an increase of 8.1%. The majority of this 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 NIS 51.3 million, compared with NIS 80.4 million in the corresponding period of the previous year, a decrease of 36.2%. The decrease in profit stems mainly from lower income from investments attributed to the segment.

Financial services

Activity in this segment is carried out through 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 64.9 million, compared with NIS 11.1 million in the corresponding period of the previous 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, and an increase in income from mutual fund management fees.

According to the financial statements of Excellence, total assets under management by Excellence at June 30, 2010 amounted to NIS 38.4 billion, compared with NIS 37.2 billion at December 31, 2009, an increase of 3.2%.

During the first six 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 market conditions 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:

	1-6/10	1-6/09	4-6/10	4-6/090	2009
	USD millions				
Premiums earned (retention)	153	191	74	93	365
Investment and other revenues, net	20	28	13	18	53
Total revenue	**173**	**219**	**87**	**111**	**418**
Increase in insurance liabilities less reinsurers	91	135	50	75	268
Commissions and other acquisition expenses	49	55	22	26	103
General and administrative expenses	21	18	12	9	34
Financing expenses	3	3	1	2	6
Total expenses	**164**	**211**	**85**	**112**	**411**
Profit before tax	9	8	2	(1)	7
Net profit	**7**	**5**	**1**	**-**	**6**

Analysis of the results of Republic's operations

Revenue from premiums (gross) in Q2 2010 amounted to USD 203.7 million, compared with USD 249.3 million in the corresponding period of the previous year, a decrease of 18.3%. The decrease stems primarily from the program management segment.

Insurance fees earned (in retention) in the reporting period amounted to USD 153 million, compared with USD 191 million in the corresponding period last year.

The decrease compared to the corresponding period last year is attributed to changes in net income 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 June 30, 2010 is USD 309 million (December 31, 2009 – USD 309 million), and Republic's profit for the reporting period as included in the Group's financial statements amounted to USD 7 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 34 million, mainly stemming from the profits of IDE and the power station in Ashkelon. In the past few months, the Knesset Economic Affairs Committee requested the relevant regulatory authorities to submit their professional positions regarding the implications of private electricity generation carried out by gas suppliers on the Israeli electricity market. If and to the extent that a legislative initiative be instituted to restrict private electricity generation by gas suppliers in Israel, such a development would negatively affect Delek Infrastructure.

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. The dividend was distributed on April 29, 2010. For more information about IDE, see Note 3 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. 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 the first six months of 2010 amounted to a loss of NIS 3 million, compared with a profit of NIS 9 million in the corresponding period of the previous year.

For further details of other operations, see Note 3 to the financial statements.

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) As noted in Chapter 5A above, the Company and its fully-owned headquarter companies hold cash and short-term investments (including investments in available for sale financial assets), which at June 30, 2010 amounted to NIS 2,163 million. In light of the low yields in the debt instruments markets recently, and due to the desire to diversify its investment portfolio, in Q2 2010 the Company began investing some of its cash and short-term investment balances in a foreign marketable securities portfolio. The following table details the composition at June 30, 2010 (in NIS millions):

	Balance at June 30, 2010
Cash and deposits	697
Foreign securities portfolio (see details below)	287
Noble Energy Inc. shares (1)	417
Marketable securities on the TASE (2)	256
Corporate bonds (3)	148
Others (mainly government bonds)	358
Total	**2,163**

(1) After deduction of a loan amounting to NIS 383 million (see also immediate reports 2010-01-576300, 2010-01-549138, 2009-01-202077 dated August 4, 2010, July 8, 2010, and August 19, 2009).

(2) Mainly includes investments in the shares of HOT, Menorah, and El-Al.

(3) Mainly marketable bonds on the TASE, mostly rated A and higher.

During Q2 2010, the Company's Board of Directors resolved to establish an investment committee headed by an external director, Prof. Ben-Zion Zilberfarb. The investment committee determines the Company's investment policy, and convenes at least once every two months to monitor the application of this policy.

According to the policy set forth by the investment committee, the Company's investment in foreign marketable securities focuses on the purchasing shares in companies with a market value in excess of USD 20 billion, and a rating higher than BBB+. Furthermore, the investment committee has set forth guidelines regarding the portfolio's diversification, the level of marketability and fluctuations in the purchased shares' prices over a given period. As current, the investment committee has decided on an un-leveraged investment which is not to exceed USD 100 million.

The original investment cost amounted to USD 85 million, with 70% of the initial investment being made in finance companies. The portfolio's value near the approval date of the financial statements is USD 73 million (NIS 278 million).

The Company has contracted foreign banks in order to obtain credit facilities for investing in foreign securities. As of the balance sheet date, these credit facilities have yet to be utilized.

The following table details the investment portfolio's sensitivity to changes in share prices:

Sensitive instrument (*)	Profit/(loss) from changes			Fair value	Profit/(loss) from changes		
	20%	10%	5%		-5%	-10%	-20%
Investment in foreign securities portfolio	57	29	14	287	(14)	(29)	(57)
Investment in Noble Energy Inc. shares	160	80	40	800	(40)	(80)	(160)
Investment in shares on the TASE	51	26	13	256	(13)	(26)	(51)
Total	**268**	**135**	**67**	**1,343**	**(67)**	**(135)**	**(268)**

(*) The majority of securities have been classified as available for sale and changes in their fair value are attributed directly to other comprehensive income.

c) In the reporting period 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 position, etc.

d) In addition to the above changes, no other material changes occurred in the reporting period in the Company's policies regarding market risk management and methods, including the effect of sensitivity tests on the Group's reporting of these matters for the year ended December 31, 2009.

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

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

	Israeli CPI	Representative exchange rate		
	Known	GBP	EUR	USD
At:	Points		NIS	
June 30, 2010	105.6	5.8228	4.7575	3.8750
March 31, 2010	104.2	5.6092	4.9905	3.713
December 31, 2009	105.2	6.1112	5.4417	3.7750
June 30, 2009	102.5	6.5089	5.5346	3.9190
March 31, 2009	100.6	5.9924	5.5736	4.188
Increase (decrease) for the period	%	%	%	%
June 2010 (6 months)	0.38	(4.72)	(12.57)	2.65
June 2010 (3 months)	1.34	3.81	(4.67)	4.36
June 2009 (6 months)	1.15	17.32	4.48	3.08
June 2009 (3 months)	1.89	8.62	(0.7)	(6.42)
December 2009 (12 months)	3.82	10.15	2.73	(0.71)

3. Linkage bases report at June 30, 2010

	June 30, 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
Assets													
Current assets	3,942	54	772	-	13	33	523	-	-	1,307	1,484	1,053	9,181
Non-current assets	290	566	347	-	-	9	1,600	-	-	3,429	2,251	6,383	14,875
Assets from insurance operations	469	194	17	-	10	-	-	16,583	42,325	-	-	2,537	62,135
Total assets	**4,701**	**814**	**1,136**	**-**	**23**	**42**	**2,123**	**16,583**	**42,325**	**4,736**	**3,735**	**9,973**	**86,191**
Liabilities													
Current liabilities	1,435	1,151	1,155	1,368	314	159	42	-	-	1,644	1,536	4	8,808
Non-current liabilities	2,749	6,947	1,190	33	29	28	16	-	-	831	1,581	176	13,580
Liabilities from insurance operations	1,888	1,030	135	-	107	-	-	15,902	40,100	-	-	77	59,239
Total liabilities	**6,072**	**9,128**	**2,480**	**1,401**	**450**	**187**	**58**	**15,902**	**40,100**	**2,475**	**3,117**	**257**	**81,627**
Assets less liabilities, net	**(1,371)**	**(8,314)**	**(1,344)**	**(1,401)**	**(427)**	**(145)**	**2,065**	**681**	**2,225**	**2,261**	**618**	**9,716**	**4,564**

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

C. Aspects of corporate governance

The financial statements' approval process

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 and Mr. Ben-Zion Zilberfarb (external director), 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 August 29, 2010, the balance sheet committee discussed the financial statements at June 30, 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 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.

Effectiveness of internal auditing of financial reporting and disclosure

On November 24, 2009, the Knesset Finance Committee approved the Israel Securities Authority's proposal to adopt internal auditing standards regarding corporate financial reporting and disclosures, so as to provide reasonable assurance regarding the propriety of the financial statements and their conformity to the provisions of law (Securities Regulations (Periodic and Immediate Reports) (Amendment No. 3), 5770-2009 ("the Amendment")). The Amendment was published in Reshumot in December of 2009.

The aforesaid provisions will be effective commencing on the periodic report at December 31, 2010 ("the Commencement Date"). The aforesaid notwithstanding, pursuant to the Amendment, in the period between the Amendment's publication date and the Commencement Date, the Board of Directors' report will include details regarding the Company's preparation and progress towards application of the Amendment ("Project Application").

The purpose of the Amendment is to improve the quality of financial reporting and disclosure through reinforcing corporate internal auditing mechanisms.

Under the transitional provisions of the Regulations, the Israel Securities Authority prescribed two key milestones for application of the process, with one being in the directors' report attached to the 2009 periodic report, and the other being in the directors' report for the interim period attached to the Q2 2010 report.

Following the disclosure made in the Company's directors' report attached to its 2009 periodic report issued on March 24, 2010, the Company continued applying the program formulated by the Company's management and approved by its Board, in preparation for meeting the Regulation requirements.

As of the date of the present report, the Company has implemented the following actions:

A. The Company has carried out a risk assessment of its internal auditing. Based on this assessment, the Company has documented its business processes and existing internal controls over financial reporting and disclosure.

B. The Company has analyzed the existing gaps in its internal control planning for financial reporting and disclosure.

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:

On April 13, 2010, Midroog announced a rating of A1 for Debentures (Series L) for raising up to NIS 450 million.

On June 8, 2010, Midroog announced a rating of A1 for the expansion of existing series of debentures for raising up to NIS 800 million.

Below are data regarding series of debentures issued in the reported period (NIS millions).

Series	Issue date	Original par value	Par value balance - June 30, 2010	Stated interest	Linkage	Book balance - June 30, 2010	Accrued interest in the books	Repayment years	Market value at June 30, 2010	Trustee
		NIS millions	NIS millions			NIS millions	NIS millions			
L	4/2010	255	255	4.1%	-	255	2	2012	261	Strauss Lazar Trust Ltd. 17 Yitzhak Sadeh St. Tel Aviv Tel: 03-7347777 Uri Lazar
N	6/2010	300	300	8.5%	-	300	1	2018	320	Clal Finance Trust Ltd. 37 Menachem Begin, Tel Aviv. Tel: 03-6274827, Yuval Likbar
R	6/2010	500	500	6.1%	CPI	504	1	2016-2022	527	Clal Finance Trust Ltd. 37 Menachem Begin, Tel Aviv. Tel: 03-6274827, Yuval Likbar

Notes:

1. The Company meets all the terms of the debentures. Furthermore, the Company meets all the obligatory terms pursuant to the deed of trust.
2. Information regarding the debenture ratings:

Series		Rating company	Current rating	Rating at the issue date
L		Midroog	A1	A1
N		Midroog	A1	A1
R		Midroog	A1	A1

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. The dividend was distributed on June 30, 2010.

D. On July 26, 2010, the Board of Directors of the Company resolved to distribute a dividend of NIS 120 million. The dividend was distributed on August 23, 2010.

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 June 30, 2010 (in NIS millions) (accounting for repayment of bank loans subsequent to the statement of financial position):

Delek Group – Headquarters

		Q3-Q4 2010	2011	2012	2013	2014	2015 onwards	Total
Debentures	Principal	54	442	838	618	618	4,537	7,107
	Interest	203	400	380	341	312	989	2,625
	Total	**257**	**842**	**1,218**	**959**	**930**	**5,526**	**9,732**

Delek Investments and Properties

		Q3-Q4 2010	2011	2012	2013	2014	2015 onwards	Total
Bank loans	Principal	2	4	4	3	1	44	58
	Interest	1	3	3	3	2	4	16
	Total	**3**	**7**	**7**	**6**	**3**	**48**	**74**

Delek Finance US

		Q3-Q4 2010	2011	2012	2013	2014	2015 onwards	Total
Bank loans	Principal	70	140	140	-	-	-	350
	Interest	4	8	4	-	-	-	16
	Total	**74**	**148**	**144**	**-**	**-**	**-**	**366**

Delek Petroleum

		Q3-Q4 2010	2011	2012	2013	2014	2015 onwards	Total
Debentures [(1)]	Principal	28	118	-	118	87	84	435
	Interest	13	22	16	15	7	4	77
	Total	**41**	**140**	**16**	**133**	**94**	**88**	**512**

(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%	(11)	-	-	(6)	(17)
20% - 40%	-	-	-	-	-
More than 40%	-	-	-	-	-
Total	**(11)**	**-**	**-**	**(6)**	**(17)**

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%	(139)	(6)	-	-	(145)
20% - 40%	(19)	-	-	-	(19)
More than 40%	-	-	-	-	-
Total	**(158)**	**(6)**	**-**	**-**	**(164)**

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%	(150)	(6)	-	(6)	(162)
20% - 40%	(19)	-	-	-	(19)
More than 40%	-	-	-	-	-
Total	**(169)**	**(6)**	**-**	**(6)**	**(181)**

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, (while taking into account fluctuations in the security and other factors) 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 June 30, 2010

Unaudited

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

Introduction

We have reviewed the accompanying financial information of Delek Group Ltd. and its subsidiaries ("the Group"), including the condensed consolidated interim balance sheet as at June 30, 2010 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six and three months then ended. The board of directors and the management are responsible for preparation and presentation of the financial information for these interim periods in accordance with IAS 34 - *Interim Financial Reporting*, and are also responsible for preparation of the interim financial information for these interim periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express an opinion on the financial information for these interim periods based on our review.

We did not review the condensed interim financial statements of consolidated companies, the consolidated assets of which represent approximately 33% of the total consolidated assets as at June 30, 2010, and the consolidated revenue of which represents approximately 8% of the total consolidated revenue for the six and three months then ended. In addition, we did not review the condensed interim financial statements of equity-accounted investees, the investment in which amounts to NIS 1.425 billion at June 30, 2010, and the Group's share in their profits amounts to NIS 104 million and NIS 37 million for the six and three months then ended, respectively. The condensed interim financial information of those companies was reviewed by other accountants, whose reports have been furnished to us, and our opinion, insofar as it relates to the financial information for such companies, is based on the reviews of the other accountants.

Review scope

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

Conclusion

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

Additionally, based on our review and the review of other accountants, nothing has come to our attention that causes us to believe that this financial information does not comply, in all material respects, with the disclosure provisions in 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.

Without qualifying our above opinion, we draw attention to Note 6 to the financial statements with respect to lawsuits filed against investees.

Tel Aviv
August 30, 2010

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Consolidated Balance Sheets

	June 30		December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
Current assets			
Cash and cash equivalents	3,221	3,207	3,997
Performance-based cash and cash equivalents in insurance companies	228	693	1,103
Short-term investments in the finance sector (mainly exchange traded funds and deposit)	15,035	12,597	16,156
Short-term investments of insurance companies	2,679	1,756	2,097
Other short-term investments	724	436	662
Financial derivatives	21	41	20
Trade receivables	3,999	3,315	3,660
Insurance premium receivable	1,044	1,084	994
Receivables and debit balances	739	939	872
Taxes receivable	83	106	284
Reinsurance assets	2,077	1,965	2,022
Inventory	1,802	1,992	1,683
Deferred acquisition expenses in insurance companies	402	400	364
	32,054	28,531	33,914
Assets held for sale	-	30 **	29 **
	32,054	28,561	33,943
Non-current assets			
Financial investments of insurance companies	30,374	26,370	28,317
Loans, deposits and receivables	926	740	982 *
Investments in other financial assets	2,110	968	1,418
Investments in investees and partnerships	2,462	2,276 **	2,383 **
Investment property	451	593	451
Investments in oil and gas exploration and production	1,471	1,688	1,331
Reinsurance assets	1,750	1,421	1,571
Property, plant and equipment	7,263	7,204 *	7,196 *
Deferred acquisition expenses in insurance companies	691	704	680
Structured bonds	1,604	999	873
Goodwill	3,195	2,990	3,242
Other intangible assets	1,641	2,043	1,750
Deferred taxes	199	247	219
	54,137	48,243	50,413
	86,191	76,804	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

	June 30		December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
Current liabilities			
Borrowings from banks and others	4,971	4,897	3,741
Trade payables	2,957	2,332	2,879
Other payables	3,564	3,074	3,540
Exchange traded funds and deposit	14,776	12,261	15,639
Taxes payable	83	117	86
Financial derivatives	37	66	82
Insurance reserves and outstanding claims	5,607	5,511	5,430
Dividend due	-	72	183
	31,995	28,330	31,580
Non-current liabilities			
Loans from banks and others	3,711	6,354	5,161
Debentures convertible into Company shares	246	-	-
Other debentures	11,506	8,138	10,702
Structured bonds	1,578	975	933
Options	-	1	9
Financial derivatives	130	137	114
Liabilities for employee benefits	211	253	208
Insurance reserves and outstanding claims	30,558	26,626	29,352
Provisions and other liabilities	748	750	839
Deferred taxes	944	798	870
	49,632	44,032	48,188
Equity attributable to the Company's shareholders			
Share capital	13	13	13
Share premium	1,622	1,590	1,590
Option warrants and proceeds for conversion option	32	-	25
Retained earnings	888	673	869
Adjustments for translation of financial statements of foreign operations	(195)	(50)	(166)
Other capital reserves	(223)	(136)	(94)
Treasury shares	(124)	(127)	(129)
Capital reserve from transactions with holders of non-controlling interests	(93)	-	-
	1,920	1,963	2,108
Non-controlling interests	2,644	2,479	2,480
Total capital	4,564	4,442	4,588
	86,191	76,804	84,356

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

August 30, 2010			
Date of approval of the financial statements	Gabriel Last Chairman of the Board of Directors	Asi Bartfeld CEO	Barak Mashraki CFO

Consolidated Statement of Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS millions (except net earnings per share)				
Revenue	21,788	19,883	10,423	10,765	43,447
Cost of revenue	18,209	16,640	8,540	9,158	37,032
Gross profit	3,579	3,243	1,883	1,607	6,415
Selling, marketing and gas station operating expenses	1,696	1,754	852	899	3,426
General and administrative expenses	807	816	405	394	1,768
Other revenue, net	37	267	50	199	386 *
Operating income	1,113	940	676	513	1,607
Finance profit	221	307 *	47	133 *	633 *
Finance expenses	(713)	(648)	(483)	(340)	(1,449)
	621	599	240	306	791
Gain from disposal of investments in investees, net	-	31	-	31	518
Group's share in profits of affiliates and partnerships, net	83	122 *	13	57 *	92 *
Profit before taxes on income	704	752	253	394	1,401
Income tax	210	199	103	99	215
Profit from continuing operations	494	553	150	295	1,186
Profit from discontinued operations	-	17	-	-	17
Net profit	494	570	150	295	1,203
Attributable to:					
Company shareholders	269	380	64	223	864
Non-controlling interests	225	190	86	72	339
	494	570	150	295	1,203
Net earnings per share attributable to Company shareholders (NIS)					
Basic net earnings					
Profit from continuing operations	23.85	34.54	5.67	19.98	77.44
Loss from discontinued operations	-	(0.53)	-	-	(0.53)
	23.85	34.01	5.67	19.98	76.91
Diluted net earnings					
Profit from continuing operations	22.77	33.66	5.08	19.36	75.49
Loss from discontinued operations	-	(0.53)	-	-	(0.53)
	22.77	33.13	5.08	19.36	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

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS millions				
Net profit	494	570	150	295	1,203
Other comprehensive income (loss) from continuing operations (after the impact of tax):					
Profit (loss) for available-for-sale financial assets, net *	(60)	243	(113)	10	285
Profit (loss) for cash flow hedges, net	(24)	(102)	(12)	6	(115)
Adjustments for translation of financial statements of foreign operations	(25)	153	108	(163)	19
Group's share in other comprehensive income (loss) of affiliates	8	11	36	(36)	12
Other comprehensive income (loss) from continuing operations	(101)	305	19	(183)	201
Other comprehensive profit from discontinued operations	-	198	-	-	198
Total other comprehensive income (loss)	(101)	503	19	(183)	399
Total comprehensive income	393	1,073	169	112	1,602
Attributable to:					
Company shareholders	111	703	23	100	1,113
Non-controlling interests	282	370	146	12	489
	393	1,073	169	112	1,602

* In the six months ended June 30, 2010, includes release of capital reserves to the statement of income amounting to NIS 48 million (NIS 2 million in the three months ended June 30, 2010)

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	Option warrants and proceeds for conversion option	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 (loss)	-	-	-	269	(29)	(129)	-	-	111	282 ***	393
Sale of treasury shares		3	-	-	-	-	5	-	8	3	11
Dividend paid	-	-	-	(250)	-	-	-	-	(250)	-	(250)
Share options exercised	- **	29	-	-	-	-	-	-	29	-	29
Conversion component for convertible debentures (less issuance expenses)	-	-	7	-	-	-	-	-	7	-	7
Cost of share-based payment, net	-	-	-	-	-	-	-	-	-	20	20
Acquisition of shares from non-controlling interests	-	-	-	-	-	-	-	(108)	(108)	(29)	(137)
Sale and issue of shares to non-controlling interests	-	-	-	-	-	-	-	26	26	16	42
Exercise of options for shares of subsidiaries	-	-	-	-	-	-	-	(11)	(11)	20	9
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(148)	(148)
Balance at June 30, 2010	13	1,622	32	888	(195)	(223)	(124)	(93)	1,920	2,644	4,564

* Primarily capital reserve for available-for-sale financial assets
** Represents an amount of less than NIS 1 million
*** Composition of comprehensive income of non-controlling interests:

Net profit attributable to non-controlling interests	225
Profit for available-for-sale financial assets, net	41
Loss for cash flow hedges, net	(2)
Adjustments for translation of financial statements	15
Share of non-controlling interests in other comprehensive loss of affiliates, net	3
Total comprehensive income attributable to non-controlling interests	282

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	-	-	380	304	19	-	703	370 ***	1,073
Acquisition of treasury shares	-	-	-	-	-	(31)	(31)	-	(31)
Sale of treasury shares	-	6	-	-	-	9	15	8	23
Acquisition of shares from non-controlling interests	-	-	-	-	-	-	-	(60)	(60)
Distribution of a subsidiary's shares as a dividend in kind	-	-	(679)	574	(66)	-	(171)	(835)	(1,006)
Dividend	-	-	(72)	-	-	-	(72)	-	(72)
Debentures converted into Company shares	- **	1	-	-	-	-	1	-	1
Sale and issue of shares to holders of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	65	65
Cost of share-based payment, net	-	-	-	-	-	-	-	15	15
Consolidation of an affiliate	-	-	-	-	-	-	-	107	107
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	(36)	(36)
Balance at June 30, 2009	13	1,590	673	(50)	(136)	(127)	1,963	2,479	4,442

* Primarily capital reserve for available-for-sale financial assets

** Represents an amount of less than NIS 1 million

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

Net profit attributable to non-controlling interests	190
Profit for available-for-sale financial assets, net	85
Loss for cash flow hedges, net	(22)
Adjustments for translation of financial statements	116
Share of non-controlling interests in other comprehensive loss of affiliates, net	1
Total comprehensive income attributable to non-controlling interests	370

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	Option warrants and proceeds for conversion option	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 April 1, 2010	13	1,620	25	974	(292)	(85)	(126)	(57)	2,072	2,561	4,633
Total comprehensive income (loss)	-	-	-	64	97	(138)	-	-	23	146 **	169
Sale of treasury shares	-	2	-	-	-	-	2	-	4	2	6
Dividend paid	-	-	-	(150)	-	-	-	-	(150)	-	(150)
Conversion component for convertible debentures (less issuance expenses)	-	-	7	-	-	-	-	-	7	-	7
Cost of share-based payment, net	-	-	-	-	-	-	-	-	-	13	13
Acquisition of shares from non-controlling interests	-	-	-	-	-	-	-	(66)	(66)	(11)	(77)
Sale and issue of shares to non-controlling interests	-	-	-	-	-	-	-	26	26	16	42
Exercise of options for shares of subsidiaries	-	-	-	-	-	-	-	4	4	5	9
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(88)	(88)
Balance at June 30, 2010	13	1,622	32	888	(195)	(223)	(124)	(93)	1,920	2,644	4,564

* Primarily capital reserve for available-for-sale financial assets

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

Net profit attributable to non-controlling interests	86
Profit for available-for-sale financial assets, net	15
Loss for cash flow hedges, net	(1)
Adjustments for translation of financial statements	42
Share of non-controlling interests in other comprehensive loss of affiliates, net	4
Total comprehensive income attributable to non-controlling interests	146

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 April 1, 2009	13	1,583	1,038	(455)	(116)	(106)	1,957	3,260	5,217
Total comprehensive income (loss)	-	-	223	(169)	46	-	100	12 ***	112
Acquisition of treasury shares	-	-	-	-	-	(30)	(30)	-	(30)
Sale of treasury shares	-	6	-	-	-	9	15	8	23
Acquisition of shares from non-controlling interests	-	-	-	-	-	-	-	(16)	(16)
Distribution of a subsidiary's shares as a dividend in kind	-	-	(516)	574	(66)	-	(8)	(835)	(843)
Dividend	-	-	(72)	-	-	-	(72)	-	(72)
Debentures converted into Company shares	- **	1	-	-	-	-	1	-	1
Sale and issue of shares to holders of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	65	65
Cost of share-based payment, net	-	-	-	-	-	-	-	14	14
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	(29)	(29)
Balance at June 30, 2009	13	1,590	673	(50)	(136)	(127)	1,963	2,479	4,442

* Primarily capital reserve for available-for-sale financial assets
** Represents an amount of less than NIS 1 million
*** Composition of comprehensive income of non-controlling interests:

Net profit attributable to non-controlling interests	72
Profit for available-for-sale financial assets, net	(20)
Adjustments for translation of financial statements	(42)
Share of non-controlling interests in other comprehensive loss of affiliates, net	2
Total comprehensive income attributable to non-controlling interests	12

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	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	-	6	-	-	-	-	9	15	8	23
Acquisition of shares from 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 available-for-sale financial assets

** Represents an amount of less than NIS 1 million

*** Composition of comprehensive income of 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 income attributable to non-controlling interests	489

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

Consolidated Statement of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS millions				
Cash flows from operating activities					
Net profit	494	570	150	295	1,203
Adjustments to reconcile cash flows from continuing operating activities (a)	(802)	843	534	423	2,107
Net cash provided by (used in) continuing operating activities	(308)	1,413	684	718	3,310
Net cash used for discontinued operations	-	(32)	-	-	(32)
Net cash provided by (used in) operating activities	(308)	1,381	684	718	3,278
Cash flow from investment activities					
Acquisition of property, plant and equipment and intangible assets	(447)	(963)	(266)	(403)	(1,517)
Acquisition of investment property	(4)	(7)	(4)	(7)	(7)
Proceeds from sale of property, plant and equipment and investment property	32	42	12	13	118
Net proceeds from an insurance company for damaged property, plant and equipment	15	77	15	77	162
Proceeds from sale (acquisition) of financial assets, net	(787)	119	(914)	17	(185)
Repayment (grant) of loans to affiliates, net	(44)	9	(4)	3	(13)
Disposal of short-term investments, net	(63)	22	(2)	26	36
Increase in joint ventures for oil and gas exploration	(80)	(244)	(44)	(121)	(353)
Proceeds from disposal of investments in affiliates	-	6 *	-	- *	409 *
Proceeds from the sale of a previously consolidated company (c)	-	-	-	-	317
Investments in investees and deposit for acquisition of investees	(153)	(12) *	(86)	(9) *	(109) *
Acquisition of operations and companies consolidated for the first time (b)	(4)	136	(4)	(28)	136
Providing of loans to others, net	(3)	(93)	(12)	(88)	(102)
Net cash used for continuing investment activities	(1,538)	(908)	(1,309)	(520)	(1,108)
Net cash from discontinued investment activities	-	333	-	-	333
Net cash used for investing activities	(1,538)	(575)	(1,309)	(520)	(775)

* Retrospective reconciliation - see Note 2

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

Consolidated Statement of Cash Flows (contd.)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS millions				
Cash flow from finance activities					
Sale of shares to non-controlling interests	34	95 *	34	95 *	95 *
Acquisition of shares from non-controlling interests	(137)	(60) *	(77)	(16) *	(103) *
Short-term credit from banks and others, net	298	416	272	(19)	(1,345)
Long-term loans received	1,832	1,338	896	670	3,992
Long-term loans repaid	(2,413)	(1,427)	(1,357)	(680)	(3,847)
Issue of shares to holders of non-controlling interests in subsidiaries	17	-	17	-	216
Exercise of options for shares of subsidiaries	9	-	9	-	-
Dividend paid	(433)	-	(250)	-	(177)
Dividend paid to holders of non-controlling interests in subsidiaries	(148)	(23)	(88)	(18)	(169)
Share options exercised	16	-	-	-	-
Acquisition of treasury shares	-	(31)	-	(30)	(33)
Sale of treasury shares	11	31	6	31	31
Cash from a previously consolidated subsidiary distributed as a dividend	-	(349)	-	(349)	(349)
Payment of contingent liability for a put option to non-controlling interests	(94)	-	(84)	-	(340)
Issue of debentures and convertible debentures	1,484	925	1,089	925	2,769
Issue of options by the Company	-	-	-	-	25
Repayment of debentures and convertible debentures	(214)	(124)	(42)	(70)	(443)
Net cash from continuing finance activities	262	791	425	539	322
Net cash used for discontinued financing activities	-	(247)	-	-	(247)
Net cash from finance activities	262	544	425	539	75
Translation differences for cash balances of foreign operations – continuing operations	(67)	34	(29)	(33)	6
Translation differences for cash balances of foreign operations – discontinued operations	-	16	-	-	16
Increase (decrease) in cash and cash equivalents – continuing operations	(1,651)	1,330	(229)	704	2,530
Increase in cash and cash equivalents – discontinued operations	-	70	-	-	70
Balance of cash and cash equivalents at the beginning of the period (including performance-based balance)	5,100	2,500	3,678	3,196	2,500
Balance of cash and cash equivalents at the end of the period (including performance-based balance)	3,449	3,900	3,449	3,900	5,100

* Retrospective reconciliation - see Note 2

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

Consolidated Statement of Cash Flows (contd.)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2010	2009	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	446	463	238	244	975
Deferred taxes, net	43	143	24	139	324
Increase (decrease) in employee benefit liabilities, net	5	36	1	36	(3)
Decrease (increase) in the value of loans provided, net	(9)	(5) *	(12)	12 *	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	(69)	(80)	(17)	(72)	(709) *
Profit for compensation from an insurance company for damaged property, plant and equipment	(15)	(77)	(15)	(77)	(162)
Negative goodwill	-	-	-	-	(15)
Group's share in losses (profits) of partnerships and affiliates (1)	(49)	(117) *	17	(54) *	(68) *
Net change in fair value of financial assets and derivatives	(13)	23	(10)	72	(5)
Increase in value of long-term liabilities, net	83	319	158	336	845
Decrease (increase) in deferred acquisition expenses	(45)	30	(8)	51	36
Cost of share-based payment	28	13	6	10	54
Change in financial investments of insurance companies, net	54	(2,667)	3,739	(1,425)	(5,216)
Investments, less proceeds from the sale of available-for-sale financial assets in insurance companies, net	(1,599)	(1,598)	(2,114)	(952)	365
Increase in reserves and outstanding claims in insurance companies	1,064	5,238	(1,419)	3,368	6,102
Increase in reinsurance assets	(171)	(244)	(6)	(274)	(532)
Proceeds from early redemption and exchange of debentures	-	(44)	-	(44)	(82)
Changes in asset and liability items:					
Increase in trade receivables	(258)	(867)	(90)	(665)	(1,482)
Decrease (increase) in other receivables	95	(134)	296	(137)	247
Decrease (increase) in inventory	(139)	-	(298)	(100)	289
Increase in other assets, net	(490)	(68)	(470)	(65)	(516)
Increase in trade payables	167	547	273	145	997
Increase (decrease) in other payables	70	(51)	241	(125)	684
	(802)	843	534	423	2,107
(1) Net of dividends received	34	5	30	3	24

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

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

Consolidated Statement of Cash Flows (contd.)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS millions				
(B) Acquisition of operations and companies consolidated for the first time					
Working capital deficit, net (excluding cash)	3	124	3	8	124
Short-term finance investments	-	(9,462)	-	(9)	(9,462)
Long-term finance investments	-	(2,057)	-	-	(2,057)
Long term receivables	(13)	-	(13)	-	-
Investment and loan to an affiliate	(10)	-	(10)	-	-
Property, plant and equipment, real estate, investments and other property (including goodwill)	(59)	(1,319)	(59)	(422)	(1,319)
Short-term finance liabilities	-	9,307	-	311	9,307
Long term liabilities	36	3,102	36	84	3,102
Non-controlling interests	-	55	-	-	55
Decrease in investments in investees	39	386	39	-	386
	(4)	136	(4)	(28)	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	25	13	4	13	395
Liability for divesture of assets	8	1	8	1	1
Dividend and profit payable to holders of non-controlling interests in subsidiaries	-	13	-	13	22
Dividend declared	-	72	-	72	183
Exercise of options for shares	13	-	-	-	-
Exercise of options for shares of subsidiaries	3	-	3	-	-
Investment in oil and gas assets	92	71	92	71	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

Consolidated Statement of Cash Flows (contd.)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2010	2009	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	3,006	2,513	1,895
Performance-based cash and cash equivalents in insurance companies	1,103	605	672	683	605
	5,100	2,500	3,678	3,196	2,500
Cash and cash equivalents at the end of the period					
Cash and cash equivalents	3,221	3,207	3,221	3,207	3,997
Performance-based cash and cash equivalents in insurance companies	228	693	228	693	1,103
	3,449	3,900	3,449	3,900	5,100
(F) Additional information on cash flows					
Cash paid during the period for:					
Interest	381	469	222	69	902
Income tax	185	102	154	16	111
Cash received during the period for:					
Interest	221	443	169	252	997
Income tax	223	-	155	-	-
Dividend	23	82	11	77	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 June 30, 2010 for the six and three months then ended (“the consolidated interim financial statements”). The financial statements should be read in the context of the Company’s annual financial statements as 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 411 million at December 31, 2009 and June 30, 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 the 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.

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* (contd.)

- 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.
- 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 Pursuant to the aforesaid, in the reporting period, an amount of NIS 93 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. Initial application of the amendment does not have a material effect on the financial statements.

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 address 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. Early adoption is permitted.

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (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. Early adoption is permitted.

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. Early adoption is permitted.

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

NOTE 3 – BUSINESS COMBINATIONS AND INVESTMENTS IN INVESTEES AND OTHER COMPANIES

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 did 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 served as a judge and not as an arbitrator, in accordance with the acquisition agreement.

   In July 2010, the expert ruled that the annual consideration for the second lot due to the sellers is NIS 104 million, plus linkage and interest differences according to the settlement agreement. As such, in July 2010, The Phoenix Investments paid the balance of the consideration amounting to NIS 28 million, including linkage and interest differences according to the settlement agreement.

2. In the reporting period, The Phoenix Investments acquired 478,141 shares representing 2.81% of the share capital of Excellence for NIS 28 million.

   At June 30, 2010, The Phoenix Investments holds 73.32% of the issued and paid up share capital of Excellence. The share of The Phoenix in the equity of Excellence including outstanding shares that can be accelerated amounts to 88.65%.

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

A. Insurance and finance operations (contd.)

3. 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"), out of all its share options.

   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	NIS9.15-9.70
Standard deviation	48.43%-60.35%
Risk-free interest	2.23%-3.86%

B. Fuel operations in the US

1. 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 exercise, the Group holds 72.6% of the share capital of Delek US.

2. Further to Note 14(I) to the annual financial statements regarding the fire at the refinery in Tyler, Texas, in the second quarter of 2010, Delek US received $17 million (NIS 65 million) from the insurance company, including $12.8 million (NIS 49 million) for loss of profits and $4.2 million (NIS 15 million) for damage to property, which was recorded in the financial statements less costs of $0.2 million (NIS 0.8 million). The net income was recorded in the statement of income under other revenue, net. The receipts in the second quarter of 2010 constitute the completion of the accounting with the insurance company for damages caused by the fire. In 2009-2010, the receipts from the insurance company amounted to $141.4 million (NIS 562 million).

C. Fuel operations in Europe

1. In February, Delek Europe BV submitted a binding proposal 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.

   On June 18, 2010, BP informed Delek Europe that it accepted the offer to acquire the marketing operations. On June 23, 2010, Delek Europe signed an agreement to acquire these operations and paid an additional advance of €10 million (NIS 47 million).

   At the approval date of the financial statements, all the preconditions were fulfilled and the Company estimates that the transaction will be completed in the fourth quarter of 2010.

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

C. Fuel operations in Europe (contd.)

2. In the six and three months ended June 30, 2010, Delek Benelux recognized a deferred tax asset for carry forward losses of €3.1 million (NIS 15.3 million) and €2.1 million (NIS 8.3 million) that was not recognized when acquiring the fuel operations in Europe. Following the amendment to IAS 12, Delek Benelux 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. 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. The CEO of the Delek Israel remained in his position until August 15, 2010. In view of the aforesaid, the balance of the liabilities for the share-based payment granted to the CEO and the balance at June 30, 2010, amounts to NIS 0.5 million (for the first lot that vested). The balance of the liability amounting to NIS 8.2 million for the remaining lots was cancelled and presented as a reduction in payroll expenses in the statement of income, under general and administrative expenses in the second quarter of 2010.

3. Subsequent to the reporting date, on August 1, 2010, the audit committee and board of directors of Delek Israel approved the appointment of *Avi Ben*-Assayag as CEO of Delek Israel as from August 22, 2010.

   Delek Israel will pay Avi Ben-Assayag a monthly salary of NIS 90,000 linked to the CPI, commencing from the effective date of the agreement.

   Delek Israel also signed an agreement with Avi Ben-Assayag for the allocation of 283,099 options for Delek Israel shares, representing 2.44% of the issued and paid up capital of Delek Israel (2.34% fully diluted) exercisable into Delek Israel shares in three equal portions of 94,366 options each, commencing from August 22, 2013 until August 22, 2015. Each portion will expire six months after the vesting date. The nominal exercise increment is between NIS 175.7 and NIS 193.7 for each option warrant, subject to adjustments for a dividend.

   Exercise of the options will be based on a cashless exercise, net. In this case, the nominal value of the underlying shares will be paid. The financial value of the options at the approval date of the plan and shortly before the employment date of the CEO was calculated on the basis of the binomial model and amounted to NIS 6.7 million.

   The main assumptions and parameters used to calculate the economic value are as follows:
   The price of an ordinary share is NIS 117.8.
   The capitalization rate is based on the risk-free nominal yield curve in Israel for the life of the option (2.3%-3.5%).
   The standard deviation is 35.95%-37.99%.

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

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. On March 3, 2010, the general meeting of DES approved the options plan.

   The financial value of the options at the approval date of the phantom package amounted to NIS 39.8 million. The fair value of the option was estimated using the Merton method, based on the Black and Scholes calculation formula. Under IFRS 2, DES revaluates the liabilities for the phantom package at each reporting period. The amount of the expense recognized in the statement of income in the reporting period is NIS 6.5 million (NIS 4.3 million in the three months ended June 30, 2010).

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.

3. In June 2010, Delek Investments sold 31,696 shares of DES for NIS 33 million. The difference between the consideration received and the increase in non-controlling interests amounted to NIS 32 million (before the impact of tax) and was included in the consolidated statements of changes in equity under sale of shares to non-controlling interests. Subsequent to this sale, the Company holds 79.1% of the share capital in DES.

4. In June 2010, the chairman of the Group’s board of directors exercised 11,069 share options (the first lot) for 11,069 DES shares at an exercise price of NIS 349.96 per option. Subsequent to the exercise, the Group holds 78.92% of the share capital in DES.

5. In June 2010, DES acquired on the TASE 92,818 participating units in Delek Drilling for NIS 0.9 million. Subsequent to this acquisition, DES held (directly) 62.34% of the partnership's equity. The difference between the consideration paid and the value of the acquired equity amounted to NIS 0.8 million and was recognized directly in capital reserve from transactions with holders of non-controlling interests.
   Subsequent to the reporting date, DES acquired on the TASE an additional 2,167,089 participating units in Delek Drilling for NIS 21 million. Subsequent to this acquisition, DES holds (directly) 62.73% of the partnership's equity.

6. In the reporting period, Delek Investments acquired on the TASE 3,732,575 participating units in Delek Drilling for NIS 40.5 million. Subsequent to this acquisition), Delek Investments holds (directly) 7.49% of the partnership's equity. The difference between the consideration paid and the value of the acquired equity amounted to NIS 37 million and was recognized directly in capital reserve from transactions with holders of non-controlling interests.

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

E. Energy sector (contd.)

7. In June 2010, DES acquired on the TASE 8,985,000 participating units in Avner Oil Exploration (an affiliate partnership) for NIS 15.3 million. Subsequent to this acquisition (and the reporting date), DES holds 46.72% of the partnership's equity.
   Subsequent to the reporting date, DES acquired on the TASE an additional 23,092,943 participating units in Avner Oil Exploration for NIS 40 million. Subsequent to this acquisition, DES holds 47.41% of the partnership's equity.

8. In the reporting period, Delek Investments acquired on the TASE 18,159,876 participating units in Avner Oil Exploration for NIS 31.2 million. Subsequent to this acquisition), Delek Investments holds (directly) 13.63% of the partnership's equity.

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 in RoadChef of NIS 177 million and NIS 252 million at December 31, 2009 and June 30, 2009, respectively, was reclassified from available-for-sale assets to investments in companies and investees, and other expenses of NIS 75 million in 2009 was 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 searched 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:

   - 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 by the Securities Authority regarding the accounting treatment in these issues.

   The managements of the Company and Delek Real Estate believes that, based on the information available at this stage, the aforesaid does not affect the financial statements. However, it is not possible to assess the final results of the investigation and any implications they may have on the financial statements 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. As from this date (the date Delek Real Estate shares were distributed 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 investigation of the financial statements of Delek Real Estate could affect the Group’s financial statements for the reporting period,

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

F. Other operations (contd.)

3. 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 372 million at June 30, 2010 (including accrued interest of NIS 18 million), 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. Subsequent to the reporting date, interest amounting to NIS 14.5 million was paid. At the approval date of the financial statements, another option is being examined: acquisition of Delek Real Estate's holdings in RoadChef, offset against the balance of these loans. At the approval date of the financial statements, the terms of the transaction have yet to be finalized and the authorized organs have yet to approve the various options. At June 30, 2010, the balance of the Company’s investment in the shares and loans of Delek Real Estate amounted to NIS 315 million.

4. In May 2010, Delek Real Estate completed a rights offering. Under the offering, rights were exercised for the acquisition of 114,698,115 shares for NIS 126 million. The Group exercised the rights that were offered to it and acquired Delek Real Estate shares for NIS 6 million. The Group's holdings in Delek Real Estate subsequent to the acquisition remained unchanged.

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

G. 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 six and three months ended June 30, 2010, the Group’s share in the profits of IDE amounted to NIS 27 million and NIS 4 million respectively, representing 10% and 6.2% of the Group’s net profit attributable to the Group’s shareholders for these periods, respectively.

Condensed information about IDE for each reporting period (USD millions):

	June 30		December 31
	2010	2009	2009
	Unaudited		Audited
	USD millions		
Current assets	177	201	212
Non-current assets	355	312	346
Current liabilities	113	124	138
Non-current liabilities	267	258	270
Equity attributable to the Company’s shareholders	152	131	150

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

G. Condensed information of an equity-accounted company (contd.)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	USD millions				
Revenue	113	232	36	131	377
Gross profit	30	68	9	30	96
Operating income	18	55	3	32	68
Finance income (expenses), net	-	(10)	(4)	(6)	12
Net profit	14	55	2	35	71

H. Investments in available-for-sale financial assets

Further to Note 13(1) to the annual financial statements, in the reporting period, the Company acquired additional Noble shares for NIS 680 million. In addition, in the reporting period, some of the shares were sold at a profit of NIS 30 million.
At June 30, 2010, the investment in Noble amounted to NIS 800 million.

NOTE 4 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION

A. Tamar and Dalit leases

1. Further to Note 16(C) to the annual financial statements, in the accounting period and in the period subsequent to the reporting date and up to the approval date of these financial statements, the partnerships authorized the operator of the joint venture to enter into agreements to purchase a gas pipeline and other equipment required to develop the Tamar natural gas field, for an additional $353 million (for all the partners) such that at that date, the project partners approved agreements for the purchase of equipment and services amounting to $810 million (the share of Delek Drillings is $127 million).

   The operator informed the project partners that the development costs of the Tamar field, assuming, inter alia, connection to the onshore receiving terminal in the north of Israel, are currently estimated at $2.9 billion (for 100% of the rights) of which all the partners in the joint venture approved agreements amounting to $810 million, as aforesaid (the share of Delek Drilling and Avner is 15.625% each)

   On August 10, 2010, the Minister of National Infrastructures granted the partners in the Tamar project approval to develop the Tamar gas field as a dual pipeline for the delivery of natural gas from the field to a rig that will be constructed next to the Yam Tethys rig and from there, through the existing pipeline to the Yam Tethys receiving terminal in Ashdod. The operator announced that this development plan will allow the flow of natural gas from the Tamar field starting from the end of 2012 and that the project budget will be similar to the estimated budget, which is based on the original development plan, according to which natural gas was expected to flow to the receiving terminal in the north of Israel, as aforesaid.

NOTE 4 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (C0NTD.)

A. Tamar and Dalit leases (contd.)

1. (contd.)
On August 19, 2010, the limited partnerships (Delek Drilling and Avner) announced that the Petroleum Commissioner had approved the operator's application to develop the Tamar reservoir according to the outline presented by the project operator, as set out above (with the aim of delivering natural gas from the Tamar reservoir according to the terms of the lease).
The Commissioner asked the project operator for a reservoir development plan, including the arrangements between the partners in the Tamar lease and the relevant holders of rights in the Ashkelon lease (which covers the Yam Tethys gas reservoir) regarding the pipeline and receiving terminals and onshore handling facilities, including storage arrangements.

It is noted that this development plan and its budget have yet to be approved by the partners and that at this stage, the development costs and timetable are estimates only, received from the operator, and there is no certainty in this respect.

At June 30, 2010, the total investments for development of the Tamar and Dalit natural gas fields amounted to $173 million).

2. On June 2, 2010, Noble informed the lease partners that Netherland, Sewell and Associates ("NSAI"), an engineering consulting company that provides estimates of oil and gas reserves, has submitted a report updating the natural gas reserves in the Tamar field. The update was based on the results of the continued analysis of the drilling results and in particular, on the results received in the analysis of the cores extracted from the Tamar 2 drilling.

According to the NSAI report, the natural gas reserves in the Tamar field, which are classified as proved and probable reserves (2P) upon confirmation of the development plan for the Tamar field (which will include a reasonable forecast for sale of the natural gas produced in the field), are estimated at 8.7 TCF (247 BCM, compared to 7.7 TCF (218 BCM) in an earlier estimate, an increase of 13%. These gas reserves include reserves classified as proved reserves (1P) totaling 6.5 TCF (184 BCM), compared to 6 TCF (170 BCM) in an earlier estimate (an increase of 8%). NSAI also updated the gross mean resources in the Tamar field from 7.3 TCF (207 BCM) in the previous assessment to 8.4 TCF (238 BCM), an increase of 15%.

These estimates of the future production rate, economic potential of the gas reserves and amount of natural gas reserves in the Tamar field are estimates which are as yet uncertain. These estimates are expected to be adjusted as additional information is gathered and/or as a result of a range of factors related to oil and gas exploration and production projects, including as a result of continued analysis of the drilling findings.

3. On June 24, 2010, the partnerships (Delek Drilling and Avner) announced that they had signed an agreement for a bridge loan ("the finance agreement"), through a special purpose company, with Barclays Bank Plc and HSBC Bank Plc (hereinafter together: "the financing banks"). Under the finance agreement, the partnerships will receive a non-recourse loan of up to $190 million ("the loan"), for each of the partnerships to help finance their share in the development costs in the Tamar field ("the Tamar project").

The loan is for the period until the agreement is signed for long-term non-recourse project finance to fully finance the partnerships' share in the Tamar project development costs ("the project finance") or for 18 months, whichever is earlier (with an option for extension to a total of 24 months under certain condition). The loan will be repaid in one single payment at the end of the loan period. The partnerships intend to take steps to raise financing for the project before the finance agreement expires, such that the project finance will repay the loan. The partnerships may repay the loan prematurely, subject to the terms set out in the finance agreement.
To secure the loan, each of the partnerships pledges its rights to the assets related to the Tamar project and the partnerships committed to the covenants that are typical in this type of transaction.

NOTE 4 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (C0NTD.)

B. Seismic survey in the Ratio Yam, Alon and Ruth license areas

Further to Note 16(D) to the annual financial statements, Delek Drilling and Avner (”the limited partnerships”) announced that on June 2, 2010, the project operator Noble Energy Mediterranean Ltd. (“Noble”) held a meeting with the partners and presented the preliminary findings from the processing and interpretation of the 3D seismic survey in the Amit and Rachel license areas and in parts of the Hannah, David and Eran license areas (“the Ratio Yam licenses) as well as in the Alon A and Alon B license areas. The preliminary findings referred to the following prospects:

<u>Leviathan prospect</u>

In the first stage, Noble focused on initial processing and interpretation of the seismic data covering the Leviathan prospect, which is in tertiary sands corresponding to the reservoir sands identified in the Tamar drillings (“the tertiary sands”) and in the Rachel and Amit licenses held by the limited partnerships (22.67% each). Based on this information, Noble estimates that the Leviathan prospect has gross unrisked mean resources of 16 TCF (453 BCM).of natural gas. This estimate does not calculate the geological probably of finding hydrocarbons in the prospect. The probability of geological success in the Leviathan prospect is 50%.

On August 26, 2010, the partners in the Ratio Yam licenses approved a plan and budget for initial exploratory drilling of the Leviathan prospects in the Rachel and Amit license areas. The drilling is planned to commence in October 2010. The total budget approved by the partners for the Leviathan 1 drilling is estimated at $150 million (including forecasted transportation costs of the rig). This budget does not include the costs of the production tests, which if carried out, will be approved by the partners in a separate budget.

<u>Additional prospects</u>

Noble informed the limited partnerships that based on 2D and/or 3D seismic data, it has identified additional tertiary prospects in the Ratio Yam licenses and in the other offshore licenses, to which the limited partnerships and Noble own rights, as well as in Block 12 in Cypriot waters (“the additional prospects”).
It is noted that as the other Ratio prospects and the additional prospects are in the initial stages of formation, the final geological probability has yet to be formulated, and it could be lower than that of the Leviathan prospect.
Noble also announced that it had started to examine the potential existence of additional formations in pre-Miocene layers (which are significantly deeper than tertiary layers) in the limited partnerships’ licenses (including in the Tamar and Dalit leases), which might have further potential for discovery of oil and gas. These examinations have yet to crystallize into specific prospects.
These assessments and information, including the average economic potential of the natural gas reserves and the geological probability of finding hydrocarbons, as provided by Noble, are estimates which are as yet uncertain. These estimates are expected to be adjusted as additional information is gathered as a result of a range of factors related to oil and gas exploration and production projects

C. 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 leases 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 $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 4 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (C0NTD.)

D. Sheshinski Committee

On April 13, 2010, the Minister of Finance appointed Professor Eytan Sheshinski to head a committee to evaluate the fiscal policy of Israel's oil and gas resources ("the Sheshinski Committee"). The committee is mandated to make recommendations for changes in policy and to submit the recommendations to the Minister of Finance in the last quarter of 2010.
DES, Delek Drilling and Avner object to any change (in taxes or royalties) to oil rights (licenses and leases) which have already been granted to the partnerships under the Petroleum Law, and are preparing to present the committee with a position supported by economic and legal opinions.
If the committee recommends an increase in the rate of royalties or a change in the taxing policy, and the Ministers of Finance and National Infrastructures adopt these recommendations and they materialize into a binding law that withstands the scrutiny of the High Court of Justice, this could have a material adverse effect on the energy sector in Israel in general, and on DES, Delek Drilling and Avner, in particular.

Subsequent to the reporting date, on August 25, 2010, the Group, Delek Energy and the partnerships submitted a position paper to the committee established to evaluate the fiscal policy of Israel's oil and gas resources.

NOTE 5 – DEBENTURES AND CONVERTIBLE DEBENTURES

A. In January 2010, DES issued two debenture series in a scope of NIS 190 million and NIS 210 million (Series E and D, 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. On April 26, 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. Under IFRS 32, the consideration for the convertible debentures was split such at in the first stage, the value of the liability was defined, based on the value of similar liabilities without a conversion right and the proceeds attributed to the equity component was set as a residual value. 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 liability component of the debentures and the other NIS 7 million (net of issuance expenses) was attributed to the conversion options and recognized directly in the Company's capital. The effective interest for the debt component is 5.8% per year.

C. In June 2010, the Company issued the following:

1. An additional 500,000,000 par value Debentures (Series R) by way of expansion of Debentures (Series R). These debentures are listed for trading. The consideration of the issuance amounted to NIS 519 million (after offsetting issuance expenses of NIS 5 million). The terms of the additional debentures are the same as the current terms. The effective annual interest is 5.88%.

2. An additional 300,000,000 par value Debentures (Series N) by way of expansion of Debentures (Series N). These debentures are listed for trading. The consideration of the issuance amounted to NIS 317 million (after offsetting issuance expenses of NIS 3 million). The terms of the additional debentures are the same as the current terms. The effective annual interest is 8.02%.

   On June 8, 2010, Midroog announced a rating of A1 with stable outlook for these debentures.

NOTE 5 – DEBENTURES AND CONVERTIBLE DEBENTURES (CONTD.)

D. Subsequent to the reporting date, in July 2010, DES issued NIS 171.5 par value debentures registered in the name of their holder (with a discount of 0.1%) in a public offering through an expansion of Debentures (Series D), and NIS 241.8 par value debentures, registered in the name of their holder (with a discount of 1%) through an expansion of Debentures (Series E).

Further to the aforesaid, in June 2010, the Group acquired NIS 20,712,000 par value Debentures (Series D) and NIS 22,318,000 par value debentures (Series E). This acquisition is not expected to have a material effect on the results of the Group's operations.

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.

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.

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

B. (contd.)

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) to the annual financial statements, 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 dismissal of the class action.

In addition, further to Note 33(A)(14) to the annual financial statements, 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, and Delek Israel agreed to compensate him for his legal expenses. Subsequent to the reporting date, in August 2010, the court approved a settlement and ordered Delek Israel to pay attorney's fees that amounted to insignificant amounts.

Further to Note 33(A)(6) to the annual financial statements, in April 2010, the motion for dismissal of the class action against Delek Israel and other fuel companies, in the amount of NIS 22 million was accepted (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, no provisions were included for them in the financial statements

D. Subsequent to the reporting date, in July 2010, a motion for certification as a class action was filed at the Tel Aviv District Court against Delek Motors Ltd. and Delek Motors Parts (1987) Ltd.) (subsidiaries of Delek Automotive, referred to jointly hereunder as "the defendants"). The plaintiff alleges that the defendants dictate "standard hours" to their authorized garages for various services on cars at the garage and require the garages to charge the customer for work according to the standard hours, even though actual work hours amount to less than that. According to the claim, this type of agreement between the defendants and the garages is a restrictive practice in contravention of the law, it undermines consumer rights and provides grounds to file a claim for damages against the defendants.

The plaintiff is asking to represent all owners of vehicles imported by one or more of the defendants, who had their car serviced at garages authorized by the defendants, and who were charged for labor at the garage according the standard time (a predefined repair time for each action).

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

D. (contd.)

The amount of the applicant's personal claim is NIS 1,161 and the applicant estimates the amount of the class action at NIS 168 million. The defendants are due to submit their responses to the application for certification as a class action on September 19, 2010. The management of the Group and the management of Delek Motors estimate, based on the opinion of its legal counsel, that it is more than likely that the application for certification as a class action will be dismissed, therefore a provision was not included in the financial statements.

E. As described in 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 amounting to NIS 784 million were filed against investees of The Phoenix (for the issues described above). 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. For details see the statements of The Phoenix that are available to the public.

F. 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

The management of Republic is unable to accurately assess the results of the claims, however it estimates that the existing procedures will not have a material adverse effect on its operations and that any payment made to settle the claim is within the limits of the insurance cover.

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 equity 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 reporting period, special purpose companies, which issue and manage exchange traded funds, sold Group shares for a net consideration of NIS 11 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. On May 31, 2010, the Group declared distribution of a dividend to its shareholders in the amount of NIS 150 million. The dividend was paid in June 2010.

E. Subsequent to the reporting date, on July 26, 2010, the Group declared the distribution of a dividend to its shareholders in the amount of NIS 120 million. The dividend was paid in August 2010.

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 United States: The main operation is maintenance and operation of gas stations and convenience stores, 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 abroad: The main operation is carried out by Republic in the United States.
- Oil and gas exploration and production: The main operation is carried out under the Yam Tethys joint venture, which engages in oil and gas exploration and production on the continental shelf of the State of Israel.
- Other: Mainly operations in infrastructure investments, including mainly desalination and establishment of power stations and the biochemical operation that includes mainly production and marketing of fructose, citric acid and ingredients for nutritional additives.

B. Segment reporting

1. Revenue

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS millions				
Fuel operations in Israel	2,466	1,899	1,293	1,043	4,286
Fuel operations in the United States	7,111	4,011	3,777	2,498	10,413
Fuel operations in Europe	4,890	5,105	2,111	2,692	10,681
Automotive	2,294	1,997	1,203	964	4,743
Oil and gas exploration and production	239	168	139	81	449
Insurance and finance in Israel *	3,784	5,391	1,390	2,817	10,483
Insurance operations abroad *	653	901	330	462	1,668
Other segments	351	411	180	208	724
Total in statement of income	21,788	19,883	10,423	10,765	43,447

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

NOTE 8 – OPERATING SEGMENTS (CONTD.)

B. Segment reporting (contd.)

2. Results for the segment and adjustment to net profit

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS millions				
Fuel operations in Israel	101	116	50	68	230
Fuel operations in the United States	79	262	123	236	189
Fuel operations in Europe	98	45	69	62	97
Automotive	332	191	175	79	460
Oil and gas exploration and production	175	73	107	29	265
Insurance and finance in Israel	370	344	198	142	507
Insurance operations abroad	45	52	8	11	77
Other segments	51	179	1	102	212 **
Adjustments *	(138)	(322)	(55)	(216)	(430)
Total operating profit	1,113	940	676	513	1,607
Finance expenses, net	492	341 **	436	207 **	816 **
Gain from disposal of investments in investees, net	-	31	-	31	518
Group's share in profits of affiliates and partnerships, net	83	122 **	13	57 **	92 **
Income tax	210	199	103	99	215
Profit from discontinued operations	-	17	-		17
Net profit	494	570	150	295	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, ihn lieu 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, 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.

   Among other things, as part of the aforesaid, during the second quarter of 2010, Delek Real Estate completed the acquisition of all the shares held by Delek Real Estate in Delek Retail Lots Ltd. (Delek Retail Lots), representing 50% of the issued share capital of Delek Retail Lots. In consideration for the shares, Delek Israel paid Delek Real Estate NIS 4.7 million. At the same time, Delek Retail Lots will repay a shareholders' loan of NIS 1.6 million.

   Subsequent to the acquisition, Delek Israel holds 100% of the share capital of Delek Retail Lots. On completion of the acquisition and as from the acquisition date, Delek Israel consolidates the financial statements of Delek Retail Lots in its financial statements. Under IFRS 3R, the step acquisition in Delek Retail Lots is accounted for according to the conceptual framework. Therefore, acquisition of the balance of the shares in Delek Retail Lots was accounted for as the disposal of Delek Israel's investment in Delek Retail Lots and re-acquisition of the full holdings in the share capital of Delek Retail Lots. Following the acquisition, in the second quarter of 2010, Delek Israel recorded a profit of NIS 4 million (less acquisition expenses) for the difference between the value of the investment in the shares of Delek Retail Lots in the financial statements of Delek Israel prior to the acquisition and the fair value of the investment in Delek Retail Lots at the date of acquisition of control. This profit was included under other income.

   Had Delek Retail Lots been fully consolidated from the beginning of the year, the effect on the consolidated revenue and net profit would have amounted to insignificant amounts.

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

D. Further to Note 14(G) to the annual financial statements, in July 2010, the audit committee and board of directors of The Phoenix approved the amendment to the loan agreement with Delek Real Estate, including the first right of refusal for The Phoenix to acquire up to 20% of the shares of Vitania, deferral of the payment date of the balance of the unpaid loan in July 2010 to October 3, 2010 and increase of the annual interest rate to 10%.

E. Subsequent to the reporting date, on August 30, 2010, the board of directors of the Company approved a bonus of NIS 0.5 million to the chairman of the Group's board of directors, subject to the approval of the general meeting of the shareholders.

NOTE 10 – MINIMUM EQUITY 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.

	June 30, 2010	December 31 2009
	Unaudited	Audited
	NIS millions	
Minimum capital		
Amount required under the revised capital regulations	2,141	2,133
Amount required under the equity regulations immediately before publication of the amendment	1,390	1,392
Difference (a)	751	741
Amount required at the reporting date under the regulations and guidelines of the Supervisor A)	1,728	1,614
Actual amount calculated in accordance with the equity regulations		
Primary capital	1,686	1,489
Secondary capital, subordinated notes	843	788
Total actual amount at the reporting date calculated in accordance with the equity regulations	2,529	2,277
Excess	801	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)	333	309

(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.

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

A. (contd.)

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.

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 June 30, 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, and the requirements are adopted in their current format, at June 30, 2010, the capital requirements from The Phoenix Pension and Provident and the management company of Excellence would have increased by NIS 41 million.

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

A. (contd.)

4. On January 25, 2009, the Supervisor published a circular regarding relief for the capital required in respect of passive deviation. In accordance with the circular, The Phoenix Insurance applied for supervision and received approval that the asset held contrary to the investment regulations (an unrecognized asset) will not be considered as an unrecognized asset as defined in the capital regulations, provided the deviations from the restrictions and the conditions were created subsequent to October 1, 2008, and were due to the change in the market value of the investment assets, decrease in the total par value of a marketable security, decrease in the rating of the security or a reinsurer, change in the insurer's liabilities or equity or due to a deviation from the investment regulations for which specific approval was received, but in any case, not due to a new investment in an investment asset subject to the prior approval of the Supervisor.
   On August 1, 2010 (the effective date), The Phoenix received a letter from the Supervisor requiring The Phoenix to amend the passive deviations as follows:

   - Deviation in negotiable debentures: within 50 business days from the effective date
   - Deviation in non-negotiable debentures traded on the TACT–Institutional system and its duration does not exceed three years and the non-negotiable debenture that is not traded on the TACT – Institutional system, up to the repayment date of the debentures and provided the deviation is brought to the attention of the investments committee
   - Deviation in non-negotiable debentures traded on the TACT–Institutional system and its duration exceeds three years – within six months from the effective date

5. On August 5, 2010, the board of directors of the TASE approved a new model for financial stability of non-bank TASE members, including approval of amendments to the TASE bylaws and directives, under which the equity requirements, liquidity and rules for extending credit to customers by the non-bank member will be adjusted. At the same time, the board of directors resolved that by the end of 2010, non-bank members will not be able to take steps to reduce their equity relative to the equity at March 31, 2010.

B. In accordance with the US National Association of Insurance Commissioners (NAIC), Republic requires minimum capital of $52 million. At June 30, 2010, the capital of Republic amounted to $243 million.