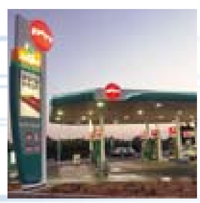
Delek Group

FINANCIAL STATEMENTS

UNAUDITED

AS OF SEPTEMBER 30, 2010



IMPORTANT

This document is an unofficial translation for convenience only of the Hebrew original of September 30, 2010 financial report of Delek Group Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on November 30, 2010.

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

Delek Group

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UPDATE TO CHAPTER A (DESCRIPTION OF THE COMPANY'S BUSINESS) OF THE PERIODIC REPORT OF DELEK GROUP LTD. ("THE COMPANY") FOR THE YEAR 2009

This update includes material changes and innovations that took place in the Company's businesses during the third quarter of 2010 and up until shortly prior to the date of this report, with respect to all matters that must be reported in the periodic report and that were not updated in the Company's second quarter report dated August 31, 2010 (Ref. 2010-01-607059). The update references the section numbers in Chapter A (Description of the Company's Business) in the Periodic Report for 2009 and is supplemenary to the information contained there.

1. The Company's activities and development of its businesses

1.1 With reference to Section 1.1.4 in the annual report, below is the debt raised by the Group in significant amounts:

1.1.1 In November 2010, the Company raised approximately NIS 560 million in a public offering of debentures (Series S). For more details, see the shelf offering report dated November 7, 2010 (Ref. 2010-01-671622) and the immediate report on the results of the offering, dated November 9, 2010 (Ref. 2010-01-674073), in which the information contained in them is brought here by way of reference.

1.1.2 In September 2010, Phoenix Capital (2009) Ltd., a wholly-owned subsidiary of Phoenix Holdings Ltd., raised approximately NIS 375 million in a public offering of debentures.

1.2 With reference to Section 1.1.4 in the annual report, the following material developments are noted:

1.2.1 On October 1, 2010, a transaction was closed for the acquisition of a fuel marketing and convenience store operation in France. See Section 5 below for further details.

1.2.2 In view of the publication of the draft recommendations of the Committee for Review of Fiscal Policy on the subject of Israel's oil and natural gas resources, headed by Professor Eitan Shashinsky, and their possible negative implications (if they are adopted), it was decided to review the significance of the draft recommendations in the light of their negative impact, including on the financing and development of the Tamar project according to the original plan, and accordingly, to consider the steps that should be taken. For more information, see Section 7.9 below.

2. Distribution of dividends

With reference to Section 1.4.1 of the annual report, on September 29, 2010 the Company resolved to distribute a dividend of NIS 90 million (NIS 7.9106 per share), which was distributed on October 19, 2010. For further details, see the immediate report dated September 21, 2010 (Ref. 2010-01-628941). In addition, after the balance sheet date, on November 30, 2010, .the Company resolved to distribute a dividend of NIS 500 million (NIS 43.947 per share), to be distributed on December 20, 2010.

3. Refining and fuels in the U.S.

3.1 With reference to Section 1.7 in the annual report, on September 13, 2010, Delek US Holdings, Inc. ("Delek USA"), a subsidiary (tiered) of the Company, published a presentation for investors which it was about to present at a conference held in New York on September 16, 2010. For further details, see the immediate report dated September 14, 2010 (Ref. 2010-01-620376), in which the information contained in them is brought here by way of reference.

3.2 With reference to Section 1.7.40B in the annual report, on August 23, 2010, MAPCO Express Inc. ("MAPCO"), a wholly-owned subsidiary of Delek USA, signed an amendment to a supply agreement with Core-Mark International Inc. ("Core-Mark"), in which, inter alia, the agreement would be extended to December 31, 2013. Under the agreement, each party to the agreement may cancel it by giving 12 months' notice. The agreement also provides that Core-Mark will continue to be the main supplier of foods and retail products to all MAPCO stores, subject to the provisions of the agreement.

4. The fuel products sector in Israel

4.1 With reference to Section 1.8.16D in the annual report, on August 29, 2010 Midroog Ltd. announced that it would review the rating of Delek Israel and of the Debentures (Series A and B) of Delek Israel, which are rated A1 Stable.

4.2 With reference to Section 1.8.19A5 in the annual report, on June 20, 2010, the Customs Tariff and Purchase Tax Exemptions on Goods (Amendment No. 19) Order, 5770-2010 and the Excise on Fuel (Imposition of excise) (Amendment) Order, 5770-2010 were published, under which the excise will be updated once ever four months rather than once every three months as was until now. In addition, on July 21, 2010, the Customs Tariff and Purchase Tax Exemptions on Goods (Amendment No. 22) Order, 5770-2010 was published, under which a tax of NIS 2.5 per liter is imposed on biodiesel fuel, similar to the tax applicable to diesel fuel.

4.3 With reference to Section 1.8.19A9 of the annual report, on November 10, 2010, the Knesset Economics Committee extended the period provided in Section 2 of the Fuel Economy (Promotion of competition) (Amendment No. 4) Law, 5770-2010, under which the Minister of National Infrastructures is granted an additional month to promulgate regulations in the matter of general fuel-filling devices, i.e. by December 10, 2010.

4.4 With reference to Section 1.8.21 of the annual report, on October 14, 2010, Delek Israel learned that on October 10, 2010, in a settlement between the parties, the District Court had allowed the plaintiff to withdraw from an application for certification of its claim as a class action against Delek Israel and against corporations in its control, which alleged that at certain gas stations operated by the respondents, there was no signage as required under the Fuel Economy (Promotion of competition) Law, 5754-1994 and the Fuel Economy (Promotion of competition) (Regulation of signage in gas stations) Regulations, 5768-2008. In addition, on October 13, 2010, Delek Israel received a claim and application for its certification as a class action against Delek Israel and against other fuel companies. According to those who filed the application, the set of agreements between each of the respondents and some of the station owners, which include a wholesale agreement and purchase agreements, constitute a proscribed cartel. The amount of the claim against all the respondents is NIS 1,200 million.

4.5 With reference to Section 1.8.21 of the annual report, in the framework of a pending proceeding in the Antitrust Tribunal from 2006, the credit companies sought approval for a cartel among themselves for the matter of the amount of the cross-commission they collect, and they were also granted a temporary permit to operate in accordance with that arrangement. On July 7, 2010, the Supreme Court dismissed the application of the fuel companies to join the application proceeding in the matter of the cross-commission and subsequently the clearing commission paid by the Company to the credit companies. Based on this arrangement, commencing August 1, 2010, the cross-commission paid by the Company to the credit companies was raised and in its wake, the clearing commission. The Oil Companies Association, together with Delek Israel and other fuel companies, sought leave to join the proceeding in the matter of approval of the aforementioned arrangement and to oppose extension of the term of the temporary permit, and its application was denied. A hearing is now being scheduled in the Supreme Court as part of an appeal of the decision of the Antitrust Tribunal to dismiss the application to join. The Oil Companies Association recently submitted an economic opinion to an expert economist appointed by the Antitrust Tribunal in the proceeding pending there, for him to formulate his opinion in connection with the amount of the cross-commission.

4.6 With reference to Section 1.8.21 in the annual report, on November 25, 2010, Delek Israel received an application for certification of an action as a class action against the Company, against a corporation controlled by Delek Israel and against other fuel companies. According to the filer of the application, inter alia, the respondents were in violation of Section 6 of the Deposit on Beverage Containers Law, 5759-1999 ("the Deposit Law") and of Amendment No. 4 to the Deposit Law, in that they refuse to reimburse consumers who purchase beverage containers in their convenience stores with the deposit amount stated on the container, and they charge the consumers who purchase bottles of beverages marked at full price with a VAT component in respect of the deposit amount. The amount of the claim against all the respondents is estimated at NIS 2,905,200,000, plus NIS 64,500 in respect of the VAT component that was overcharged. Since the proceeding is in its preliminary stages, Delek Israel is unable to asses the likelihood of the claim's success. It is noted that Delek Israel will act to have the name of the Company deleted from the application.

5. The fuel products sector in Europe

With reference to Section 1.9.29 of the annual report, on October 1, 2010 a transaction was closed for acquisition of the fuel marketing and convenience store operation of BP France SA ("BP"), and the ownership of assets transferred to Delek France Finance SNC, a subsidiary held by Delek Benelux. For additional details, see the immediate report dated October 3, 2010 (Ref. 2010-01-632655), in which the information contained in them is brought here by way of reference. Following acquisition of the BP operation, a description of marketing activities in France is attached hereto as **Appendix A**.

6. The automotive sector

Further to immediate reports on September 5, 2010 (Ref. 2010-01-612078) and September 15, 2010 (Ref. 2010-01-621594), the Company announced on October 20, 2010 (Ref. 2010-01-653961) the closing of a transaction between Delek Investments & Assets Ltd., a wholly-owned subsidiary of the Company, and Gil Agmon and/or a company in his control, for the sale of approximately 22% of the issued and paid up share capital of Delek Automotive Systems Ltd., after fulfillment of all the conditions precedent laid down in the agreement and noted in those reports, in consideration of approximately NIS 1 billion, based on a share price of NIS 50. The information in those reports is noted here by way of reference.

7. The energy sector

7.1 With reference to Section 1.11.3C3b in the annual report, on September 26, 2010 the Partnerships published an immediate report stating that the operator of the Tamar project, Noble Energy Mediterranean Ltd. ("Noble"), had issued a press release stating that the board of directors of Noble had approved the development plan of the Tamar project, which would consist primarily of the drilling of 5 wells from which natural gas would be carried to a new production platform that would be erected off the coast of Ashdod, next to the existing platform in the Marie-B reservoir. Noble's press release also contained estimates of timetables and costs. It is clarified that at the date of this report, the development plan referred to (including budget and timetable) have not yet been brought by Noble for the approval of the other partners in the project, and accordingly, they have not yet approved it.

7.2 With reference to Sections 1.11.4B and 1.11.4C in the annual report, on November 17, 2010, the Partnership announced that they had notified the Commissioner for Oil at the Ministry of Infrastructures that they waive their rights in the Halamish enclave in License 327/Zurim, and that they waive their rights in License 331/Ohad, which has expired.

7.3 With reference to Section 1.11.4D in the annual report, on October 10, 2010, the Partnerships announced that they had given approval for a 3D seismic survey in License 337/Aviah which would cover an area of about 200 sq.km. out of the area of the license. In addition, the Partnerships published assessments for the timetable and projected costs of the survey. Furthermore, on November 17, 2010 the Partnerships announced that they would submit a request to the Commissioner for Oil at the Ministry of Infrastructures, for transfer of some of their rights in Licenses 331/Aviah and 338/Keren, so that after the transfer, the Partnerships' rights in each of these two licenses would not exceed 25%, in accordance with the provisions of Section 56(b) of the Oil Law.

7.4 With reference to Sections 1.11.4E and 1.11.4H in the annual report:

7.4.1 On October 10, 2010 the Partnerships announced that they had approved their participation in seismic surveys in part of the Ruth and Alon licenses, which would cover about 2,350 sq.km. out of the license areas. They also published assessments for the timetables and costs.

7.4.2 On November 17, 2010 the Partnerships announced that they had submitted notification to the Commissioner for Oil at the Ministry of Infrastructures stating that they waive their rights in Licenses 362/Ruth E and 363/Ruth F.

7.4.3 On November 17, 2010 the Partnerships announced that Noble and the Partnerships would submit a request to the Commissioner for Oil at the

Ministry of Infrastructures for transfer of some of their rights in Licenses 361/RuthD and 360/Ruth C, so that after the transfer, the Partnerships' rights in each of the Ruth D and Ruth C licenses would not exceed 25%, in accordance with the provisions of Section 56(b) of the Oil Law.

On November 18, 2010 the Partnerships announced that Noble, operator of the project in the Ratio Yam licenses, had notified the partners in the Ratio Yam licenses that the Sedco Express oil rig had reached the Leviathan 1 drilling site in License 349/Rachel and had started drilling. It is clarified that in view of the significant gas reserves found in the Tamar discovery, and the potential of the Leviathan 1 drilling and of the other exploration areas owned by the Partnerships, the Partnerships are considering various options for commercialization of the gas, including the possibility of exporting the gas and selling it on the international market. The Partnerships are also looking into the possibility of exporting the gas in two main ways:

1. Pipeline
2. Liquefaction of the gas and transporting it in liquid form (LNG) in dedicated tankers.

It is noted that in most cases, the costs of the infrastructure for conveying the gas in these ways are extremely high. Furthermore, it is possible in certain circumstances to manufacture various products from the natural gas, which are easier to transport. Therefore, the Partnerships have started enquiries that include, inter alia, the various technical alternatives for carrying the gas and the economic and other conditions in the possible target markets, so as to define the technical feasibility and the economic attractiveness of the various options for exporting natural gas from Israel.

7.5 With reference to Section 1.11.4H in the annual report, on November 28, 2010 Noble Energy Mediterranean, operator of the Leviathan 1 drilling ("the Drilling") announced that the Drilling had penetrated the main target (Prospect NG100). Preliminary analysis of the information obtained indicates that the main target includes sands containing natural gas. It is noted that at this stage these are preliminary indications only, and the size and/or qualities and/or economic viability of the reservoir cannot yet be determined. For further information, see the immediate report of November 29, 2010 (Ref: 2010-01-698799).

7.6 With reference to Section 1.11.4I in the annual report, on November 3, 2010 the Partnerships announced the convening of a meeting of unit-holders to be held on December 20, 2010. The agenda for the meeting includes approval of an agreement with the general partner (in each of the limited partnerships) in a further amendment to the option agreement in Block 12 in Cyprus, whereby the exercise period of the option will be extended by nine months, effective from September 30, 2010, i.e. through June 30, 2011. The other provisions of the option agreement will remain unchanged.

7.7 With reference to Section 1.11.21E in the annual report, on November 11, 2010 the meeting of the shareholders of Delek Energy approved early repayment of some of the outstanding balances of loans taken by Delek Energy from Delek Investments and Assets Ltd., in accordance with the framework agreement signed between them, in the amount of NIS 200 million plus interest and linkage differentials accrued from the last payment date (September 30, 2010) to the date of the early repayment.

7.8 With reference to Section 1.11.24A in the annual report, on September 16, 2010 the Ministry of National Infrastructures published the following notice: "The Ministry of National Infrastructures announces that it is considering the policy for the conditions and cases in which transfers of rights will be approved under the Oil Law, directly or indirectly. It is clarified that the rights according to the Oil Law are personal, and that until publication of the policy, transactions will be approved only in exceptional cases." On the same day, the Partnerships announced that upon publication of that policy, they would examine its implications for their activities.

7.9 With reference to Section 1.11.24A in the annual report, on November 11, 2010 the Company announced that in light of publication of the draft recommendations of the Committee for Review of Fiscal Policy on the subject of Israel's oil and natural gas resources, headed by Professor Eitan Shashinsky ("the Shashinsky Committee"), and their possible negative implications (if they are adopted), it was decided to review the significance of the draft recommendations in the light of their negative impact, including on the financing and development of the Tamar project according to the original plan, and accordingly, to consider the steps that should be taken. The recommendations as presented are unacceptable to the Company and it will work in the hearing before the Committee and in other proceedings in the Government and the Knesset, to change the recommendations so as to enable the continued financing and development of the Tamar project in accordance with the original plan and the continued exploration activity in the licenses owned by the subsidiary partnerships – Delek Drilling Limited Partnership and Avner Oil Exploration Limited Partnership.

7.10 With reference to Section 1.11.24A in the annual report, on November 17, 2010 the Partnerships announced that they would file a request in the Oil Council for approval of continued holding of another license in addition to 12 licenses, and of a license area that exceeds four million (4,000,000), pursuant to Section 17 of the Oil Law. The Commissioner will present the request to the Council for approval.

8. The insurance and finance sector in Israel

8.1 With reference to Section 1.12.15B in the annual report, in September-October 2010, Phoenix Capital (2009) Ltd. ("Phoenix Capital"), a wholly-owned subsidiary of Phoenix Holdings Ltd., raised approximately NIS 375 million by means of an issuance of Debentures (Series B) and Debentures (Series C). The Series B debentures are for 12 years (with possible early redemption after 9 years), linked to the Index and bearing 3.6% interest; the Series C debentures are for 10 years (with possible early redemption after 7 years), bearing 6% interest and not linked to the Index or any currency. The proceeds of the issuance was issued at The Phoenix Assurance, which undertook to meet the terms of payment of the debentures, and will be recognized as hybrid tier-2 capital of The Phoenix Assurance, subject to limitations on the maximum amount of second-tier capital as provided in the draft circular for the matter of the composition of equity of an insurer.

8.2 With reference to Section 1.12.15C in the annual report, on November 1, 2010 The Phoenix announced a rating of Aa3 by the Midroog ratings committee for the Debentures (Series) A it issued in March 2007. In addition, Midroog awarded The Phoenix Assurance a rating of Aa1 for financial strength, Aa2 for deferred liability deeds (Series A) issued in July 2009, and Aa3 for deferred liability deeds (Series B and C) issued by Phoenix Capital in September 2010.

8.3 With reference to Section 1.12.19 in the annual report, on August 24, 2010 the Tel Aviv District Court ordered the striking out of a class action filed against Phoenix Pension and Provident Fund Management Ltd. (today Phoenix Pension and Provident Ltd.) ("Phoenix Pension and Provident"), a subsidiary of The Phoenix Assurance, in which it was alleged that the respondent, Phoenix Pension and Provident, as management company, invested in structured and risky financial instruments abroad, ostensibly without understanding the nature of those instruments and the risks involved in investing in them.

8.4 With reference to Section 1.11.19 in the annual report, the Company learned that following a claim and application for its certification as a class action which was filed against The Phoenix Assurance, in connection with collection of an insurance premium from the beginning of every month even when the insurance policy comes into force only after that date. On September 7, 2010, the Tel Aviv District Court approved a settlement agreement signed between the parties. Under the agreement, The Phoenix Assurance was required to remit to the group members a sum it estimates will not be material.

8.5 With reference to Section 1.11.19 in the annual report, further to a claim and application for its certification as a class action which was filed against Hadar Insurance Co. Ltd. (whose business was merged with and into The Phoenix Assurance), concerning prima facie breach of the duty of disclosure, on October 6, 2010 the Supreme Court ordered a stay of proceedings in the application for leave to appeal filed on behalf of The Phoenix Assurance, against the decision of the Tel Aviv District Court to allow the class action, until a decision is given on the application for approval of a settlement agreement filed at the same time in the District Court by the parties. The amount of the settlement and its cost are not material for The Phoenix Assurance.

9. Other operations

9.1 Biochemistry

With reference to Section 1.14.1 in the annual report, in view of the start of the production operation and the sale of citric acid by a subsidiary of Gadot incorporated in China ("the Operation"), which has various inputs from the production and sale of citric acid in a plant of Gadot Israel which in the future is expected to be significant, Gadot decided to state the Operation as a separate reporting segment and accordingly, the production and sale of citric acid in China will be added as a segment of operation of Gadot. On June 12, 2010, an agreement was signed between Gadot and the Chinese partner, whereby in August 2010 Gadot acquired the part of the Chinese partner in consideration of approximately CNY 29,.297,000 (USD 3,850,000), which the Chinese partner had invested in the joint company ("the Investment Amount"), plus interest as provided in the agreement. In addition, Gadot undertook to pay a sum in yuan equal to 6.5% of the net profit after tax of the joint company in 2010, 2011 and 2012 as confirmed by the tax authorities, and the joint company compensated the Chinese partner for severance and paid all his work-related expenses up to the date of transfer of his share in the joint company; for his part, the Chinese partner provided Gadot with a waiver of the claim he had filed against it as noted in the annual report. It is noted that Gadot will sell the produce of the plant in China to its customers at the quality standards of Gadot and under its brand.

9.2 **Investment in Noble Energy Inc.**

With reference to Section 1.14.5 in the annual report, it is noted that in accordance with a resolution of the Board of Directors of the Company on August 4, 2010, the Company increased its holding in shares of Noble Energy inc. and at the date of this report the Company holds 2.75% of the issued and paid up share capital. On November 17, 2010, a foreign bank made a new credit facility available to the Company (replacing a prior facility) for the purchase of up to 5,244,000 shares of Noble (about 3%) for a sum not exceeding USD 230 million.

9.3 **Roadchef**

With reference to Section 1.14.6 in the annual report, on November 24, 2010 the Audit Committee and Board of Directors of the Company resolved, subject to the approval of the general meeting, to approve the Company's engaging with Delek Real Estate, a company owned and controlled by the controlling shareholder in the Company, and with Delek Belron, a wholly-owned subsidiary of Delek Real Estate, in an agreement to acquire the holdings of Delek Belron in companies that hold all the issued and paid up share capital of Roadchef. Delek Belron holds 75% of Roadchef, and the other 25% are held by Delek Petroleum. A meeting of the shareholders of the Company and of Delek Real Estate is scheduled for January 3, 2011, at which the agenda will be approval of to contact in this transaction. For more details, see the immediate report dated November 25, 2010 (Ref. 2010-01-694143), and he immediate report of November 28, 2010 (Ref. 2010-01-698100), in which the information contained in them is brought here by way of reference.

9.4 **Delek Real Estate**

With reference to Section 1.14.7 in the annual report, for the matter of Loans 2004 and Loans 2008, in which at the date of this report the balance of the debt principal of Delek Real Estate to The Phoenix Assurance in respect of the loans amounts to approximately NIS 140 million – on October 24, 2010 Delek Real Estate notified The Phoenix Assurance that in view of the delay in closing transactions and certain measures that Delek Real Estate is bringing forward, the payment due on October 3, 2010, in a cumulative amount of approximately NIS 50 million (including linkage differentials and accrued interest to that date), would not be made, and accordingly, it requested approval for a further postponement of the payment to January 2, 2011 to enable the orderly closing of the transactions and completion of the measures. The board of directors approved the agreement to postpone the payment, subject to the approval of the general meetings of the shareholders of Delek Real Estate and The Phoenix, with the loans (which are Index-linked) continuing to bear 10% annual interest.

10. Matters relating to the entirety of the Company's 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 November 3, 2010 Midroog announced a rating of A1 Stable for Debentures (Series S). For more information on the rating, see the immediate report dated November 3, 2010 (Ref. 2010-01-668172), in which the information contained in them is brought here by way of reference.

In addition, on October 26, 2010, Midroog announced, following the Company's notification of the sale of approximately 22% of its holding in the issued share capital of Delek Automotive, that the Company's rating would continue to be reviewed in view of the mix of holdings and the extent to which it preserves a financial profile appropriate to the rating.

DELEK GROUP LTD.
Date: November 30, 2010
Signatories and their titles:
Gabriel Last – Chairman of the Board
Asi Bartfeld – CEO

Appendix A

Fuel Products Operations in France

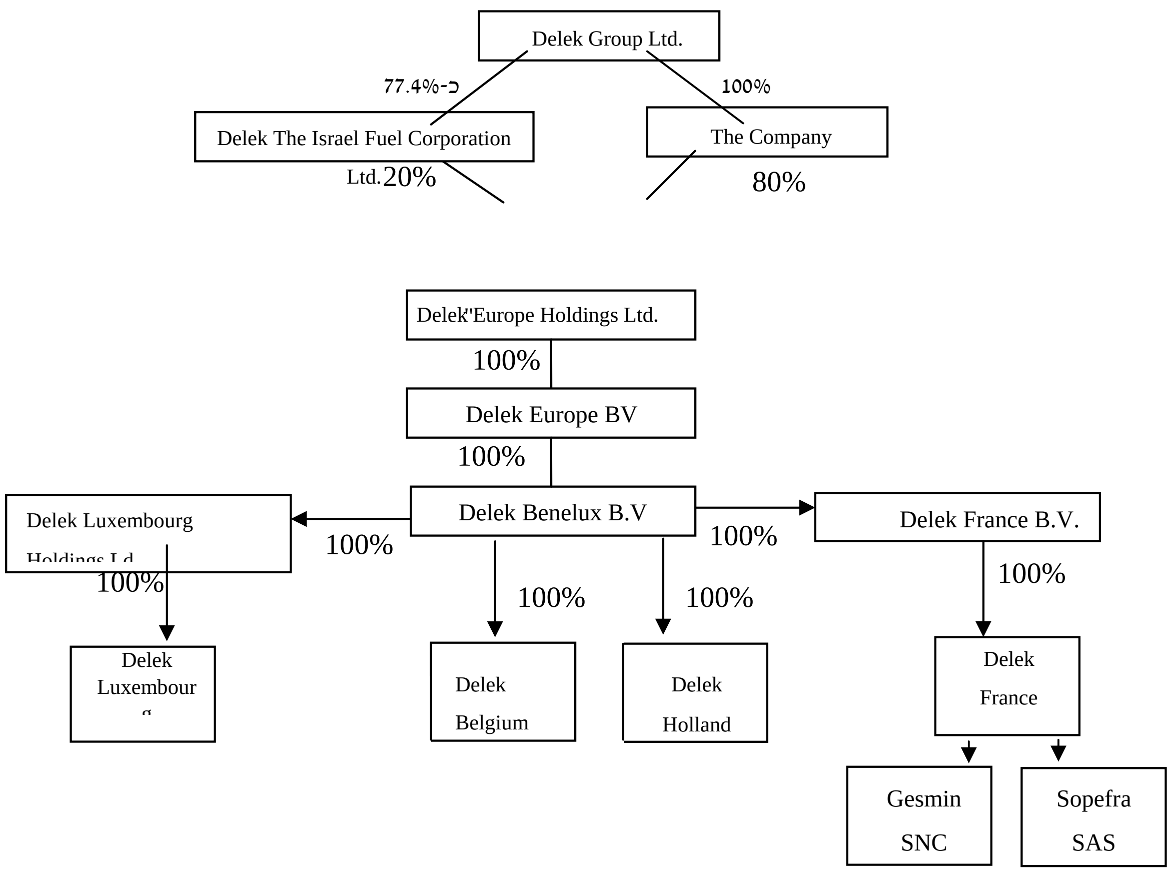
1.9 Fuel Products Segment in Europe

1.9.1 General

Following on Section 1.9.29 of the periodic report published March 26, 2010 (ref. no. 2010-01-432282), on October 1, 2010, the subsidiary of Delek Petroleum Ltd., Delek Europe B.V. ("Delek Petroleum" and "Delek Europe", respectively) acquired BP France SA's ("BP") fuel marketing and convenience store operations in France, comprising 410 gas stations, approximately 364 convenience stores, approximately 244 carwash facilities, and various holdings in three terminals for the supply and storage of fuels used in the operations ("The Acquired Operations" or "Marketing Operations in France").

Acquisition of the Marketing Operations in France also included an exclusive usage license to the BP brand in France in the gas stations, as well as long-term agreements concerning refueling cards. The Marketing Operations in France were acquired by Delek Europe through Delek France Finance SNC ("Delek France"), a company incorporated in France which is a wholly-owned subsidiary of Delek Petroleum that is indirectly held through Delek France B.V., a wholly-owned subsidiary of Delek Europe.

Upon the transaction's completion, the Marketing Operations in France was added to the fuel products in Europe segment, which prior to the aforesaid acquisition included marketing operations in Benelux (Belgium, Netherlands, and Luxembourg). These marketing operations comprise approximately 751 Texaco-brand gas stations and 98 private-brand gas stations, approximately 610 convenience stores, food chain branches, and carwash facilities. The following diagram illustrates Delek Europe's primary holdings following the acquisition of the Marketing Operations in France:



As aforesaid, the transaction for acquiring the Marketing Operations in France was completed on October 1, 2010. The consideration for the acquisition amounted to EUR 175 million (including transaction costs, but subject to working capital adjustments) and was financed through banks (70%) and shareholders loans extended by Delek Petroleum and Delek The Israel Fuel Corporation Ltd (30%), pro rata to their interests in Delek Europe. For more information concerning the financing for the acquisition of the Marketing Operations in France, see Section 1.9.21.1 below. The acquisition of the Marketing Operations in France was effected through the purchase of shares in the companies coordinating the aforesaid operations.

The following data pertains to fuel marketing operation in France only, constitute pro-forma and unaudited data, and are based on data provided to Delek Europe as part of the feasability studies conducted with regard to the acquisition of the foregoing operations.

1.9.2 Financial information concerning Marketing Operations in France

The following table provides data concerning the operating segment in the period 2008-2009 and in the nine months ended September 30, 2010 (in EUR millions):

	Nine months ended September 30, 2010	2009	2008
Revenue	602	620	875
Cost of revenue	526	518	769
Gross profit	76	102	106
Operating profit	13	13	16

1.9.3 Structure of the operating segment and changes therein

France is the second largest economy in Europe, and accounts for 14% of the European Union's gross national product. Its population accounts for approximately 13% of the European Union's population. Despite the economic crisis experienced by European Union countries, France remained a strong economy, and is expected to grow in the coming years. France is one of the most important tourist destinations in Europe, situated in a key geographic location in Europe. Furthermore, France houses approximately 19% of Europe's roads, with 11,000 km of highways. Thus, France constitutes a strategic target for fuel marketing operations.

Annual gasoline and diesel consumption in France in 2009 and 2008 was 50.5 billion liters and 50.4 billion liters,[1] respectively. In the period 2000-2007, the French fuel market remained relatively stable, in 2008 saw a slight decrease in fuel consumption in France, of approximately 2.7% compared with 2007 and since 2009 until the reporting date, there has not be any material changes in the annual fuel consumption in France.

The supply chain for Delek France's fuel marketing operations is as follows: fuels are purchased by BP from various suppliers which include refineries; they are transferred via pipelines, barges and trains to 14 different terminals, of which Delek France maintains holdings in three, BP holds six and the rest are owned by third parties. From there, the fuels are transported via tankers to the various gas stations according to agreements signed with three leading logistics suppliers.

As of the reporting date (September 30, 2010), Marketing Operations in France comprise 410 BP-branded gas stations. The gas stations are located primarily in the north of France (including Paris)

[1] This information is derived from monthly publications of UIFA (Petroleum Federation) data and motorway operating companies.

(240 stations), which account for approximatley 56% of Delek France's fuel sales; and in southern France (South PMR Corridor) (140 stations), which account for approximately 27% of the fuel sold by Delek France. It is noted that approximately ____ 50 gas stations are located along the motorways, which account for approximately 10% of the gas stations located along motorways. Delek France holds the second largest fuel supplier (20% market share) in northern France (including the greater Paris area), and holds the third largest market share (11%) in southern France.

Marketing operations are carried out through various distribution channels:

A. Gas stations ownedor leased for the long term and operated by Delek France (Company-Owned Company-Operated - COCO).

B. Gas stations owned or leased for the long term by Delek France and operated by franchisees (Company-Owned Franchese-Operated - COFO).

C. Gas stations owned or leased for the long term by Delek France and operated by dealers (Company-Owned Dealer Operated - CODO).

D. Gas stations owned or leased by dealers and operated by dealers, which buy fuels exclusively from Delek France (Dealer-Owned Dealer Operated - DODO).

B. In addition, fuel operations in Europe include approximatley 364 convenience stores, approximately 244 carwash facilities, and various holdings in three terminals for the supply and storage of fuels used in operations and which account for 40% of Delek France's fuel sales. For more information, see Sections 1.9.11 and 1.9.16 below.

1.9.4 Restrictions, legislation, standardization and special constraints

Marketing Operations in France are subject to various regulatory restrictions and requirements, including environmental protection requirements, labor laws, regulations for the sale of alcohol and tobacco products, minimum wage, labor conditions, public access roads and other legislation. For additional information, see Sections 1.9.24 and 1.9.25 below.

1.9.5 Changes in the operating segment's scope and profitability

A. The gas station and convenience store market in France is expremely competitive. In France, there are numerous competitors, mainly the hypermarket chains which hold a market share of approximately 50%, and five international fuel companies including BP, which jointly account for approximately 39.3% of the French fuel market.

B. To the best of Delek France's management's knowledge, following a period of stability in fuel consumption in France in the period 2000-2007, fuel consumption decreased by approximately 2.7% in 2008. This decrease is mainly due to the global economic crisis, which seriously impacted the land transport industry, which constitutes an extremely significant factor in fuel consumption in France. Since 2009 to date, there has been no material change in the annual fuel consumption in France. However, in recent years there has been a continuing increase in diesel consumption, as compared to a decrease in gasoline consumption (in 2001-2008, diesel sales were up by 2.5% on average, as compared to a 5.5% decrease in gasoline sales). This is due to a lack of substitute products, benefits promoting the use of diesel-powered cars over gasoline-powered cars (such as the incentive plan for reducing CO_2 emissions), and regulation. In 2009 and 2008, fuel sales were distributed between diesel (approximately 77% and 76%, respectively) and gasoline (approximately 23% and 24%, respectively).

C. Fuel consumption depends on various factors such as economic growth rates, population growth, fuel taxation policies, growth in the number of vehicles in France and the use of those vehicles. Fuel prices are materially influenced by crude oil prices, which are subject to significant fluctuations on the global markets. Accordingly, between 2000 and 2004, fuel margins fluctuated, while since 2004 fuel margins have gradually increased over the past five years. Fuel margins are influenced by the following factors: (1) market competition - Western European countries, including France, where competition in the fuel market is high, fuel margins have gone down compared to less competitive fuel markets in Europe; (2) changes in the number of self-service stations - an increase in the percentage of unmanned gas stations negatively affects fuel margins; (3) changes in the market share held by hypermarkets (which sell fuel at lower prices than the fuel companies), especially as regards motorway stations, may affect fuel companies' ability to compete, and so affect fuel margins; (4) the location of gas stations alongside motorways enables higher fuel margins and fuel sales turnover that is three times greater than that of non-motorway gas stations. In competitive European countries, convenience store sales have become an important part of the fuel market. Furthermore, in light of regulatory changes, in recent years there has been a trend towards closing less-profitable gas stations.

D. In recent years, the convenience store market in France has grown by an annual rate of approximately 3-4%, inter alia, due to the increase in standard of living and expansion of products offered.

1.9.6 Developments in the operating segment or changes in its customer profiles

A. Entry of hypermarket chains into the fuel market - Between the 1980s and the early 2000s, the market share held by hypermarket chains has grown consistently, up to a record high of 55% of the entire fuel market in France in 2001. In recent years, the hypermarket chains' market share has stabilized at around 50%. Hypermarkets offer fuels at prices significantly lower than those offered by the fuel companies, and this due to the fact that they use fuel as a lost leader for attracting customers into their stores. Delek France estimates that the hypermarkets' share in the motorway seegment is expected to decrease in the next few years in light of their declaration that the heavy capital investment required to upgrade motorway gas stations does not coincide with the hypermarket chains' business model. It is noted, that in early 2010, Carrefour and Leclerc closed motorway hypermarket locations for this reason.

B. Increase in self-service stations - Recent years have seen a trend towards self-service stations in order to allow fuel companies a level of competitive flexibility in reducing fuel prices.

C. Increase in motorway stations - Fuel margins in motorway gas stations is higher than that of urban gas stations. This is due to the fact that these stations experience higher fuel consumption than urban station. In addition, fuel consumption at these stations are higher than those in urban stations and their revenues are higher than convenience stores and restaurants.

1.9.7 Critical success factors in the operating segment and changes therein

Delek France believes that the critical success factors in the operating segment include the following:

A. Widespread deployment and attractive location of gas stations.

B. Adapting the operating model of the gas stations to their potential and reducing holdings in less profitable gas stations.

C. Financial stability which allows, inter alia, investment in setting up new company-owned stations and in renovating and expanding existing stations.

D. Advanced retail strategy management, including investment in the development of the convience store chain in order to offer customers a value proposition (service/quality versus price).

E. Advanced information technology and decision-support systems; establishing support for critical business processes.

F. Proprietary rights in the land on which the gas stations are built.

G. Contracting terms with station operators.

H. Development of fuel cards.

I. Availability of fuel and other products and the means to store them.

J. Advanced marketing and logistics systems.

K. A network operating under the BP brand, an international brand that is well recognized in France.

L. Economic conditions, which affect, inter alia, fuel consumption and convenience store turnover, as wella s the prices of the products on offer.

M. Penetration rate of premium fuel.

1.9.8 **Changes in suppliers and raw materials**

A. Fuel product suppliers

In France, fuel products are bought from refineries centered in northern, western and southern regions of France and from imports. Delek France buys fuel products from BP (for details concerning the agreement with BP, see Section 1.9.17 below). Fuel products are mainly supplied via pipelines, barges and trains and stored in a number of terminals throughout France, in three of which Delek France maintains various holdings (for details, see Section 1.9.16C below), while the other are owned by BP and third parties. Furthermore, there is a diverse distribution network supporting the Marketing Operations in France, through supply and storage agreements with three leading organizations which provide transportation services for fuels marketed by Delek France.

B. Convenience store suppliers

In France, there is a large selection of convenience store suppliers and Delek France has contracted various suppliers for the supply of food products, tobacco, light beverages and alcoholic beverages. Prominent among these contracts is the 12-year cooperation with French retail giant Carrefour, which distributes the products to stations throughout the country.

1.9.9 **Entry and exit barriers**

The following material entry barriers are typical of the French market:

A. Size of the country – France is a vast country with many gas stations, therefore a new competitor interested in a significant market share, will find it difficult to enter the market other than through the acquisition of an existing player.

B. Material investments requiring considerable capital - Investment in gas stations requires considerable capital, for various reasons, including the price of land (due, inter alia, to limited availability of relevant available land), and the cost of acquiring or constructing gas stations.

C. Environmental protection and planning regulation - Strict standards set by environmental protection and planning authorities limit market entry, or increase the costs associated with entry.

D. Furthermore, France requires a tender process for operating gas stations on motorway sites, which requires complex planning capacities, coordination with food and beverage chains and much capital which only financially sound major players can take part in.

The major exit barriers are the existence of rent/lease/operating contracts with land/station owners.

1.9.10 **Structure of competition in the market**

A. Competition in the fuel market in France is extremely fierce, due to the presence of a large number of competitors and the existence of a large number of gas stations. The market is primarily comprised of gas stations situated within hypermarket complexes and operated by hypermarket chains. The hypermarket chains hold a 50% share of the total fuel market in France. The market is further comprised of five major international fuel companies (BP (whose operations were acquired by Delek France as aforesaid), Esso, Total, Shell and Agip), which together hold a 40% share of the total fuel market in France. Of the international fuel Companies, Total holds the greatest market share - 23% in 2008. Total also holds the largest number of gas statinos (4,750 gas stations). BP held a market share of 3.2% as of 2008. The stiff competition in the fuel market is reflected in price competition, in differentiation between the various companies (each as per its own strategy), in the deployment of gas stations, in the branding of gas stations so as to attract customers, and in the expansion of additional services offered in the gas station complexes (such as convenience stores and carwash services).

B. Delek France handles the competitiveness of the fuel market on four levels: **1)** Focusing on high fuel consumption areas - Delek France seeks to establish and develop gas stations in the Paris region and surrounding cities, which benefit from high levels of vehicle traffic from vacationers and commuters. Delek France also focuses on establishing and developing gas stations alongside motorways throughout France, where in addition to vehicle traffic, Delek France benefits from lighter competition as compared to inner-city areas.; **2)** Differentiation and uniqueness - Delek France markets both its fuel products and its convenience store products as premium products which offer a higher quality relative the market, and benefits from long-term commercial ties with well-known food chains (Autogrill, and Elior), and with French hypermarket giant Carrefour; **3)** Pricing - Prices on regular (non-premium) fuels in Delek France's gas stations are average. However, Delek France's premium fuel offering is more competitively priced relative to the premium fuels offered by the market leader, Total; **4)** Establishing a loyal customer base - Delek France establishes a loyal base of return customers by marketing of BP Plus refueling cards (together with refueling card company Routex), which are accepted in 36 countries throughout Europe and offer various benefits upon payment during refueling, and by marketing of Carte Bienvenue loyalty cards, which offer benefits based on customer loyalty; **5)** Improvements to convenience stores.

1.9.11 **Products and services**

A. Fuel and oil products

Diesel - Mainly for diesel-powered vehicles and at gas stations and to industrial customers through independent distributors. In 2009 and in the first nine months of 2010, diesel sales accounted for approximatley 67% and 68%, respectively, of all fuels sold by Delek France.

Various types of gasoline - For gasoline-powered vehicles and marketed mainly at gas stations. In 2009 and in the first nine months of 2010, gasoline sales accounted for approximately 33% and 32%, respectively, of all fuels sold by Delek France.

There are no material differences in the profitability of diesel and gasoline sales.

Premium fuels - Delek France markets premium fuel products (diesel and gasoline) in France under the Ultimate brand. The main objectives in marketing Ultimate are to provide an innovative product which meets current customer expectations, and penetrate the premium fuel market which offers greater profitability. In 2009 and in the first nine months of 2010, premium fuel sales (diesel and gasoline) accounted for approximately 20% of all fuels sold by Delek France. In light of the greater profit margin on these fuels, in 2009 and in the first nine months of 2010, they accounted for approximately 31% of the total gross profit in the fuel segment - significantly higher than their quantitative share.

B. Convenience stores

In its convenience stores, Delek France markets various retail products such as food products (sandwitches, pastries, snacks, etc.), various beverages, cigaretts, car maintenance products, basic hygene products, and other products. As of the reporting date (September 30, 2010), the chain includes approximately 364 convenience stores, of which 54 are Proxi-branded stores (mainly in COCO and COFO locations alongside motorways), and 48 are 8 a Huit-branded stores (mainly in COFO locations, located primarily in urban locations). The use of these two brands is the result of a 12-year strategic collaboratoin with French retail giant Carrefour. In Proxi stores, as well as 8 a-Huit stores at COFO stations Delek France receives fixed rentals as well as part of the convenience store's revenues, and in return for using the brand Delek France purchases most of the products from Carrefour and pays license fees for its use of the brand.

C. Rental of commercial space and carwash facilities

Delek France rents out commercial space to suppliers and provides carwashing services in its refueling complexes through 240 carwash facilities.

D. The following table details convenience stores and carwash facilities by site type:

Site type[1]	Convenience stores	Carwash facilities
COCO	28	1
COFO	74	51
CODO	177	158
DODO	85	34

1.9.12 **Segmentation of revenue and profitability from products and services**

Below are the amounts and percentage of revenue from fuel sales and from convenience stores of the Marketing Operations in France in 2009 and in the nine month period ended September 30, 2010:

	In the nine months ended September 30, 2010		2009	
	EUR millions	% of segment revenue	EUR millions	% of segment revenue
Fuel	563.3	93.6%	566.0	91.2%
Convenience stores	38.4	6.4%	54.4	8.8%
Total	601.7	100%	620.4	100%

The bulk of the decrease in 2009 stems from a decrease in fuel prices and the general decline in the fuel market in France during the year, following the global economic crisis. Furthermore, in the last five years Marketing Operations in France included a streamlining plan whereby approximatley 80 low-profitability gas stations were closed (mainly CODO and DODO stations).

It is noted that there are considerable differences in sales across gas stations, influenced by the stations' location. For example, Delek France's gas stations include 50 motorway sites, with a large volume of vehicle traffic using their services. According to data for 2008, average annual fuel consumption for motorway stations amounted to approximatley 4.6 million liters, as compared to an average annual fuel consumption of approximatley 3.4 million liters for stations in the north of France, and approximately 2.8 million liters for stations in southern France.

1.9.13 **Customers**

Delek France's customers in the gas station segment are divided into several major groups:

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1 In COCO sites, Delek France bears the full costs of operating the stores and it receives all revenues. In COFO, and CODO sites, the stores are operated by third parties and Delek France is entitled to payment in accordance with a rental agreement signed with the third party for use of the site's facilities. This payment is based on a fixed payment and a variable component derived in some cases from the facilities' sales turnover. At DODO sites, Delek France receives the income from the sle of fuel to these stations.

Private customers: Private customers who refuel in COCO gas stations pay the fixed price for fuel products at each station. In addition, private customers also purchase complementary products, food or other products in Delek France-operated convenience stores, and purchase carwash services in the carwash facilities. Payment is usually made in cash or by credit card. In Delek France-operated gas stations, prices on the sale of fuel products to end customers are determined by Delek France.

Customers who are station operators: COFO, CODO and DODO station operators, whose contractual terms are anchored in separate agreements signed with each operator, and where payment is effected through bank standing orders to Delek France's bank account with an average customer credit of 7 days.

In addition to the aforesaid customers, Delek France also has the following customers:

Refueling card customers: Customers who purchase fuel by using refueling cards as set forth below: (1) BP Plus cards, which will be replaced in the future by Delek Europe cards, are issued to companies and businesses which sign contracts with Delek France for purchasing fuel through these cards. These customers are extended 35 days' credit, on average. Between 2007 and 2009, the number of BP Plus cards grew, totaling 134,357 in 2009, as compared to 114,166 cards in 2007. (2) Delek France has signed agreements with several specialty companies which issue their own refueling cards and which market them to international freight companies - these customers are extended 30 days' credit on average.

1.9.14 **Marketing and distribution**

Marketing channels employed by Delek France:

A. Marketing in gas stations - Delek France promotes its products and services through various means: sales in operating regions, local sales in specific stations and use of promotions. Furthermore, Delek France occassionally conducts advertising campaigns using various media.

B. Loyalty cards - Delek France operates a loyalty card program entitled Carte Bienvenue. The card allows loyal customers to accumulate points, which can then be used to buy products at the the gas station stores, primarily at convenience stores. The Loyalty card has been issued to approximately 2 million customers and approximately 30 million transactions are carried out with them annually..

C. Agreements to purchase brand fuels - Fuel products sold in the gas stations are marketed under the BP brand, while premium fuel products are marketed under the Ultimate brand. For more information, see Section 1.9.17 below.

D. Branding agreements for convenience stores - Delek France has a long-standing collaboration with French retail giant Carrefour, whereby Delek France uses the Proxi and 8 a Huit brands in some of its convenience stores. All other convenience stores operate under the BP brand.

E. Collaboration agreement for the issue of international refueling cards - Delek France has signed a collaboration agreement with Routex, whereby Routex card customers can refuel at Delek France's chain of gas stations in 37 countries across Europe. Routex is a joint venture of BP, ENI, OMV and Statoil (fuel companies).

F. Agreements for distributing fuel to gas stations – Delek France has fuel distribution and branding agreements with DODO gas station owners which are valid for up to 5 years.

Delek France is dependant upon agreements to purchase branded fuels.

1.9.15 **Seasonality**

In general, Delek France is not affected by any significant seasonal influences in the operating segment, although the winter months are weaker due to adverse weather conditions and shorter days. Furthermore, in the first and last quarters of each year, sales of fuel and convenience store products are usually lower.

1.9.16 **Property, plant and equipment and facilities**

A. The following table details Delek France's various gas stations and Delek France's proprietary rights in these gas stations as of September 30, 2010:

Breakdown of stations in each category	No. of stations owned or under long-term lease and operated by Delek France (COCO)	No. of stations owned or under long-term lease to Delek France and operated by third parties (CODO/COFO)	No. of stations owned or leased by third parties for which Delek France is an exclusive supplier (DODO)	Total no. of station s
Stations under ownership		104	-	104
Stations with remaining rental period of less than 3 years	17	108	-	125
Stations with remaining rental period of 3 to 10 years	9	34	-	43
Stations with remaining rental period of more than 10 years	3	17	-	20
Number of stores without franchise rights to which Delek France supplies fuel	-	-	118	118
Total	**29**	**263**	**118**	**410**

COCO stations are owned or leased for the long term and operated by Delek France. The long-term leases of these stations between 5 and 25 years, And the renewal dates are spread relatively equally over the years. In these stations, Delek France owns the equipment and inventory, and has direct control over pricing, supply, management and maintenance. Therefore, Delek France receives all profits from these stations, as it serves as both owner and operator.

COFO stations are owned or leased for the long term and operated by Delek France. The long-term leases on these stations for between 5 to 25 years, with the renewal dates spread relatively evenly over the years. In these stations, Delek France owns the equipment and inventory, and rents the stations to franchisees, who are also responsible for the stations' operation. Delek France invests in these stations in return for franchise fees, and also recieves the net profit from fuel sales less of the franchisee's commission, as well as a percentage of the on-site convenience store's revenue.

CODO stations are owned or leased for the long term by Delek France and operated by third parties. The long term leases on these stations for between 5 – 25 years, with the renewal dates spread relatively evenly over the years. In these stations, all fuel product marketing and retail operations are carried out by the third party operator. The operator signs a rental agreement with Delek France for the use of the site, and pays for the supply of products and for the use of brand names. Delek France receives rental fees from the operator and in addition also receives the net profit net profit from fuel sales less operator's commission. In the event of a station operating ending a year with a loss, the operator is entitled to compensation from Delek France in the form of reduced rental.

DODO stations are owned or leased and operated by third parties. In these stations, all fuel product marketing and retail and other operations are carried out by the third party, with fuel selling equipment belonging to Delek France. Delek Fance signs exclusive agreements with the stations for the supply of fuel (whether by consignation or by full sale), and is not entitled to any rental fees or payment on profits. Therefore, DODO stations are less profitable for Delek France. The aforesaid exclusive agreements are limited to a maximum term of five years, in light of applicable antitrust laws.

B. Delek France owns structures and equipment in the majority of those gas stations where it holds proprietary rights. These structures and equipment are a part of Delek France's property, plant and equipment. Furthermore, Delek France has equipment in all gas stations where it does not hold any proprietary rights or in which it has signed short-term rental agreements. In some of these stations, station structures are also part of Delek France's property, plant and equipment, as they were constructed many years ago when the seller had proprietary rights (including long-term rental/leasing agreements) in the stations. Delek France's equipement in its gas stations includes all the equipment required to operate the stations, including containers, pipes, pumps, computer and communications systems, office equipment, electrical systems and generators if necessary, fire extinguishing systems and public restrooms.

C. In addition, Delek France maintains holdings in three terminals storing approximatley 40% of all fuels marketed by Delek France, as detailed below:

1. The Vitry terminal in Paris, which is fully-owned by Delek France. This terminal is located on land owned/leased by Delek France. This terminal is operated by Delek France. The fuel stored in this terminal is supplied via pipelines supplying fuel to the Paris and northern France region (Trapil pipeline) which are owned by several companies including BP. The Vitry terminal has a maximum capacity of 100 million liters.

2. The Lyon DPL terminal, located in Lyon and held by Delek France (50%) jointly with Carrefuel (50%), through a private company incorporated in France ("DPL"). This termianl is lcoated on land leased by DPL from the Compagnie Nationale du Rhone until January 1, 2023. The terminal is operated by Delek France.. The fuel stored in this terminal is supplied via pipelines supplying the southwest region of France (SPMR pipeline) owned by several companies, including BP. The Lyon DPL pipeline has a maximum capacity of 70 million liters.

3. The Bastia terminal located on Corsica, and held by Delek France (21.5%) jointly with several other companies, through a private company incorporated in France ("DPLC"). This terminal is located on land leased by DPLC from private individuals. The terminal is operated by a local operating company specializing in the operation of terminals. The fuel stored in this terminal is supplied via ships by refineries in the FOS region. The Bastia terminal has a maximum capacity of 33 million liters.

1.9.17 **Intangible assets**

On October 1, 2010 Delek Europe signed an agreement with BP to obtain an exclusive license to use the BP trademark and other accompanying trademarks (the main ones being "Proxi" and "8 a Huit", deriving from BP's joint operations with the French retail giant Carrefour) in France. The BP trademark is one of the best known trademarks in the fuel industry and worldwide, and has been in use in France for many years. The agreement is valid for 5 years with an option to extend it for a further 5 years. Based on the agreement, Delek France is entitled to grant sub-licenses. Under the agreement Delek France is obligated to use the brand in accordance with the rules set forth in the agreement as was generally accepted before the acquisition of the acquired operations and as is generally accepted with BP operations worldwide. Delek France is obligated to market fuel that complies with BP's quality specifications. In the extension period Delek France is obligated to purchase half of the quantity of fuel that it sells at the stations from BP. In return for the license Delek France pays a fixed amount and a variable amount depending on the quantity of fuel that is sold at the BP branded stations.

1.9.18 **Human Capital**

A. The acquired operations has a workforce of approximately 100 employees based at Delek France's head office in Cergy, close to Paris. The head office employees deal with finance, customer service, marketing logistics and sales. In addition, Delek France employs approximately 450 employees at the COCO stations through its wholly owned operating company.

1.9.19 **Raw materials and suppliers**

Delek France entered a purchase and storage agreement with BP. BP purchases the fuel from the refineries operating in France and from international commercial companies in this industry. The fuel, which are supplied via a pipeline, barges and trains and are stored at several terminals throughout France. 40% of the fuel marketed by Delek France are stored at three terminals in which Delek France has varying ownership rights (for further information see section 1.9.16 C above) and the rest of the fuel is stored at BP and third party terminals. In conjunction with the agreement to acquire the marketing operations in France, a supply agreement was signed between Delek Europe and BP for the supply of fuel to the terminals which are owned by Delek France, until 2011, and an agreement to supply fuel from termianls that are not owned by Delek France for a perios that will end at the end of 2013. These agreements include an option clause to extend them for an additional period by mutual consent to be given by the parties by the November prior to the termination of the agreement. Furthermore, Delek France entered agreements with three leading organizations to provide transport services for the fuels marketed by Delek France from the terminals to the gas stations using road tankers.

1.9.20 **Working capital:**

A. Finished goods inventory policy

Average inventory days for Delek France is 10 days. The inventory value recorded in Delek France's ledgers at September 30, 2010 is Euro 37 million.

B. Credit policies

Customer credit: See section 1.9.13 above.

Supplier credit: The average supplier credit period, including the credit period in the terms of the contract with BP, is 10 days.

1.9.21 **Financing**

The consideration for the acquisition of the marketing operations in France amounted to Euro 175 million (including transaction costs, but subject to working capital adjustments) and were financed through banking finance and Delek Petroleum and Delek Israel shareholders loans per their relative share, and all as set forth below:

A. An amount of Euro 80 million was financed through a loan from a bank in Israel to Delek France B.V. ("the Loan"). The loan is for a period of 7 years at variable interest equivalent to the LIBOR interest rate for three months, with the addition of a margin. To secure repayment of the loan the shares of the borrowing company and of Delek France, *inter alia,* were attached and financial covenants were set (based mainly on the debt to EBITDA ratio and coverage ratios). In addition, as part of the collateral, it was determined that Delek Petroleum and Delek Israel would provide separate guarantees, each according to its share in the holdings.

An amount of Euro 40 million was financed by a loan from another bank in Israel which was extended to Delek Petroleum at first as short-term, at LIBOR interest rate plus a margin, which is secured by the Company's guarantee. The bank undertook, that after completion of the required paperwork, it would extend the loan for a period of 8 years. To secure the foregoing loan, Delek Petroleum undertook to attach its shares of Delek Israel. Delek Israel undertook to provide back to back guarantees for Delek Petroleum, as per its share, for part of the foregoing loan, in the amount of Euro 40 million (i.e. total guarantee of Euro 8 million). The said loan was repaid at the end of November 2010.

The balance of the consideration was financed through shareholders loans extended by Delek Petroleum (Euro 44 million) and Delek Israel (Euro 11 million). The shareholders loans are repayable on December 31, 2012, will be linked to the CPI and will bear annual interest of 5.5%.

Moreover, the Company (with cross-guarantees of Delek Petroleum and Delek Israel) extended further guarantees to third parties in the amount of Euro 97 million in favor or the acquired operations for financing working capital for the benefit of the VAT and excise authorities and for purchasing fuel from BP.

In addition, guarantees in the amount of Euro 63 million were extended for a period of two months to secure the payment of working capital adjustments to Delek France. As at reportin date, the guarantees have been released due to the payment of adjusted working capital during the said period, which was financed from the independnt sources of the acquired operations. In return for extending the guarantees, Delek Petroleum and Delek Israel will be charged guarantee commissions in the amount of 1.5% per annum. In addition, Delek Petroleum and Delek Israel will be entitled to receive two year management fees in the amount of Euro 1.2 million, as per their share in the transaction.

Delek France has credit facilities for working capital purposes which was granted by Bank ING with the Company's guarantee, in the amount of Euro 30 million (of the total amount of Euro 97 million) for the period of one year at LIBOR interest rates plus a margin.

1.9.22 Taxation

In general, corporate tax in France as at 2010 is 34%. The tax rate in the Netherlands is 25.5%. Pursuant to a pact to prevent duplicate tax between the Netherlands and Israel, a distribution of dividends from a Dutch company to its Israeli holding company of less than 25% of its share capital will be subject to tax at source of 5% in the Netherlands. For further information pertaining to taxation see Note 43 to the annual financial statements.

1.9.23 Environmental quality

Delek France is subject to various regulations relating to environmental protection, including fuel handling, prevention of soil and water pollution and waste treatment. In recent years and as part of global efforts, environmental protection requirements in France in general were made more stringent, while also affecting gas stations in France. This raised the level of environmental protection in existing stations, and also created an entry barrier to the establishment of new fuel stations.

The French government set a mandatory minimum quota for bio fuel as at the reporting date is 7%. The government push in France to increase the use of bio fuels is more aggressive than in other European Union countries, and consequently the quotas set are higher than the quotas set by the European Union (the goal set by the EU for 2010 is 5.7%), and fines were fixed in the event of non-compliance with such quotas. To the best of the Delek France's knowledge, no changes are expected in the bio fuel quotas until 2015. To the best of Delek France's knowledge, all the Company's third party suppliers comply with the foregoing requirements. Furthermore, two of Delek France's terminals (Vitry and Lyon DPL) have equipment and capacity for producing bio fuel compounds.

To the best of Delek France's knowledge, new legislature is expected in France concerning air pollution and conditions for operating gas stations, the safety of pumps and fixed minimum distances between pumps and the roadside.

Delek France has allocated Euro 1.2 million for regulatory adjustments and compliance with ecological provisions in 2009 and between Euro 1.5-2 million in 2010. Meanwhile, Delek France has retained the ratio customary for Delek Benelux of allocating 10 to15% of its capital investments (CAPEX) for regulatory and ecological provisions. According to the estimates, the environmental costs and investments in 2011 are expected to amount to approximately Euro 2 million.

This information pertaining to Delek France's estimates concerning the total expected environmental costs and investments in 2011 constitutes forward-looking information which is based on Delek France's estimates concerning Delek Europe's operations in the Benelux countries and its familiarity with the regulatory requirements in France. Nonetheless, it is possible that this forward looking information may not materialize, *inter alia*, due to weather conditions or any other force majeure, which is liable to cause environmental damage, or if new ecological requirements are enacted for which substantial additional costs will be required, etc.

1.9.24 **Restrictions and Supervision of the Corporation's Operations**

Delek France operations are subject to laws and regulations including, among others, labor laws, regulations for the sale of alcohol and tobacco products, minimum wages, work conditions, public access roads and additional laws, including:

A. Storage obligation: gas stations in France are committed to comply with a Compulsory Storage Obligation (CSO) for fuel, based on the sales volume in the preceding year. The requirement is 90 days storage. It is noted that companies that do not meet storage obligation requirements are entitled to acquire "tickets" for up to 90% of the required quotas from government agencies ("CPSSP") and 10% of the balance that they are obligated to hold as actual inventory, or alternately to purchase "tickets" from other entities in the fuel industry which possess inventory balances. The annual cost associated with meeting the storage obligation is not material. Accordingly, Delek France intends to maximize fuel storage using fuel storage tickets for up to 90% of its fuel, thus minimizing the actual inventory it holds at the terminals.

B. Provisions to Promote Competition: a tender process is mandatory in France for obtaining franchises for gas stations, restaurants and hotels along highways in the country. This law is aimed at increasing the number of players in the market. In Delek France's opinion, this law includes both risks and opportunities, whereby during the next three years, ten of its stores operating along the highways will be offered in a tender, while 267 sites of Delek France's competitors (gas stations, restaurants and hotels) will also be offered in a tender at the same time and will be available for offers by Delek France. Notwithstanding BP's history of obtaining 38% of the tenders to which it bid, Delek France's base estimate is that in 2010-2014, the number of tenders that Delek France will obtain will be similar to the number of tenders it will lose.

This information pertaining to Delek France's estimates concerning the ratio between Delek France winning or losing tenders constitutes forward-looking information which is based on Delek France's estimates concerning its operations in the Benelux countries and its familiarity with the market in France, including the duration of BP's operations in this market. Nonetheless, it is possible that this forward looking information may not materialize, *inter alia*, if Delek France changes its bid strategy, if there will be regulatory changes which will affect the said ratio, etc. There is no restriction or obligation concerning the number of stations that will be granted to the bidder in such terders. As part of the tender the bidder is required to comply with the various planning requirements and to propose attractive solutions from the aspect of the bid and customer service, design and innovations. Furthermore, the bidder must offer a payment for the use of the rights. The sites are offered for periods of 10 to 15 years.

In addition, France is subject to the 1999 European Regulation of Vertical Restraints, which limits the term of exclusive contracts (such as with suppliers and agents) to a maximum of five years, unless the supplier owns or rents the site.

C. Gas station licensing and operations in the fuel sales sector - Delek France is required to comply with a range of municipal, regional and national regulations, including periodic testing of soil quality, licensing of station buildings and fire fighting regulations. Detailed guidelines also apply to construction and operation of motorway fuel stations. Furthermore, since 2009, in France it is forbidden to sell alcohol between the hours of 6 p.m. until 8 a.m. and alcohol that is refrigerated. It is noted that the sale of alcohol could reflect up to 50% of non-fuel sales at the stations. Consequently, enforcement of the law is liable to lead to the closing of stations and to harm the financial feasibility of additional stations.

D. Environmental protection requirements: See section 1.9.23 above.

E. Licensing for operation of convenience stores: Convenience stores are subject to French government regulations governing health and sanitation, safety, fire, and planning and construction.

F. Fuel taxation: Tax rates on fuel sales in France are currently among the highest in Europe.

G. Labor laws: Delek France is subject to legislation regarding wage protection, overtime and labor conditions. Furthermore, labor laws in France restrict employee dismissal, and require actions to prematurely terminate employment (such as application for advance approval from a government agency, or a relatively long advanced notice period prior to actual termination of employment). It should be noted that the employee unions in France enjoy relatively significant power, including the right to obtain information regarding material topics, to be consulted regarding various processes (such as the sale of an operation or liens) and they can even prevent certain Company initiatives by appealing to the courts. Delek France's employment relations are in good order.

H. Price supervision: there are no price controls in France, however, France has limitations on price fixing between fuel companies, by virtue of antitrust laws.

1.9.25 Substantial agreements

Delek France considers the franchise agreements with BP and Carrefour , and the fuel supply agreement with BP, to be material engagements. For further information see sections 1.9.17 and 1.9.19, respectively.

1.9.26 Strategy and objectives

Delek France examines its goals and strategies and updates them from time to time according to developments in the fuel market, the competition and macro-economic effects.

Delek France operations in the coming years are expected to focus on the following activities:

A. Expansion of retail operations in fueling compounds, inter alia, by opening additional convenience stores and car wash facilities

B. Optimization of the operating method at the gas stations, inter alia, converting CODO stations to COFO and COCO stations

C. Increased efforts to market fuel products, increase brand awareness and increase convenience store sales

D. Cost reduction at non-profitable sites, through optimization of product purchasing, efficient inventory management, and more.

E. Renovation and redesign of the convenience store chain, including offering new products (with the focus on fresh produce), smart product arrangement and efficient inventory management to reduce costs.

F. Optimization of fuel station deployment, including acquisition of attractively positioned new sites.

G. Investment in Delek France IT systems, including the ERP system, CRM system and Envoy store management system to improve the pricing management system of Delek France.

H. Achieving operating excellence through mechanization of processes and administration. Developing a system for selling filling fueling card systems to the business sector. Finding additional DODO retailers by focusing on retaining the existing marketers.

I. Additional investments for improving operations and attaining cost savings, inter alia, by outsourcing maintenance systems and managing electronic invoicing.

J. Generating synergy at Delek France, based on experience in the Benelux countries, by improving growth and operating streamlining and using the geographic proximity between France and the Benelux countries for expanding Delek France's market (and similarly the operations in Benelux).

1.9.27 **Anticipated developments for the coming year**

As at the reporting date, Delek France uses BP's inforamtion systems, and this until the end of 2011. During the coming year, Delek France will trancfer these systems to Delek Europe's information systems. This process is expected to be complex and to include, inter alia, adjustment of Delek France's working procedures to those at Delek Europe and certain adjustment of the information systems to comply with regulatory requirements in France and the specific business aspect of Delek France.

In 2010, Delek France (or BP) was granted 15 gas stations along motorways. In this framework, Delek France is expected to rennovate and rebuild the stations at an investment of approximately Euro 55 million over the next two years. These actions are expected to contribute positively to the scope of revenue rom the sale of fuel and goods in the stores.

1.9.28 **Risk Factors**

Delek France estimates the major risk factors associated with its operations with Delek France's assets are:

A. **Competition:** The fuel market in France includes numerous competitors, constantly striving to increase their market share. Competition is manifested in the acquisition of fuel stations, sales promotion, price reduction, and more. Increased competition, including the entry of hypermarkets, may affect sector margins and the business results of Delek France. Furthermore, existing and future regulatory restrictions, aimed at limiting the power of major market players and at increasing market competitiveness, may affect the ability of Delek France to expand its operations, or may restrict it in contracting with other parties.

B. E**xposure to fluctuations in global fuel prices:** The price paid by Delek France for fuel products that it purchases is derived from the global fuel market price, and therefore it is exposed to changes in fuel prices in these markets. The factors influencing fuel prices include: Changes in the state of the global and local economy, the level of demand for Delek's products in and outside France, the geo-political situation in general and of the oil producing areas in particular (the Middle-East, the former Soviet Union countries, West Africa and South America), the production level of crude oil and petroleum distillates around the world, development and marketing of fuel substitutes, interruptions in the supply lines, and local factors including market and weather conditions. The rise in fuel prices around the world causes a rise in prices of products sold by Delek France, which can lead to a decrease in demand for these products, while impairing Delek France's profits on every product sold. At the same time, given that fuel prices are expressed in USD, and despite Delek France's strategy to hedge its open position in foreign currency, the Euro to USD exchange rate may also affect Delek France's purchase prices.

C. **Environmental protection requirements**: Statutory provisions for environmental protection in France are relatively stringent, however future regulations and ordinances due to increasing awareness of dangers associated with uncontrolled operations by fuel companies in general, and by Delek France in particular, may increase the monetary expenses incurred by Delek France. In addition, failure to company with the regulations could lead to sanctions, expose Delek France to lawsuits and impair the results of the operations.

D. **Credit restrictions and financing needs** – Delek France B.V. is a party to the financing agreement noted in section 1.9.22 above, under which it undertook to comply with various financial covenants. These undertakings are liable to limit its ability to plan, carry out changes and respond quickly to changes in its area of operations and to restrict its ability to borrow additional moneys. If the economic crisis continues or worsens, this could have adverse impact on Delek France's ability to receive financing under good terms and therefore to adversely affect its ability to finance its regular and operations or expand them.

E. **Alternative energy sources**: Transition to the use of alternative energy sources, such as natural gas and electric-powered engines, may negatively affect the volume of fuel sold by Delek France or, alternatively, may require it to adapt fuel stations to new customer requirements, which would entail significant investment.

F. **Bio fuel -** the government's drive to increase the use of bio fuels is liable to involve additional investments to enable missing and distribution of these products.

G. **Food sector regulation**: Food products and alcoholic beverages sold in Delek France's convenience stores are subject to various regulatory requirements. . Failure to comply with regulatory requirements and incurring the resultant damages, or more stringent regulatory requirements, may affect the business results of Delek France.

H. **Fuel taxation**: Increase of current fuel tax rates in France may affect fuel consumption in the country and may adversely affect the business of Delek France.

I. **Economic slow-down in the domestic market** (France): the continuing global financial crisis may lead to continuing decreased consumption of fuel and retail products purchased at the Delek France fueling compounds, and may effect the business results of Delek France.

J. **Regulatory involvement**: Delek France is subject to a range of regulatory provisions on matters such as fuel station licensing, labor laws, environmental protection, price supervision and antitrust. A breach of regulatory requirements, or more stringent regulatory requirements applicable to Delek Benelux are liable to cause increased expenditures, prohibit expansion of operations or affect existing operations, and may negatively affect the business of Delek France.

K. **Discontinued operations in fuel stations with relatively extensive operations**: Operating volumes vary by station, to the extent that some of the fuel stations account for larger operating volumes than others. Discontinued or reduced operations in COCO gas stations or in gas stations along the highways with relatively large-scale operations, or to reduce operations at these stations for any reason whatsoever, would adversely effect the operations of Delek France.

L. **Franchises used for Delek France operations**: Delek France uses several franchises, the main one being the BP fuel brand franchise and the convenience store branding franchise from Carrefour ("Proxi" and "8 a Huit"). The discontinued use of these franchises, for any reason, may affect the business results of Delek France.

M. **Risks involved in the ongoing operations in France** – completing the transaction involves certain risks such as difficulties in integrating the acquired operations with those in the Benelux countries, the business results of the acquired operations against all expectations, the need to obtain financing and increasing the debt of Delek Europe, subject to further regulation subsequent to the acquisition, etc.

N. **Risks involved in the transfer of BP's information systems to Delek Europe's information systems** – as stipulated in section 1.9.27 above, Delek France intends transferring BP's information systems to Delek Europe's information systems during the coming year. As noted above, this is a complex and long process. If failures occur in the actual process itself,

Below is a breakdown of risk factors by type (macro risks, industry-wide risks and specific Delek France risks), rated according to the estimates of Delek France's management, based on the impact on Delek France's business: major, medium or minor effect.

	Impact of risk factors on Delek France's business		
	Major Impact	**Moderate Impact**	**Minor Impact**
Macro risks	Economic slowdown in the local (French) economy		
Industry-specific Risks	Exposure to global fuel price fluctuations	• Competition • Fuel taxes and regualtory involvement	• Ecological requirements •Alternative energy sources • Bio fuels Foodstuff regulations
Company-specific risks for Delek France	Termination of operations at gas stations where operations are relatively large-scale Transfer of BP's information system to Delek Europe's information system	Francises used by Delek France in its operations Risks involved in the ongoing operations in France	Credit restrictions and financing needs

The impact of these risk factors on Delek France's business operations is based on estimates alone and may actually differ.

November 30, 2010

Delek Group Ltd.

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

For the nine month period ended September 30, 2010

The board of directors of the Delek Group Ltd. ("the Company"), hereby presents the Company's Directors' Report for the nine months ended September 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.

Following the completion of the sale of Delek Automotive shares as detailed in Section 2 below, starting September 30, 2010, the Company presents Delek Automotive's assets and liabilities under the 'Assets and liabilities held for disposal' item, while the results of Delek Automotive's operations are presented in the income statement under the 'Profit from discontinued operations' item.

2. Principal Operations

- On September 15, 2010, the Company signed an agreement with a company controlled by Mr. Gil Agmon, who serves as CEO of Delek Automotive Systems Ltd. ("Delek Automotive") and holds shares therein. Under this agreement, the Company is to sell Mr. Gil Agmon 22% of its holdings in the share capital of Delek Automotive, in consideration for NIS 1 billion.

  Post-balance sheet, on October 20, 2010, the transaction was completed. After the transaction's completion, Mr. Gil Agmon holds approximately 38% of Delek Automotive's share capital, and the Company holds approximately 33% of Delek Automotive's share capital. As of that date, the Company no longer has exclusive control over Delek Automotive, and so the Company shall cease consolidating Delek Automotive in its financial statements as of December 31, 2010. It is noted, that under IAS 27 (Revised) - *Consolidated and Separate Financial Statements*, the Company must recognize its remaining investment in Delek Automotive as per its fair value at the time in which the Company lost its control, and as of that date the remaining investment in Delek Automotive is to be presented as per the equity method. The Company's expected profit from the sale of the shares as aforesaid and from the revaluation of its remaining share holdings to their fair value as aforesaid is estimated at NIS 2 billion (before taxes), with a total of NIS 1.2 billion of the above amount being attributed to the revaluation of the remaining shares. This profit will be recognized in the fourth quarter of 2010.

- Post-balance sheet, on October 1, 2010, Delek Europe BV (a company which is 80% owned by the Company and 20% owned by Delek Israel) completed the acquisition of BP France SA's fuel marketing business in France, including 410 gas stations, approximately 300 convenience stores and holdings in three terminals. The consideration for the acquisition amounted to EUR 175 million (including transaction expenses and before working capital adjustments of EUR 63 million).

- Post-balance sheet, on November 24, 2010, following negotiations between the Company and Delek Real Estate Ltd. (a company owned and controlled by the controlling shareholder in the Company) ("Delek Real Estate") the Company's audit committee and board of directors decided to approve the acquisition of Delek Belron International Ltd. (a wholly-owned subsidiary of Delek Real Estate) ("Delek Belron") holdings in RoadChef. It is noted that Delek Belron holds a 75% interest in RoadChef, while Delek Petroleum holds a 25% interest in RoadChef. Upon the transaction's completion, the Group will hold a 100% interest in RoadChef. The consideration for the transaction is a NIS-based amount, equal at the date of closing to a sum of GBP 86.25 million (NIS 500 million), which reflects a value of GBP 115 million for RoadChef. The consideration is to be offset against Delek Real Estate's debt of NIS 384 million to the Company, due on December 31, 2010, and a payment of NIS 116 million (the aforesaid amounts are subject to changes in the GBP/NIS exchange rate by the closing date). For more information, see Note 3 of the financial statements.

- 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 began 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. On November 29, 2010, Noble informed the partners that drilling had penetrated the primary target (the NG10 prospect). Initial analysis of information collected during the drilling indicates that the primary target includes sands containing natural gas. It is noted that, at this stage, these are only preliminary indications and it is not yet possible to determine the size and/or quality and/or profitability of the reservoir.

  Drilling will continue as planned inside the primary target, and various tests will be carried out, including electrical tests (logs). After the logs are carried out, a process which may last about two weeks, an update will be released.

- As a holding company with international operations, the Company is considering possibilities for raising capital on the international markets in London.

- In May 2010, the Company announced a dividend of NIS 150. The dividend was distributed in June 2010. In July 2010, the Company's board of directors resolved to distribute NIS 120 million in dividends. This dividend was distributed on August 23, 2010. In September 2010, the Company announced a dividend of NIS 90. The dividend was distributed in October 2010. Post-balance sheet, the Company announced a dividend of NIS 500 million.

3. Results of Operations

A) Revenue from continuing operations

The Group's revenues in the reporting period amounted to NIS 31.7 billion compared with NIS 28.4 billion in the corresponding period of the previous year, an increase of NIS 3.3 billion (up 11.6%). 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

	1-9/10	1-9/09	7-9/10	7-9/09
Fuel operations in Europe	145	86	44	41
Fuel operations in Israel (1)	154	188	52	103
Fuel operations in the US (2)	50	253	(30)	(9)
Oil and gas exploration and gas production operations	280	199	105	126
Insurance and finance operations	540	437	170	93
Overseas insurance operations	90	36	45	(16)
Other segments	71	194	20	16
Adjustments	(244)	(401)	(111)	(116)
Operating profit	**1,086**	**992**	**295**	**238**

(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.

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

C) Financing expenses, net

The Group's net financing expenses in the reporting period amounted to NIS 808 million, as compared to net financing expenses of NIS 761 million in the corresponding period last year, an increase of 6%. In the reporting period, the average balance of the Group's financial liabilities at the consolidated level amounted to NIS 21 billion, as compared to an average balance of NIS 20 billion in the corresponding period of the previous year, which effected an increase in financing expenses. However, there was a decrease in financing expenses due to changes in the Israel Consumer Price Index between the reporting periods (out of the Group's total liabilities, NIS 9 billion are index-linked and were affected by the fact that the Israel Consumer Price Index increased during the present nine month period by 1.6%, as compared to an increase of 3.6% in the corresponding period last year), and due to erosion of expenses due to the weakening of the USD and EUR versus the NIS.

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 148 million, compared with a profit of NIS 132 million in the corresponding period of the previous year. The main change in this item stems from an increase in the Group's equity in the Avner partnership's profits.

E) Profit from discontinued operations

In light of the agreement for the sale of Delek Automotive to Mr. Gil Agmon, which was signed on September 15, 2010 as aforesaid, all of Delek Automotive's results were presented in the income statement under the 'Profit from discontinued operations' item, with comparison figures being re-classified (including the unsold interest of 33%). It is noted that starting from the fourth quarter of 2010, the Company's unsold equity (33%) in the results of Delek Automotive will be included under the 'Group's equity in the profits of investees' item.

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

	1-3/10	4-6/10	7-9/10	1-9/10	1-3/09	4-6/09	7-9/09	1-9/09	2009
Fuel operations in Europe	14	55	13	82	3	41	(2)	42	59
Fuel operations in Israel	24	10	16	50	32	29	9	70	82
Fuel operations in the US	(42)	40	(30)	(32)	(2)	97	(14)	81	27
Oil and gas exploration operations and gas production	30	22	43	95	(34)	2	52	20	23
Insurance and finance operations	95	27	59	181	82	6	23	111	181
Automotive operations (2)	94	36	60	190	54	53	65	172	250
Capital gains and others(1), (3)	(10)	(126)	(128)	(264)	22	(5)	(73)	(56)	242
Profit attributable to Company shareholders	**205**	**64**	**33**	**302**	**157**	**223**	**60**	**440**	**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) Post-balance sheet, on October 20, 2010, the Company completed the transaction for selling 22% of its holdings in Delek Automotive's shares. Following this transaction, Gil Agmon holds approximately 38% of Delek Automotive's share capital, while Delek Investments holds approximately 33% of Delek Automotive's share capital. As of this date, Delek Investment no longer has exclusive control over Delek Automotive, and so Delek Investments will no longer consolidate Delek Automotive in its financial statements as of December 31, 2010, and will present its remaining investment as per the equity method.

(3) 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 as per the equity method. Those results are included in the 'Capital gains and others' item.

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

	1-9/10	1-9/09	7-9/10	7-9/09	2009
Revenue	31,680	28,358	12,186	10,472	38,703
Cost of revenue	26,871	23,829	10,594	8,967	32,814
Gross profit	**4,809**	**4,529**	**1,592**	**1,505**	**5,889**
Sales, marketing and gas station operating expenses	2,523	2,604	848	868	3,385
General and administrative expenses	1,242	1,197	449	396	1,740
Other income (expense), net	42	264	-	(3)	386
Profit from operating activities	**1,086**	**992**	**295**	**238**	**1,150**
Financing income	247	394	56	159	508
Financing expenses	(1,055)	(1,155)	(405)	(522)	(1,432)
Profit after financing	**278**	**231**	**(54)**	**(125)**	**226**
Profit from disposal of investments in investees and others, net	-	35	-	4	518
Group's equity in profits of investee companies and partnerships, net	148	132	65	11	91
Profit before income tax	**426**	**398**	**11**	**(110)**	**835**

Income tax (tax benefit)	152	22	11	(125)	83
Profit from continuing operations	**274**	**376**	**-**	**15**	**752**
Profit from discontinued operations	**320**	**321**	**100**	**112**	**451**
Net profit	**594**	**697**	**100**	**127**	**1,203**
Attributable to -					
Company shareholders	302	440	33	60	864
Non-controlling interest	292	257	67	67	339
	594	**697**	**100**	**127**	**1,203**

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

	1-9/10	1-9/09	7-9/10	7-9/09	2009
Net income	594	697	100	127	1,203
Other comprehensive income (loss):					
Profit (loss) for financial assets available for sale, net	144	260	204	17	269
Profit (loss) for cash flow hedging, net	(24)	(100)	-	2	(115)
Adjustments from translation of financial statements of overseas operations	(245)	(23)	(220)	(176)	19
Group's equity in other comprehensive income (loss) of investees, net	1	(10)	(7)	(21)	12
Other comprehensive income (loss) from continuing operations	(124)	127	(23)	(178)	185
Other comprehensive income from discontinued operations	(2)	198	(2)	-	214
Total other comprehensive income (loss)	**(126)**	**325**	**(25)**	**(178)**	**399**
Total comprehensive income (loss)	**468**	**1,022**	**75**	**(51)**	**1,602**
Attributable to:					
Company shareholders	194	633	83	(70)	1,113
Non-controlling interest	274	389	(8)	19	489
	468	**1,022**	**75**	**(51)**	**1,602**

4. Financial Position

The Group's total assets as of September 30, 2010 amounted to NIS 89.9 billion, compared with NIS 84.3 billion as of December 31, 2009.

It is noted that in light of the agreement for the sale of Delek Automotive to Mr. Gil Agmon, signed September 15, 2010 as aforesaid, Delek Automotive's assets and liabilities were presented separately in the statement of financial position as of September 30, 2010, under the 'Assets and liabilities held for disposal' items. Comparative data was not re-classified and includes Delek Automotive's balances as previously reported.

Below is a description of the principal changes in assets and liabilities as of September 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 4.4 billion, consisting mainly of balances of NIS 1 billion in the Company, Delek Investments and Delek Petroleum, NIS 1.4 billion in Delek Europe, NIS 0.9 billion in The Phoenix, NIS 0.9 billion in Delek Energy and NIS 0.2 billion in Republic.

Total current assets

The Group's total current assets (excluding assets held for disposal in respect of Delek Automotive) as of September 30, 2010 amounted to NIS 31.6 billion, compared with NIS 33.9 billion as of December 31, 2009, a decrease of NIS 2.3 billion. This decrease is primarily due to the fact that Delek Automotive's current assets, to the amount of NIS 2.2 billion, were not consolidated, and appear under the 'Assets held for disposal' item.

Total non-current assets

The Group's total non-current assets as of September 30, 2010 amounted to NIS 55.5 billion, as compared to NIS 50.4 billion as of December 31, 2009, an increase of NIS 5 billion. This increase is primarily due to a NIS 4 billion increase in financial investments by insurance companies.

Balance of short- and long-term financial liabilities

Total financial liabilities (to banks, debenture holders and others) as of September 30, 2010 amounted to NIS 21.0 billion, compared with NIS 19.6 billion as of 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 as of September 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	(7,597)
Loans from banks	(686)
Loans from consolidated companies	(254)
Other	(239)
Total liabilities	**(8,776)**
Assets	
Cash (**)	106
Short-term investments (*) (**)	1,856
Loans to consolidated companies	1,663
Dormant shares	370
Other	15
Total assets	**4,010**
Financial liability, net – headquarter companies	**4,766**

(*) 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.

(**) See also Chapter B(2) below. As of the date of the financial statements' approval, the Company's short term investments and cash balance totals NIS 3.5 billion.

(***) 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.

Debt raising

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 800 million. In addition, post-balance sheet, in November 2010, the Company completed the raising of NIS 560 million in index-linked debentures. 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:

	1-9/10	1-9/09	7-9/10	7-9/09	2009
	Total	Total	Total	Total	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	10,437	7,215	3,326	3,204	10,413
Gross profit	682	642	195	197	792
Results of operations (excluding impairment and general and administrative expenses)	400	589	86	104	635
Impairment expenses	169	145	55	53	204
General and administrative expenses	181	190	60	59	247
Profit (loss) from operations	50	254	(29)	(8)	184
Financing expenses, net	97	68	31	18	100
Net profit (loss)	(45)	113	(43)	(21)	33

Delek US operates a refinery with a maximum daily capacity of 60,000 barrels, a crude oil pipeline and a network of fuel marketing terminals 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 direct and indirect holdings in Delek US at the balance sheet date total 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 193 million to the Company's results in the reporting period, as compared to profits of NIS 461 million in the corresponding period last year which was positively affected by material insurance income.

The results for Q3 2010 were adversely affected by maintenance activities carried out in the Tyler refinery, which required a complete 14-day shutdown of the crude oil processing unit. This shutdown reduced output and sales in the refinery in Q3 2010. During the shutdown, the Company advanced the installation of the fuel benzene content reduction unit, a project originally planned for Q4 2010.

Direct operating expenses averaged USD 5.96 per barrel in Q3 2010, as compared to USD 4.82 per barrel in Q3 2009. This increase is due to maintenance-related expenses, along with a decrease in production to 45,931 barrels per day, as compared to an output of 54,092 barrels per day in Q3 2009.

During Q3 2010, the 5-3-2 Gulf Coast crack spread averaged USD 7.45 per barrel, as compared to USD 6.38 per barrel in the same quarter last year, an increase of 17%. The Company's refining margin, plus inter-company marketing commissions of USD 0.60 per barrel, totaled USD 6.30 per barrel sold during the third quarter of 2010, as compared to USD 4.37 per barrel sold during the same quarter last year.

Gas station and convenience store operations

In the reporting period, the Company recorded an increase in the contribution of the retail segment to the results of its operations, which totaled NIS 207 million, as compared to NIS 128 million in the corresponding period of the previous year.

The increase in profits stems both from increased same-store sales of fuel and store products, and an increase in the retail margin on fuel sales, as compared to the corresponding period last year.

Q3 2010 saw a 5.2% increase in same-store fuel sales (in gallons) as well as increased profit margins on fuel sales, which amounted to 19.6 cents to the gallon. Same-store product sales grew by 6.3% in Q3 2010, mainly due to increased sales in the fresh foods, dairy, grocery and beer categories, as well as increased sales of the recently launched private label products.

Same-store fresh food and light beverage sales grew by 6.6% in Q3 2010, as compared to the same quarter last year. Growth was mainly due to increased sales of ready-to-eat food in restaurants opened throughout the company's convenience chain, as well as increased sales in the fresh food category.

Currently, the retail segment operates 420 convenience and refueling complexes, as compared to 452 complexes 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 nine month period ended September 30, 2010, Delek US received USD 17 million (NIS 64 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 the 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:

	1-9/10	1-9/09	7-9/10	7-9/09	2009
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Sales revenue, net	3,812	3,079	1,346	1,180	4,286
Gross profit	587	562	213	200	737
Operating profit	157	189	56	72	229
EBITDA	216	243	78	91	304
Financing expenses, net	63	92	27	59	113
Profit before equity in results of investees	69	86	23	13	112
Delek Israel's equity in results of investees	6	(2)	(3)	(6)	(8)
Net profit	**75**	**84**	**20**	**7**	**95**
Attributable to:					
Company shareholders	72	80	18	5	90
Non-controlling interest	3	4	2	2	5
	75	**84**	**20**	**7**	**95**

As of the balance sheet date, the Group maintains a 77.4% interest in Delek Israel (Delek Israel is a public company whose statements are available to the public).

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 in 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 3,812 million, compared with NIS 3,079 million in the same period last year. Net sales in Q3 2010 amounted to NIS 1,346 million, compared with NIS 1,180 million in the same quarter last year, an increase of 14%.

A comparison of the reporting period in 2010 to last year shows an increase in sales turnover for the nine- and three-month periods ended September 30, 2010 as compared to last year. This increase is primarily attributed to the rise in fuel prices, and a real increase, mainly in the sales turnover in the fuelling and commerce complexes in light of increased sales quantities, increased turnover in the Menta chain of convenience stores, and an increase due to the initial consolidation of Delek Kliot's results in the direct marketing segment.

Gross profit

Gross profit in the reporting period amounted to NIS 587 million, compared with NIS 562 million in the corresponding period last year. Gross profit for Q3 2010 amounted to NIS 213 million, as compared to NIS 200 million in the corresponding quarter of the previous year.

Gross profit for the period 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. Stiffening competition in the segment during the reporting period had an adverse effect on Delek Israel's profit margins. Furthermore, gross profit for the quarter grew in the direct marketing segment due to the initial consolidation of Delek Kliot's operations.

Sales, gas station operation and general and administrative expenses

These expenses amounted to NIS 428 million in the reporting period, compared with NIS 347 million in the corresponding period last year. During Q3 2010, these expenses amounted to NIS 155 million, compared with NIS 128 million in the same quarter 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, a marked increase in gas station rental fees, an increase in the operating expenses of Delek Israel's convenience store chain following the chain's expansion, and due to the initial consolidation of Delek Israel's acquisition of Delek Kliot's direct marketing operations.

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

Operating profit - general

Operating profit in the reporting period amounted to NIS 157 million, compared with NIS 189 million in the corresponding period last year. Operating profit in Q3 2010 amounted to NIS 56 million, compared with NIS 72 million in the same quarter last year.

Financing expenses, net

Net financing expenses for the reporting period amounted to NIS 63 million compared with NIS 92 million in the corresponding period last year. Net financing expenses for Q3 2010 amounted to NIS 27 million, compared with NIS 59 million in the same quarter last year.

The decrease in financing expenses in the reporting period is due mainly to a decrease in linkage difference expenses on Delek Israel's index-linked liabilities. This decrease is due, inter alia, to hedges on these liabilities during the reporting period, as well as due to a more moderate increase in the Israeli Consumer Price Index for the quarter and the reporting period as compared to last year. The decrease in linkage differentials was partially offset by increased interest expenses following an increase in Delek Israel's total financial liabilities.

Net financing expenses included NIS 20 million in profits from the sale of Delek Israel's holdings in Haifa Basic Oils Ltd.

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

As of the end of Q3 2010, fuel operations in Europe are managed by the consolidated company Delek Benelux BV and consist of about 850 gas stations in Belgium, The Netherlands and Luxembourg ("Benelux Fuel Operations"). Benelux Fuel Operations also include 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 label brand it has established – GO The Fresh Way. In 2009 Delek Benelux also expanded its operations in highway stations in Belgium and has begun operating four restaurants and one hotel.

On October 1, 2010, a transaction was completed for the acquisition of BP's fuel marketing and convenience store operations in France, and ownership of the relevant assets was transferred to Delek France Finance SNC (a subsidiary incorporated in France, and a lower-tier subsidiary of Delek Petroleum (80%) and Delek Israel (20%). The aforesaid operations include 410 gas stations, approximately 300 convenience stores and holdings in 3 terminals.

For more information concerning the acquisition of operations in France by Delek Europe BV, see Section 2 - Principle Operations above.

<u>Condensed statement of financial position of Delek Benelux at September 30, 2010 and 2009 and at December 31, 2009 (in EUR millions)</u>

	September 30, 2010	September 30, 2009	December 31, 2009
Cash	108	82	81
Current assets (excluding cash)	205	186	195
Investment in investees and long term receivables	50	28	29
Property, plant and equipment, net	212	229	226
Other property, net	230	232	234
Short term loans and credit	42	42	44
Current liabilities (excluding short term loans and credit)	281	257	262
Long term loans	298	297	297
Other long term liabilities	52	44	44
Equity (*)	132	117	118

* Total equity as of September 30, 2010, adjusted for the negative balance of a capital reserve for hedging transactions for a variable-to-fixed interest rate swap, amounts to EUR 20 million..

<u>Data from the income statement of Delek Benelux (in EUR millions)</u>

Item	1-9/10	1-9/09	7-9/10	7-9/09	1-12/09
Revenue	1,757	1,434	781	492	1,952
Gross profit	184	174	62	58	230
Operating profit (loss)	30	18	9	7	18
Equity in profits of investee partnerships	1	1	-	-	2
EBITDA	54	46	18	16	57
Net profit	19	8	4	-	8

Analysis of Delek Benelux's results in the reporting periods

Revenue

Revenue in the reporting period amounted to EUR 1,757 million, compared with EUR 1,434 million in the corresponding period last year, an increase of 23%. Revenue for Q3 2010 amounted to EUR 781 million, compared with EUR 492 million in the same quarter last year, an increase of 59%.

Gross profit

Gross profit in the reporting period amounted to EUR 184 million, compared with EUR 174 million last year, an increase of 6%. Gross profit for Q3 2010 amounted to EUR 62 million, compared with EUR 58 million in the same quarter last year, an increase of 7%. The increase in gross profit is due to increased sales turnover and continued growth in the convenience store segment.

Operating profit

Operating profit for the reporting period amounted to EUR 30 million, compared with EUR 18 million last year, an increase of 67%. Operating profit for Q3 2010 amounted to EUR 9 million, compared with EUR 7 million in the same quarter last year, an increase of 29%. 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 adjusted for impairment and non-recurring expenses) for the reporting period amounted to EUR 54 million, compared with EUR 46 million, an increase of 17%. EBITDA for Q3 2010 amounted to EUR 18 million, compared with EUR 16 million in the same 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 Partnerships' 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 12, 2010, the Minister of Finance appointed a committee, headed by Prof. Eytan Sheshinski, to examine the fiscal policies concerning oil and gas resources in Israel ("Sheshinski Committee"). The committee was charged with formulating 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. This position was supported by expert economic and legal opinions from world-renowned sources.

On November 16, 2010, the committee issued its draft recommendations. The committees principle recommendations were as follows:

1. Leaving the royalty rate unchanged;
2. Cancelling the depletion deduction;
3. Imposing a progressive tax on oil and gas profits to a rate of between 20% and 60%, which will apply after return on investment plus 50%;
4. Taxation of each reserve separately (ring fencing);
5. Concerning the aforesaid tax, immediate impairment will be determined for investments made during the project's life;
6. The tax shall not apply to export facilities;
7. The tax expense shall be recognizable for income tax purposes;
8. Impairment rules shall be formulated for industry-specific company tax rates;
9. Should the committee find that the proposed system adversely affects the ability to finance projects under development, the committee shall examine the necessary solutions.

The committee is expected to submit its final recommendations by the end of the year, after receiving comments from the public. In light of the publication of the committee's draft recommendations and their possible adverse effects (if adopted), Delek Energy and the limited partnerships have decided to examine the implications of the draft recommendations, including their implications for financing and development of the Tamar project as per the original plan. In this early stage, Delek Energy and the limited partnerships cannot fully assess the implications of the committee's recommendations on their operations.

However, it is already possible to assess that if and to the extent that the committee's regulations as currently published be adopted, and if and to the extent that the Minister of Finance and the Minister of National Infrastructures adopt these recommendations, and if and to the extent that the matter be enacted through a binding law that holds up to scrutiny by the Supreme Court - the application of the above recommendations is expected to significantly increase the tax burden and negatively affect Delek Energy's business and that of the limited partnerships.

As Delek Energy and the limited partnerships do not agree with the recommendations, Delek Energy and the limited partnerships intend to use the hearings before the committee as well as additional processes in the government and the Knesset to change these recommendations, so as to allow the continued financing and development of the Tamar project as per the original plan, and the continuation of exploration activities in their licenses.

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

	1-9/10	1-9/09	7-9/10	7-9/09	2009
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	418	325	177	152	450
Operating profit	193	141	75	81	187
EBITDA	293	231	120	118	306
Financing expenses, net	109	120	44	24	147
Group's equity in results of Avner and other investees	82	30	43	29	32
Net profit (loss)	**95**	**14**	**43**	**51**	**23**

Gas sales in BCM (*)	2.4	2.2	1.1	0.9	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 418 million, compared with NIS 325 million in the corresponding period of the previous year, an increase of 29%. In Q3 2010, revenue amounted to NIS 177 million, compared with NIS 152 million in the same quarter last year, an increase of 16%.

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.

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 109 million, compared with NIS 120 million in the corresponding period of the previous year, a decrease of 9%. In Q3 2010, financing expenses amounted to NIS 44 million as compared to NIS 24 million in the same quarter last year, an increase of 83%.

Financing expenses were mainly due to interest on bank loans and debentures for Delek Energy and its subsidiaries.

Financing expenses increased mainly due to new debenture issues which did not affect the corresponding period last year. This increase was offset by a decrease in expenses from the revaluation of hedging transactions on oil and gas prices to the amount of NIS 35 million, as compared to the corresponding period last year.

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 82 million, compared with a profit of NIS 30 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.

Furthermore, in the reporting period, Delek Energy posted losses in respect of its equity in the results of Matra's operations, to the amount of NIS 7.2 million and in respect of its share in the guarantee given to VOGIL.

Additional information

For more information, see Notes 3 and 4 to the financial statements.

E. Automotive operations

As aforesaid, Delek Automotive's results were not consolidated in the income statement, and were included under the 'Profit from discontinued operations' item. However, for the sake of convenience, below is an analysis of the results of the Group's automotive operations.

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

	1-9/10	1-9/09	7-9/10	7-9/09	2009
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	3,363	3,444	1,069	1,447	4,744

Gross profit	498	388	136	168	525
Sales, marketing and general and administrative expenses	52	52	16	20	68
Operating profit	446	335	120	148	457
EBITDA	454	343	123	151	471
Financing income (expenses), net	(32)	60	3	3	107
Net profit	**313**	**305**	**92**	**112**	**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). For information concerning the completion of the post-balance sheet sale of 22% of Delek Automotive's shares, see Section 2 above.

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

Breakdown of vehicle sales in units:

	1-9/10	1-9/09	7-9/10	7-9/09	2009
Sales of Mazda vehicles	22,837	21,909	6,705	9,278	31,685
Sales of Ford vehicles	7,790	9,552	2,994	4,203	12,489
Total vehicle sales	**30,627**	**31,461**	**9,699**	**13,481**	**44,174**
Delek Automotive's market share out of total vehicle sales in Israel (Licensing Bureau data)	19%	25%	18%	28%	25%

Vehicle sales in Israel were up 26% in the first nine months of 2010, with approximately 156,000 vehicles sold as compared to approximately 124,000 vehicles in the corresponding period of the previous year (according to Vehicle Licensing Bureau data).

Revenue

Sales turnover in the first nine months of the year amounted to NIS 3,363 million compared with NIS 3,444 million in the corresponding period of the previous year (NIS 4,744 million in the whole of 2009). Sales turnover for the third quarter of 2010 amounted to NIS 1,069 million, as compared to NIS 1,447 million in the same quarter last year. This decrease was mainly due to the lower number of vehicles sold - 9,699 in Q3 2010 as compared to 13,481 in the same quarter last year.

Gross profit

Gross profit for the nine month period ended September 30, 2010 amounted to NIS 497.5 million, as compared with NIS 388 million in the corresponding period of the previous year. The growth in gross profit is mainly attributable to the vehicle segment.

The gross profit margin in the third quarter of 2010 decreased to 12.6%, as compared with a margin of 15.7% in the second quarter of the year. This decrease was due to the continued revaluation of the Japanese Yen. The gross profit margin in the nine month period ended September 30, 2010 was 14.8%, as compared with 11.3% 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 30 million in the first nine months of the year, as compared with NIS 31 million in the corresponding period of the previous year. In Q3 2010, sales, marketing and general and administrative expenses amounted to NIS 8.5 million, as compared with NIS 13 million in the same quarter last year. This NIS 4.5 million decrease stems primarily from advertising expenses incurred in the same quarter last year in conjunction with the introduction of the new Mazda 3.

General and administrative expenses remained unchanged, amounting to NIS 22 million for the nine month period and NIS 7 million for the quarter.

Financing income, net

In the first nine months of the year, Delek Automotive incurred net financing expenses of NIS 32.3 million, compared with net financing income of NIS 60 million in the corresponding period of the previous year. In Q3 2010, Delek Automotive received net financing income of NIS 3.4 million, compared with a net financing income of NIS 3 million in the same quarter last year.

Financing expenses in the first nine months of 2010 stemmed mainly from the revaluation of trade payables (mainly Japanese Yen, which gained 7.2% during the period) to the amount of NIS 67 million, and NIS 6 million in interest and exchange rate differences paid to banks. These financing expenses were offset by income mainly received on the revaluation of marketable securities to the amount of NIS 13 million, interest from customers to the amount of NIS 21 million, and NIS 6.5 million in gains on hedging transactions.

Net profit

Delek Automotive's net and comprehensive profit for the first nine months of 2010 totaled NIS 313 million, as compared to a net profit of NIS 305 million and comprehensive income of NIS 304 million in the corresponding period of the previous year.

Delek Automotive's net profit for Q3 2010 totaled NIS 92 million, compared with NIS 112 million in the corresponding quarter of the previous year.

For more information on Delek Automotive, see Note 3F of the financial statements.

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 as of September 30, 2010:

The equity of the Phoenix Insurance as of September 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 788 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:

	1-9/2010	**1-9/2009**	**7-9/2010**	**7-9/2009**	**1-12/2009**
Profit from life assurance and long term savings segment	83	115	44	(4)	146
Profit from general insurance segment	159	97	42	33	118
Profit from health insurance segment	70	118	19	37	163
Profit from financial services segment	81	5	16	(6)	13
Total profit from operating segments	**393**	**335**	**121**	**60**	**440**
Profit (loss) not attributed to the segments of operation	(30)	(127)	(9)	(44)	(134)
Equity in the net results of investee companies	8	12	(7)	(3)	41
Profit before income tax	**371**	**220**	**105**	**13**	**347**
Income tax	116	71	34	(19)	99
Profit for the period	255	149	71	32	248
Profit for the period attributed to the Company's shareholders	**239**	**136**	**67**	**27**	**227**

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 41 million, compared with a profit of NIS 68 million in the corresponding period of the previous year, a decrease of 39.7%. In Q3 2010, profits amounted to NIS 32 million, compared with a loss of NIS 19 million in the same quarter last year.

Premiums earned during the reporting period totaled NIS 2,223 million, compared to NIS 1,954 million in the corresponding period last year, an increase of 13.8%. The increase stems from an increase in new sales and a decrease in the cancellation rate.

In the reporting period, the redemption rate of life assurance policies from the average reserve for the period was down, totaling 2.50% as compared with 2.80% in the corresponding period in the previous year.

Pension and provident funds

As of the reporting date, The Phoenix Pension and Compensation Fund Management Ltd.'s assets amounted to NIS 4,890 million, compared with assets of NIS 4,111 million as of December 31, 2009. Profit before tax in The Phoenix Pension in the reporting period was NIS 6.3 million, similar to its profit before tax in the corresponding period last year.

The results of the life assurance and long-term savings segment also include the long-term savings data of Excellence (mainly provident fund management) and amounted to a profit before tax of NIS 35.7 million and NIS 40.9 million for the nine month periods ended September 30, 2010 and September 30, 2009, respectively, a decrease of 12.7%. This decrease in profitability was due to increased expenses in Excellence's long-term savings segment. Excellence's total long-term savings assets as of September 30, 2010 amounted to NIS 18 billion, similar to its total assets as of December 31, 2009.

General insurance

Revenue from gross premiums earned in the reporting period amounted to NIS 1,539 million, compared with NIS 1,424 million in the corresponding period of the previous year, an increase of 8.1%.

Profit from the general insurance segment in the reporting period amounted to NIS 159 million, compared with NIS 97 million in the corresponding quarter last year, an increase of 63.9%.

Health insurance

Revenue from premiums earned in the health insurance segment in the reporting period amounted to NIS 792 million, compared with NIS 750 million in the corresponding period last year, an increase of 5.6%. 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 70 million, compared with NIS 118 million in the corresponding period of the previous year, a decrease of 40.7%.

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 81 million, compared with NIS 5 million in the corresponding period of the previous year. The increase in profit is due mainly to the reduction in the depreciation of intangible assets created through the acquisition of Excellence compared to the corresponding period in the previous year, and increased revenue from management fees collected on Prisma's mutual funds, which were initially consolidated starting in the third quarter of 2009.

According to Excellence's financial statements, total assets under management by Excellence as of September 30, 2010 amounted to NIS 40 billion, compared with NIS 37 billion as of December 31, 2009, an increase of 8.1%.

In the first three quarters of 2010, the growth trend in assets under management continued in most of the Excellence group's segments of operation. 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 Republic's operations as included in the results of the Group:

	1-9/10	1-9/09	7-9/10	7-9/09	2009
	USD millions	USD millions	USD millions	USD millions	USD millions
Premiums earned (retention)	231	281	78	90	365
Investment and other revenue, net	33	44	13	16	53
Total revenue	**264**	**325**	**91**	**106**	**418**
Increase in insurance liabilities less reinsurers	142	215	51	80	268
Commissions and other purchasing expenses	71	77	22	22	103
General and administrative expenses	30	27	9	9	34
Financing expenses	4	5	2	2	6
Total expenses	**247**	**324**	**84**	**113**	**411**
Profit before tax	17	1	7	(7)	7
Net profit	**12**	**1**	**5**	**(4)**	**6**

Analysis of the results of Republic's operations

Revenue from premiums (gross) in Q3 2010 amounted to USD 212.5 million, compared with USD 249.0 million in the corresponding period of the previous year, a decrease of 14.6%. The decrease stems primarily from the program management segment.

Insurance fees earned (in retention) in the reporting period amounted to USD 231 million, compared with USD 281 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 will continue into 2011.

Republic's equity as included in the Group's financial statements as of September 30, 2010 is USD 320 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 12 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 58 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 construction 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 net profit in the first nine months of 2010 amounted to a loss of NIS 19 million, compared with a profit of NIS 17 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 September 30, 2010 amounted to NIS 2,381 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 as of September 30, 2010 (in NIS millions):

	Balance at September 30, 2010
Cash and deposits	525
Foreign securities portfolio (see details below)	301
Noble Energy Inc. shares, net (1)	727
Marketable securities on the TASE (2)	343
Corporate bonds (3)	143
Others (mainly government bonds)	342
Total	**2,381**

(1) After deduction of a loan amounting to NIS 599 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.

(4) The investment in some of the shares is presented under the 'Other financial assets' item, and the investments are revaluated against a reserve for financial assets available for sale, net, whose balance as of September 30, 2010, reflects an underlying profit (pre-tax) of NIS 150 million.

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 88 million (NIS 324 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	60	30	15	301	(15)	(30)	(60)
Investment in Noble Energy Inc. shares	265	132	66	1,326	(66)	(132)	(265)
Investment in shares on the TASE	68	34	17	343	(17)	(34)	(68)
Total	**393**	**196**	**98**	**1,970**	**(98)**	**(196)**	**(393)**

(*) 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.

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**
As of:	**Points**	**NIS**		
September 30, 2010	106.9	5.8008	4.9873	3.665
June 30, 2010	105.6	5.8228	4.7575	3.875
December 31, 2009	105.2	6.1112	5.4417	3.775
September 30, 2009	105.0	6.0472	5.5098	3.758
June 30, 2009	102.5	6.5089	5.5346	3.919
<u>Increase (decrease) for the period</u>	%	%	%	%
September 2010 (9 months)	1.6	(5.0)	(8.4)	(2.9)
September 2010 (3 months)	1.2	(0.3)	4.8	(5.4)
September 2009 (9 months)	(1.4)	9.0	4.0	(1.2)
September 2009 (3 months)	2.4	(7.1)	(0.4)	(4.1)
December 2009 (12 months)	(1.2)	10.15	2.73	(0.71)

3. Linkage bases report at September 30, 2010

	September 30, 2010												
	Israeli Currency		Foreign Currency							Monetary items in autonomous units			
	Unlinked	Index-linked	USD	EUR	JPY	Other foreign currency	Fair value	ETFs	Items from insurance operations	USD	EUR	Non-monetary item	Total
Assets													
Current assets	3,865	22	540	-	-	21	497	-	-	1,629	2,388	1,520	10,482
Non-current assets	106	559	255	-	-	67	1,968	-	-	3,863	2,360	5,789	14,967
Assets from insurance operations	531	167	17	11	-	-	-	17,369	43,855	-	-	2,557	64,507
Total assets	**4,502**	**748**	**812**	**11**	**-**	**88**	**2,465**	**17,369**	**43,855**	**5,492**	**4,748**	**9,866**	**89,956**
Liabilities													
Current liabilities	908	1,210	1,475	457	1,680	29	28	-	-	1,978	1,610	15	9,390
Non-current liabilities	3,045	6,824	1,029	-	-	14	2	-	-	1,536	2,056	173	14,679
Liabilities from insurance operations	1,703	946	112	112	-	-	-	17,022	41,524	-	-	72	61,491
Total liabilities	**5,656**	**8,980**	**2,616**	**569**	**1,680**	**43**	**30**	**17,022**	**41,524**	**3,514**	**3,666**	**260**	**85,560**
Assets less liabilities, net	**(1,164)**	**(8,232)**	**(1,804)**	**(558)**	**(1,680)**	**45**	**2,435**	**347**	**2,331**	**1,978**	**1,082**	**9,606**	**4,396**

*) 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.

In its meeting of 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 November 24, 2010, the balance sheet committee discussed the financial statements as of September 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.

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.

Post-balance sheet, on November 3, 2010, Midroog announced a rating of A1 for new debentures for raising up to NIS 600 million.

Following on Section F of the 2009 Annual Directors' Report, below are data regarding series of debentures issued in the reported period (NIS millions).

Series	Issue date	Original par value	Par value balance - Sep. 30, 2010	Stated interest	Linkage	Book balance - June 30, 2010	Accrued interest in the books	Repayment years	Market value at Sep. 30, 2010	Trustee
		NIS millions	NIS millions			NIS millions	NIS millions			
L	4/2010	255	255	4.1%	-	255	5	2012	270	Strauss Lazar Trust Ltd. 17 Yitzhak Sadeh St. Tel Aviv Tel: 03-7347777 Uri Lazar
N	6/2010	300	300	8.5%	-	300	5	2018	341	Clal Finance Trust Ltd. 37 Menachem Begin, Tel Aviv. Tel: 03-6274827, Yuval Likbar
R	6/2010	500	500	6.1%	CPI	511	13	2016-2022	588	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

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.

E) On September 21, 2010, the Group announced the distribution of NIS 90 million in dividends to its shareholders. The dividend was distributed in October 2010.

F) Post-balance sheet, on November 30, 2010, the Group announced the distribution of NIS 500 million in dividends to its shareholders.

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	**Assi Bartfeld**
Chairman of the Board	CEO

Appendix A to the Directors' Report

Breakdown of principal and interest payments on the debentures and bank loans of the HQ companies as of September 30, 2010 (in NIS millions) (accounting for post-balance sheet bond raising and bank loan repayments):

Delek Group – Headquarters

		Q4 2010	2011	2012	2013	2014	2015 onwards	Total
Debentures	Principal	54	447	843	624	624	5,135	7,727
	Interest	156	429	409	370	340	1,266	2,866
	Total	**210**	**876**	**1,252**	**994**	**964**	**6,297**	**10,593**

Delek Investments and Properties

		Q4 2010	2011	2012	2013	2014	2015 onwards	Total
Bank loans	Principal	-	4	4	3	1	45	57
	Interest	1	3	3	3	2	4	16
	Total	**1**	**7**	**7**	**6**	**3**	**49**	**73**

Delek Finance US

		Q4 2010	2011	2012	2013	2014	2015 onwards	Total
Bank loans	Principal	110	110	110	-	-	-	330
	Interest	4	7	4	-	-	-	15
	Total	**114**	**117**	**114**	**-**	**-**	**-**	**345**

Delek Petroleum

		Q4 2010	2011	2012	2013	2014	2015 onwards	Total
Debentures (1)	Principal	28	119	-	119	88	85	439
	Interest	13	22	17	15	7	4	78
	Total	**41**	**141**	**17**	**134**	**95**	**89**	**517**

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

Delek Group Ltd.

Consolidated Interim Financial Statements as of September 30, 2010

Unaudited

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Consolidated Balance Sheets

	September 30		December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
Current assets			
Cash and cash equivalents	3,273	4,165	3,997
Performance-based cash and cash equivalents in insurance companies	694	706	1,103
Short-term investments in the finance sector (mainly exchange traded funds and deposits)	16,394	14,308	16,156
Short-term investments of insurance companies	1,843	1,379	2,097
Other short-term investments	1,150	600	662
Derivative financial instruments	3	43	20
Trade receivables	2,908	3,467	3,660
Insurance premium receivables	1,014	1,129	994
Other receivables	819	870	872
Current tax assets	59	124	284
Reinsurance assets	1,932	2,032	2,022
Inventory	1,110	1,873	1,683
Deferred acquisition costs in insurance companies	404	386	364
	31,603	31,082	33,914
Assets held for sale	2,859 ***	29 **	29 **
	34,462	31,111	33,943
Non-current assets			
Financial investments of insurance companies	32,306	27,956	28,317
Loans, deposits and other receivables	647	877	982 *
Investments in other financial assets	2,468	1,005	1,418
Investments in associates and partnerships	2,510	2,364 **	2,383 **
Investment property	449	592	451
Investments in oil and gas exploration and production	1,494	1,325	1,331
Reinsurance assets	1,777	1,472	1,571
Property, plant and equipment, net	6,924	7,102 *	7,196 *
Deferred acquisition costs in insurance companies	701	692	680
Structured bonds	1,133	973	873
Goodwill	3,195	3,212	3,242
Other intangible assets, net	1,696	1,758	1,750
Deferred taxes	194	434	219
	55,494	49,762	50,413
	89,956	80,873	84,356

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

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

Consolidated Balance Sheets

	September 30		December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
Current liabilities			
Borrowings from banks and others	4,457	4,949	3,741
Trade payables	1,767	2,409	2,879
Other payables	3,286	3,203	3,540
Exchange traded funds and deposits	16,270	13,903	15,639
Current tax liabilities	73	68	86
Derivative financial instruments	15	95	82
Insurance reserves and other provisions	5,512	5,605	5,430
Dividend payable	90	-	183
	31,470	30,232	31,580
Liabilities associated with assets held for sale	2,185 *	-	-
	33,655	30,232	31,580
Non-current liabilities			
Loans from banks and others	4,320	6,701	5,161
Debentures convertible into Company shares	247	-	-
Other debentures	12,035	8,696	10,702
Structured bonds	1,093	968	933
Options	-	1	9
Derivative financial instruments	136	111	114
Employee benefits	184	209	208
Insurance reserves and other provisions	32,171	28,074	29,352
Provisions and other liabilities	774	753	839
Deferred taxes	945	838	870
	51,905	46,351	48,188
Equity attributable to Company shareholders			
Equity	13	13	13
Share premium	1,622	1,590	1,590
Options and proceeds for conversion option	32	25	25
Retained earnings	711	628	869
Exchange differences on translation of foreign operations	(349)	(187)	(166)
Capital reserve from transactions with holders of non-controlling interests	(104)	-	-
Other capital reserves	(19)	(129)	(94)
Treasury shares	(124)	(128)	(129)
	1,782	1,812	2,108
Non-controlling interests	2,614	2,478	2,480
Total equity	4,396	4,290	4,588
	89,956	80,873	84,356

* See Note 3(F)

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

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

Consolidated Statements of Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009*	2010	2009*	2009*
	Unaudited				Audited
	NIS millions (except net earnings per share)				
Revenues	31,680	28,358	12,186	10,472	38,703
Cost of revenues	26,871	23,829	10,594	8,967	32,814
Gross profit	4,809	4,529	1,592	1,505	5,889
Selling, marketing and gas station operating expenses	2,523	2,604	848	868	3,385
General and administrative expenses	1,242	1,197	449	396	1,740
Other revenue (expenses), net	42	264 **	-	(3) **	386 **
Operating profit	1,086	992	295	238	1,150
Financing revenue	247	394 **	56	159 **	508 **
Financing expenses	1,055	1,155	405	522	1,432
	278	231	(54)	(125)	226
Gain from disposal of investments in investees, net	-	35	-	4	518
Group's share in earnings of associates and partnerships, net	148	132 **	65	11 **	91 **
Profit (loss) before taxes	426	398	11	(110)	835
Income tax expenses (tax benefit)	152	22	11	(125)	83
Earnings from continuing operations	274	376	-	15	752
Earnings from discontinued operations, net	320	321	100	112	451
Net profit	594	697	100	127	1,203
Attributable to:					
Company shareholders	302	440	33	60	864
Non-controlling interests	292	257	67	67	339
	594	697	100	127	1,203
Net earnings per share attributable to Company shareholders (NIS)					
Basic net earnings (loss)					
Earnings (loss) from continuing operations	10.09	24.58	(2.37)	(0.39)	55.18
Earnings from discontinued operations	16.70	14.61	5.29	5.72	21.72
	26.79	39.19	2.92	5.33	76.90
Diluted net earnings (loss)					
Earnings (loss) from continuing operations	9.55	23.91	(2.37)	(1.3)	55.18
Earnings from discontinued operations	15.40	13.84	4.82	5.19	21.72
	24.95	37.75	2.45	3.89	76.90

* Reclassified, see Note 3 (F)

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

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

Consolidated Statements of Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009*	2010	2009*	2009*
	Unaudited				Audited
	NIS millions (except net earnings per share)				
Net profit	594	697	100	127	1,203
Other comprehensive income (loss) from continuing operations (net of tax effect):					
Gain from available-for-sale financial assets, net **	144	260	204	17	269
Gain (loss) from cash flow hedges, net	(24)	(100)	-	2	(115)
Exchange differences on translation of foreign operations	(245)	(23)	(220)	(176)	19
Group share of other comprehensive income (loss) of associates	1	(10)	(7)	(21)	12
Other comprehensive income (loss) from continuing operations	(124)	127	(23)	(178)	185
Other comprehensive income (loss) from discontinued operations	(2)	198	(2)	-	214
Total other comprehensive income (loss)	(126)	325	(25)	(178)	399
Total comprehensive income (loss)	468	1,022	75	(51)	1,602
Attributable to:					
Company shareholders	194	633	83	(70)	1,113
Non-controlling interests	274	389	(8)	19	489
	468	1,022	75	(51)	1,602

* Reclassified, see Note 3 (F)

** In the nine months ended September 30, 2010, including release of capital reserves amounting to NIS 52 million (approximately NIS 4 million in the three months ended September 30, 2010).to the statement of income.

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders										
	Share capital	Premium on shares	Options and proceeds for conversion option	Exchange differences on translation of foreign operations	Capital reserve from transactions with non-controlling interests	Other capital reserves *	Retained earnings	Treasury shares	Total	Non-controlling interests	Total equity
	Unaudited										
	NIS millions										
Balance as of January 1, 2010 (audited)	13	1,590	25	(166)	-	(94)	869	(129)	2,108	2,480	4,588
Total comprehensive income (loss)				(183)	-	75	302	-	194	274 ***	468
Sale of treasury shares	-	3	-	-	-	-	-	5	8	3	11
Dividends	-	-	-	-	-	-	(460)	-	(460)	-	(460)
Exercise of options	- **	29	-	-	-	-	-	-	29	-	29
Conversion of convertible debentures (net of issuance costs)	-	-	7	-	-	-	-	-	7	-	7
Share-based payment, net	-	-	-	-	-	-	-	-	-	27	27
Acquisition of shares from non-controlling interests	-	-	-	-	(125)	-	-	-	(125)	(41)	(166)
Sale and issuance of shares to non-controlling interests	-	-	-	-	15	-	-	-	15	29	44
Expiry of options in a subsidiary	-	-	-	-	6	-	-	-	6	(6)	-
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(152)	(152)
Balance as of September 30, 2010	13	1,622	32	(349)	(104)	(19)	711	(124)	1,782	2,614	4,396

* Mainly 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	292
Gain from available-for-sale financial assets, net	43
Loss from cash flow hedges, net	(2)
Exchange differences on translation of financial statements	(62)
Share of non-controlling interests in other comprehensive income, net of associates	3
Total comprehensive income attributable to non-controlling interests	274

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders									
	Share capital	Premium on shares	Options	Exchange differences on translation of foreign operations	Other reserves	Retained earnings	Treasury shares	Total	Non-controlling interests	Total equityl
	Unaudited									
	NIS millions									
Balance as of January 1, 2009 (audited)	13	1,583	-	(928)	(89)	1,044	(105)	1,518	2,845	4,363
Total comprehensive income	-	-	-	167	26	440	-	633	389 ***	1,022
Acquisition of treasury shares	-	-	-	-	-	-	(32)	(32)	-	(32)
Sale of treasury shares	-	6	-	-	-	-	9	15	8	23
Acquisition of shares from non-controlling interests	-	-	-	-	-	-	-	-	(96)	(96)
Distribution of subsidiary shares as a dividend in kind	-	-	-	574	(66)	(679)	-	(171)	(835)	(1,006)
Dividends	-	-	-	-	-	(177)	-	(177)	-	(177)
Issuance of options	-	-	25	-	-	-	-	25	-	25
Conversion of convertible debentures	- **	1	-	-	-	-	-	1	-	1
Share-based payment, net	-	-	-	-	-	-	-	-	33	33
Consolidation of an associate	-	-	-	-	-	-	-	-	107	107
Sale and issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	118	118
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	(91)	(91)
Balance as of September 30, 2009	13	1,590	25	(187)	(129)	628	(128)	1,812	2,478	4,290

* Mainly 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	257
Gain from available-for-sale financial assets, net	91
Loss from cash flow hedges, net	(21)
Exchange differences on translation of financial statements	61
Share of non-controlling interests in other comprehensive income, net of associates	1
Total comprehensive income attributable to non-controlling interests	389

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders										
	Share capital	Premium on shares	Options and proceeds for conversion option	Exchange differences on translation of foreign operations	Capital reserve from transactions with non-controlling interests	Other capital reserves *	Retained earnings	Treasury shares	Total	Non-controlling interests	Total equity
	Unaudited										
	NIS millions										
Balance as of July 1, 2010	13	1,622	32	(195)	(93)	(223)	888	(124)	1,920	2,644	4,564
Total comprehensive income (loss)	-	-	-	(154)	-	204	33	-	83	(8) **)	75
Dividends	-	-	-	-	-	-	(210)	-	(210)	-	(210)
Share-based payment, net	-	-	-	-	-	-	-	-	-	7	7
Acquisition of non-controlling interests	-	-	-	-	(17)	-	-	-	(17)	(19)	(36)
Expiry of options in a subsidiary	-	-	-	-	6	-	-	-	6	(6)	-
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(4)	(4)
Balance as of September 30, 2010	13	1,622	32	(349)	(104)	(19)	711	(124)	1,782	2,614	4,396

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

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

Net profit attributable to non-controlling interests	67
Gain from available-for-sale financial assets, net	2
Exchange differences on translation of financial statements	(77)
Total comprehensive loss attributable to non-controlling interests	(8)

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders									
	Share capital	Premium on shares	Options	Exchange differences on translation of foreign operations	Other reserves	Retained earnings	Treasury shares	Total	Non-controlling interests	Total equityl
	Unaudited									
	NIS millions									
Balance as of July 1. 2009	13	1,590	-	(50)	(136)	673	(127)	1,963	2,479	4,442
Total comprehensive income (loss)	-	-	-	(137)	7	60	-	(70)	19 **)	(51)
Acquisition of treasury shares	-	-	-	-	-	-	(1)	(1)	-	(1)
Dividend	-	-	-	-	-	(105)	-	(105)	-	(105)
Issuance of options	-	-	25	-	-	-	-	25	-	25
Acquisition of shares from non-controlling interests	-	-	-	-	-	-	-	-	(36)	(36)
Sale and issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	53	53
Share-based payment, net	-	-	-	-	-	-	-	-	18	18
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	(55)	(55)
Balance as of September 30, 2009	13	1,590	25	(187)	(129)	628	(128)	1,812	2,478	4,290

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

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

Net profit attributable to non-controlling interests	67
Gain from available-for-sale financial assets, net	6
Gain from cash flow hedges, net	1
Exchange differences on translation of financial statements	(55)
Total comprehensive income attributable to non-controlling interests	19

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders									
	Share capital	Premium on shares	Options	Exchange differences on translation of foreign operations	Other reserves	Retained earnings	Treasury shares	Total	Non-controlling interests	Total equityl
	Unaudited									
	NIS millions									
Balance as of January 1, 2009	13	1,583	-	(928)	(89)	1,044	(105)	1,518	2,845	4,363
Total comprehensive income	-	-	-	188	61	864	-	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 subsidiary shares as a dividend in kind	-	-	-	574	(66)	(679)	-	(171)	(835)	(1,006)
Dividend	-	-	-	-	-	(360)	-	(360)	-	(360)
Issuance of options	-	-	25	-	-	-	-	25	-	25
Conversion of convertible debentures	- **)	1	-	-	-	-	-	1	-	1
Share-based payment, net	-	-	-	-	-	-	-	-	44	44
Consolidation of an associate	-	-	-	-	-	-	-	-	55	55
Sale and issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	130	130
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	(147)	(147)
Balance as of December 31, 2009	13	1,590	25	(166)	(94)	869	(129)	2,108	2,480	4,588

* Mainly 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
Gain from available-for-sale financial assets	92
Loss from cash flow hedges, net	(19)
Exchange differences on translation of financial statements	78
Share of non-controlling interests in other comprehensive loss of associates, net	(1)
Total comprehensive income attributable to non-controlling interests	489

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

Consolidated Statements of Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009 *	2010	2009 *	2009 *
	Unaudited				Audited
	NIS millions				
Cash flows from operating activities					
Net profit	594	697	100	127	1,203
Adjustments to reconcile cash flows from continuing operating activities (a)	(604)	1,798	609	488	1,742
Net cash from (used in) continuing operating activities	(10)	2,495	709	615	2,945
Net cash from (used in) discontinued operating activities	508	(202)	96	297	333
Net cash from (used in) operating activities	498	2,293	805	912	3,278
Cash flow from investing activities					
Acquisition of property, plant and equipment and intangible assets	(641)	(1,193)	(195)	(232)	(1,513)
Acquisition of investment property	(17)	(7)	(14)	(1)	(6)
Proceeds from sale of property, plant and equipment and investment property	33	88	1	47	117
Property damage insurance proceeds, net	15	99	-	22	162
Acquisition of financial assets, net	(1,133)	(54)	(346)	(195)	(185)
Repayment (grant) of loans to associates, net	(49)	23	(5)	14	(13)
Disposal of short-term investments, net	(478)	-	(415)	-	36
Increase in joint ventures for oil and gas exploration	(171)	(313)	(91)	(69)	(353)
Proceeds from sale of investments in associates	-	6 **	-	**	409 **
Proceeds from sale of a previously consolidated company (c)	-	317	-	317	317
Investment in investees and deposit for acquisition of investees	(192)	(12) **	(41)	- **	(109) **
Acquisition of operations and companies consolidated for the first time (b)	(31)	136	(27)	-	136
Collecting (providing) loans to others, net	19	(146)	23	(53)	(102)
Net cash used for continuing investment activities	(2,645)	(1,056)	(1,110)	(150)	(1,104)
Net cash from (used in) discontinued investment activities	(4)	330	-	(1)	329
Net cash used in investment activities	(2,649)	(726)	(1,110)	(151)	(775)

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

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

Consolidated Statements of Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009 *	2010	2009 *	2009 *
	Unaudited				Audited
	NIS millions				
Cash flow from financing activities					
Short-term loans from banks and others, net	549	(6)	506	97	(1,322)
Sale of shares to non-controlling interests	34	95 **	-	-**	95 **
Acquisition of shares from non-controlling interests	(166)	(90) **	(34)	(36) **	(103) **
Receipt of long-term loans	3,018	3,167	1,186	1,829	3,992
Repayment of long-term loans	(3,352)	(2,642)	(943)	(1,374)	(3,684)
Issuance of shares to non-controlling interests in subsidiaries	19	50	2	50	216
Exercise of options into subsidiary shares	8	-	-	-	-
Dividends paid	(553)	(177)	(120)	(177)	(177)
Dividends paid to non-controlling interests in subsidiaries	(19)	(37)	(4)	(14)	(51)
Exercise of options	16	-	-	-	-
Acquisition of treasury shares	-	(32)	-	(1)	(33)
Sale of treasury shares	11	31	-	-	31
Cash from a previously consolidated subsidiary distributed as a dividend	-	(349)	-	-	(349)
Payment of contingent liability for a put option to non-controlling interests	(134)	(343)	(40)	(343)	(340)
Issuance of debentures and convertible debentures	2,316	1,316	832	391	2,769
Issuance of options by the Company	-	25	-	25	25
Redemption of debentures and convertible debentures	(448)	(157)	(234)	(33)	(443)
Net cash from continuing finance activities	1,331	851	1,193	414	626
Net cash used in discontinued financing activities	(268)	(35)	(392)	(142)	(551)
Net cash from financing activities	1,063	816	801	272	75
Translation differences for cash balances of foreign operations – continuing operations	(45)	(28)	22	(62)	6
Exchange differences on balances of foreign operations – discontinued operations	-	16	-	-	16
Increase (decrease) in cash and cash equivalents – discontinued operations	(1,324)	2,290	792	879	2,467
Increase (decrease) in cash and cash equivalents – discontinued operations	236	93	(296)	154	111
Balance of cash and cash equivalents at beginning of period (including performance-based balance)	5,100	2,500	3,449	3,900	2,500
Balance of cash and cash equivalents at end of period (including performance-based balance)	3,967	4,871	3,967	4,871	5,100

* Reclassified, see Note 3 (F)

** Retrospective reconciliation - see Note 2

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

Consolidated Statements of Cash Flows

	Nine months ended September 30		Three months ended September 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 affecting operating cash flows:					
Profit from discontinued operation, net	(320)	(321)	(100)	(112)	(451)
Depreciation, depletion, amortization and impairment of assets	685	659	245	202	963
Deferred taxes, net	48	(26)	4	(171)	321
Decrease in employee benefit liabilities, net	(6)	(7)	(11)	(43)	(2)
Changes in loans granted, net	(26)	(11) **	(17)	(15) **	1 **
Gain from issuance of shares in investee	-	-	-	-	(5)
Gain from the sale of property, plant and equipment, real estate and investments, net	(108)	(182)	(39)	(97)	(709)
Gain from insurance compensation for property damage	(15)	(99)	-	(22)	(162)
Negative goodwill	-	(14)	-	(14)	(15)
Group's share in losses (earnings) of partnerships and associates (1)	(112)	(117) **	(63)	1 **	(67) *
Net change in fair value of financial assets and derivative instruments	(7)	59	1	(1)	59
Change in long-term liabilities, net	282	508	199	189	845
Change in deferred acquisition costs	(66)	48	(21)	18	36
Share-based payment	41	29	14	17	52
Change in financial investments of insurance companies, net	(1,431)	(4,186)	(1,485)	(1,519)	(5,216)
Net proceeds from the sale of available-for-sale assets in insurance companies	(1,827)	(2,828)	(228)	(1,230)	365
Increase in reserves and other provisions in insurance companies	3,735	8,624	2,671	3,386	6,102
Increase in reinsurance assets	(184)	(453)	(13)	(209)	(532)
Gain from early redemption and extinguishment of debentures	-	(82)	-	(38)	(82)
Changes in asset and liability items:					
Increase in trade receivables	(398)	(445)	(158)	(119)	(540)
Decrease (increase) in other receivables	58	(123)	(37)	31	210
Increase in inventory	(83)	(226)	(29)	(6)	(271)
Decrease (increase) in other assets, net	(941)	(19)	(451)	49	(516)
Increase (decrease) in trade payables	(13)	683	(26)	(21)	736
Increase in other payables	84	327	153	212	620
	(604)	1,798	609	488	1,742
(1) Net of dividends received	36	15	2	10	24

* Reclassified, see Note 3 (F)

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

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

Consolidated Statements of Cash Flows

		Nine months ended September 30		Three months ended September 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 (b)**					
	Working capital (working capital deficit), net (excluding cash)	3	124	-	-	124
	Short-term financial investments	-	(9,462)	-	-	(9,462)
	Long-term financial investments	-	(2,057)	-	-	(2,057)
	Long term receivables	(13)	-	-	-	-
	Investment and loan to an associate	(10)	-	-	-	-
	Property, plant and equipment, real estate, investments and other property (including goodwill)	(91)	(1,319)	(32)	-	(1,319)
	Short term liabilities	-	9,255	-	-	9,255
	Long term liabilities	41	3,102	5	-	3,102
	Non-controlling interests	-	107	-	-	107
	Decrease in investments in investees	39	386	-	-	386
		(31)	136	(27)	-	136
(c)	Proceeds from sale of a previously consolidated subsidiary					
	Oil and gas assets	-	331	-	331	332
	Capital reserve	-	(2)	-	(2)	(2)
	Loss from disposal of an investment in a subsidiary	-	(3)	-	(3)	(4)
	Net of receivables for sale of investment in a subsidiary	-	(9)	-	(9)	(9)
		-	317	-	317	317
(d)	Significant non-cash activities					
	Purchase of property, plant and equipment and intangible assets	31	13	23	13	395
	Liability for decommission of assets	8	1	8	1	1
	Dividends payable to non-controlling interests	-	100	-	100	22
	Dividends declared	90	-	90	-	183
	Dividends declared by associates	-	55	-	55	-
	Extinguishment of debentures	-	658	-	658	658
	Exercise of options	13	-	-	-	-
	Exercise of options for subsidiary shares	3	-	3	-	-
	Investment in oil and gas assets	152	28	150	28	43
	Receivables due to the sale of financial investments	-	87	-	87	-
	Liability for acquisition of non-controlling interests in a subsidiary	8	6	2	6	
	Acquisition of participating units of an associate in return for allotment of shares in a subsidiary	-	-	-	-	250
	Receivables due to the sale of an investee	-	-	-	-	9

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

Consolidated Statements of Cash Flows

	Nine months ended September 30		Three months ended September 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 at beginning of period:					
Cash and cash equivalents	3,997	1,895	3,221	3,207	1,895
Performance-based cash and cash equivalents in insurance companies	1,103	605	228	693	605
	5,100	2,500	3,449	3,900	2,500
Cash and cash equivalents at end of period:					
Cash and cash equivalents	3,273	4,165	3,273	4,165	3,997
Performance-based cash and cash equivalents in insurance companies	694	706	694	706	1,103
	3,967	4,871	3,967	4,871	5,100
(f) Additional information about cash flows					
Cash paid during the period for:					
Interest	637	754	256	285	902
Income tax	209	221	24	119	111
Cash received during the period for:					
Interest	455	578	234	135	997
Income tax	230	-	7	-	-
Dividend	36	60	13	49	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 of September 30, 2010 for the nine and three months then ended ("the consolidated interim financial statements"). The financial statements should be read in the context of the Company's annual financial statements as of December 31, 2009 for the year then ended and their accompanying notes ("the annual financial statements").

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A. <u>Format for the preparation of the interim consolidated financial statements</u>

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), 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, 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:

<u>IAS 17, *Leases*</u>

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 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 leases from the Israel Land Administration for land with an option to extend the lease period for an additional 49 years in some cases.

Following application of the amendment, lease of land from the Israel Land Administration was reclassified, based on the information available when signing the lease. Accordingly, some of the leases of Group companies from the Israel Land Administration are classified as a finance lease. Therefore, the amounts recognized in the past under advance expenses for operating lease (amounting to NIS 398 million and NIS 411 million at December 31, 2009 and September 30, 2009, respectively) are recognized 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 payments 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 in all reporting periods.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

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

Under the new standards:

- The definition of a business has been broadened to include activities and assets that are not managed as a business, provided the seller is capable of operating them 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 a business combination is measured at fair value. Changes in the fair value of the contingent consideration, which do not represent adjustments to the acquisition cost in the measurement period, are not simultaneously recognized as goodwill adjustments. If the contingent consideration is classified as a financial derivative in the scope of IAS 39, it will be measured at fair value through the statement of income.

- Direct acquisition costs attributed to a business combination transaction are recognized in the statement of income as incurred.

- The adjusted balance of a deferred tax asset for acquired temporary differences which did not meet the recognition criteria at the acquisition date will be recognized in profit or loss and not as adjustment to goodwill.

- A subsidiary's losses, even if resulting in a capital deficiency in a subsidiary, will be allocated between the parent company and non-controlling interests, even if the latter has not guaranteed or has no contractual obligation for sustaining the subsidiary or investing further amounts.

- Upon the loss or achievement of control of a subsidiary, the remaining investment, if any, will be revalued to fair value against gain or loss from the sale and this fair value will represent the cost basis for subsequent accounting.

- A transaction with non-controlling interests, whether a sale or an acquisition, will be accounted for as an equity 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) will be recognized in the amount of this difference. When disposing of the investment 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) will be 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 will be recognized in the statements of cash flow under financing activities, including by way of retrospective reconciliation of transactions performed in prior periods. See Note 3(F) for additional information about the sale of a subsidiary's shares subsequent to the balance sheet date.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

IFRS 3 (revised), *Business Combinations* and IAS 27 (amended), *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 104 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*

According to the amendment to IFRS 5, when the parent decides to sell part of its interest in a subsidiary so that after the sale the parent retains a non-controlling interest, such as rights conferring significant influence, all the assets and liabilities attributed to the subsidiary are classified as held for sale if the relevant criteria of IFRS 5 are met, including the presentation as a discontinued operation. Furthermore, another amendment specifies the disclosures required for non-current assets (or disposal groups) that are classified as held for sale or discontinued operations. Pursuant to the amendment, only the disclosures required in IFRS 5 in respect of non-current assets or disposal groups classified as held for sale or discontinued operations apply.

The amendment is effective prospectively from January 1, 2010. See also Note 3(E) below.

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

IFRIC 17 provides guidance on how to account for distribution of non-cash assets to owners that are not controlling shareholders, including property, plant and equipment, a business as defined in IFRS 3 and ownership interests in another entity.
According to the interpretation, a liability to distribute is recognized when it is appropriately authorized by the entity. The liability is measured at the fair value of the asset to be distributed and carried directly to retained earnings in equity. At each balance sheet date, until the derecognition of the asset, the liability is measured at the fair value of the assets and changes in fair value are carried to retained earnings At the date of derecognition, a gain or loss is recognized in the statement of income in the amount of the difference between the amount of the liability and the carrying amount until the date of derecognition. Furthermore, the scope of IFRS 5 was broadened 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 at the acquisition date or according to their proportionate share in the identifiable net assets of the acquiree. According to 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 acquiree 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 acquiree) 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 application is permitted.

Share-based payments in a business combination

The amendment describes the accounting treatment for a business combination referring to an exchange of a share-based payment of the acquiree (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. Furthermore, 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. 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 application 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 describes 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 for securities held by the Company were reduced 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.)

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

IAS 34, *Interim Financial Reporting*

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

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

IAS 1, *Presentation of Financial Statements*

According to 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 the second lot of Excellence shares, representing 5.11% of the issued and paid up share capital of Excellence. In July 2010, the parties reached a settlement regarding the amount of the consideration for the acquisition, which amounted to NIS 105 million.

   Additionally, 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 September 30, 2010, The Phoenix Investments owns 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%.

   The Phoenix Investments performed periodic impairment assessment of the goodwill attributable to its investment in Excellence as of June 30, 2010, the balance of which at this date amounted to NIS 714 million. To assess the recoverability of the goodwill, the recoverable amount of the cash-generating units to which the goodwill was assigned was assessed. The recoverable amount of each unit was based on the value in use, calculated according to the projected estimated future cash flows. Value in use is based on the following main parameters: Discount rate of 11%-13%, long-term growth rate of 1.5%-3% and management fees that are accepted in the industry. Following this assessment, the Phoenix Investments concluded that there is no impairment of goodwill.

2. 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").

   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	NIS 9.15-9.70
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 owns 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).

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

C. Fuel operations in Europe

1. Subsequent to the balance sheet date, on October 1, 2010, Delek Europe BV (owned 80% by Delek Petroleum and 20% by Delek Israel) finalized a transaction to acquire the fuel marketing operations of BP France SA ("BP") in France, including 410 gas stations, 300 convenience stores and interests in three terminals. Ownership of the assets was transferred to a subsidiary incorporated in France, Delek France Finance SNC ("SNC"). The consideration for the transaction amounted to €175 million (including transactions costs and before working capital adjustments of €63 million) financed as follows:

   – A loan of €80 million from a bank in Israel to Delek France BV ("Delek France"), the parent company of SNC. The loan is for seven years, at variable LIBOR interest for three months plus the margin. To secure payment of the loan, Delek France and SNC shares were pledged and financial covenants were set, based mainly on the debt to EBITDA ratios and coverage ratios. In addition, as part of the guarantees, it was determined that Delek Petroleum and Delek Israel would each provide separate guarantees according to their share of ownership.

   – A loan of €40 million from another bank in Israel to Delek Petroleum, in the first stage as a short-term loan, at LIBOR interest plus the margin, guaranteed by the Company. Subsequent to the balance sheet date, this loan was repaid in full.

   – The balance of the consideration was financed through shareholders' loans, which were provided by Delek Petroleum (€44 million) and Delek Israel (€11 million).

   The Company also provided additional guarantees of €97 million to third parties for the operations acquired to finance working capital in favor of the VAT authorities and to purchase fuel from BP.

   In addition, a guarantee of €63 million was provided for two months, to guarantee payment of working capital adjustments to the purchaser. This guarantee expired subsequent to the balance sheet date.

2. In the nine and three months ended September 30, 2010, Delek Benelux recognized a deferred tax asset for carry forward losses of €3.7 million (NIS 18 million) and €0.6 million (NIS 3 million), respectively, 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 interest in this company (Oil Refineries Ltd.) for NIS 29 million. Delek Israel recognized a profit of NIS 20 million (before income 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 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 as of September 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.

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

D. Fuel operations in Israel (contd.)

3. On August 1, 2010, the audit committee and board of directors of Delek Israel approved the appointment of a new CEO for Delek Israel as from August 22, 2010.

   Delek Israel will pay the new CEO 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 the new CEO 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 new 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%.

E. Energy sector

1. On January 17, 2010, a new chairman of the board of directors of Delek Energy Systems Ltd. ("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 17 million (NIS 11 million in the three months ended September 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 income tax) and was included in the consolidated statements of changes in equity under sales and issuance of shares to non-controlling interests. Subsequent to this sale, the Company owns 79.1% of the share capital in DES.

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

E. Energy sector (contd.)

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 owns 78.92% of the share capital in DES.

5. In the reporting period, DES and Delek Investments acquired on the TASE 3,816,393 participating units in Delek Drilling for NIS 41 million. The difference between the consideration paid and the value of the acquired equity amounted to NIS 38 million and was recognized directly in capital reserve from transactions with holders of non-controlling interests. Subsequent to the balance sheet date, DES and Delek Investments acquired an additional 3,767,089 participating units in Delek Drilling for NIS 46 million. Subsequent to this acquisition, DES owns an additional 62.73% and Delek Investments owns an additional 7.49% of the partnership's equity.

6. In the reporting period, DES and Delek Investments acquired on the TASE an additional 50,237,819 participating units in Avner Oil Exploration (an associate partnership) for NIS 87 million.

   Subsequent to the balance sheet date, Delek Investments acquired on the TASE an additional 2,720,000 participating units in Avner Oil Exploration for NIS 7 million. Subsequent to this acquisition, DES owns and additional 47.1% and Delek Investments owns and additional 13.71% of the partnership's equity.

F. Automotive operations

On September 15, 2010, an agreement was signed between Delek Investments and a company controlled by Gil Agmon, who serves as CEO of Delek Automotive Systems Ltd. ("Delek Automotive") and who is a shareholder in the company. Under the agreement, Delek Investments will sell to Gil Agmon 22% of the share capital of Delek Automotive hat it owns, for NIS 1 billion. Finalization of the transaction was subject to fulfillment of the following preconditions: Approval from the manufacturers of Mazda and Ford cars to transfer control in Delek Automotive to Gil Agmon and approval from the banks. Prior to finalization of the transaction, Delek Investments owned 55% of the share capital of Delek Automotive.

Gil Agmon undertook (unilaterally) towards Delek Investments that as long as Delek Investments maintains more than 20% of the share capital of Delek Automotive, it will act to appoint two directors recommended by Delek Investments and as long as Delek Investments owns more than 15%, it will act to appoint one director recommended by Delek Investments. Pursuant to the Articles of Incorporation of Delek Automotive, up to ten directors can be appointed at Delek Automotive (including independent directors).

Subsequent to the balance sheet date, on October 20, 2010, the transaction was finalized. After finalization of the transaction, Gil Agmon owns 38% of the share capital of Delek Automotive and Delek Investments owns 33% of the share capital of Delek Automotive. As from this date, Delek Investments no longer the exclusive controlling interest of Delek Investments, therefore Delek Investments will not consolidate Delek Automotive in its financial statements as of December 31, 2010. Pursuant to IAS 27 (revised), *Consolidated and Separate Financial Statements*, Delek Investments will recognize the balance of the remaining investment in Delek Automotive at fair value at the date of loss of control and as from this date, the balance of the investment in Delek Automotive will be accounted for on an equity basis. The expected profit for Delek Investments from the sale of the shares and revaluation of the remaining shares to their market value as set out above, is estimated at NIS 2 billion (before income tax). Of this amount, NIS 1.2 billion is attributable to revaluation of the outstanding shares. This profit will be recognized in the fourth quarter of 2010.

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

F. Automotive operations (contd.)

Following the signing of the sales agreement, the assets and liabilities of Delek Automotive are presented separately in the balance sheet as of September 30, 2010 under held for sale assets and liabilities attributable to held for sale assets. The results of Delek Automotive were presented separately in the statement of income under profit from discontinued operations, with reclassification of comparative figures.

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

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS millions				
Revenue	3,363	3,444	1,069	1,447	4,744
Cost of revenue	2,865	3,056	934	1,278	4,218
Gross profit	498	388	135	169	526
Selling and marketing expenses	30	31	8	13	41
General and administrative expenses	22	22	7	7	28
Profit from ordinary operations	446	335	120	149	457
Financing revenue	50	83	20	11	125
Financing expenses	79	23	13	9	16
Profit before income tax	417	395	127	151	566
Income tax	97	91	27	39	132
Net profit	320	304	100	112	434
Attributable to:					
Company shareholders	188	172	60	65	250
Non-controlling interests	132	132	40	47	184
	320	304	100	112	434

The amounts of other comprehensive income and capital reserves for discontinued operations are insignificant.

The figures for earnings from discontinued operations and other comprehensive income from discontinued operations for the nine months ended September 30, 2009 and the year ended December 31, 2009 include the figures of Delek Real Estate, which was stated as a discontinued operation in these period.

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

F. Automotive operations (contd.)

Composition of assets and liabilities held for sale:

	September 30 2010
	Unaudited
	NIS millions
Current assets	
Trade receivables	1,318
Inventory	816
Other current assets	86
	2,220
Non-current assets	
Long-term trade receivables	182
Financial assets	189
Property, plant and equipment	224
Other assets	44
	639
Total assets	2,859
Current liabilities	
Borrowings from banks and others	832
Trade payables	1,239
Other liabilities	101
	2,172
Non-current liabilities	13
Total liabilities	2,185

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

G. 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 terms (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). Therefore, and under IAS 28, Investments in Associates, 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 227 million at December 31, 2009 and September 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 (expenses) to financing revenue 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 due to the change in accounting was not material.

2. Subsequent to the balance sheet date, on November 24, 2010, and further to the negotiations between the Company and Delek Real Estate Ltd., which is a company under the ownership and control of the controlling shareholder of the Company, (“Delek Real Estate”), the audit committee and board of directors of the Company approved an agreement to purchase the holdings of Delek Belron International Ltd., a wholly owned subsidiary of Delek Real Estate (“Delek Belron”) in companies owning RoadChef. Immediately prior to the transaction, Delek Belron owns 75% of Roadchef and Delek Petroleum owns the other 25%. On completion of the transaction, the Group will own 100% of Roadchef.

   The transaction is in Israeli shekels equivalent to ₤86.25 million at the closing date of the transaction (NIS 500 million) reflecting a value of ₤115 million for Roadchef. The amount will be paid by offsetting Delek Real Estate’s debt to the Company of NIS 384 million, payable on December 31, 2010 and a cash payment of NIS 116 million (according to GBP/NIS exchange rate differences up to the closing date).

   At the date of the agreement, 51% of Roadchef shares are pledged in favor of the bank (24% of Roadchef’s shares are pledged in favor of the Company for Delek Real Estate’s debt to the Company), on account of Delek Real Estate’s liabilities to the bank. After the bank pledge is lifted, the Company will take ownership of Delek Real Estate’s debt to the bank, amounting to NIS 64 million at an interest rate of 1% above the Company’s funding cost and the principal will mature in 2018. In addition, the payment of NIS 116 million, as set out above, will be paid directly to the bank.

   In accordance with the Company's commitment to the bank granted in respect of the distribution of shares in Delek Real Estate as a dividend in kind, as set out in Note 13(G)(1) to the annual financial statements, the Company will acquire an additional debt of Delek Real Estate towards the bank in the amount of NIS 150 million. The Company is entitled to a bank loan of NIS 150 million at an interest rate of prime minus 0.25%, which will be repayable in 2018 (under the same terms as Delek Real Estate’s debt towards the bank prior to acquisition of the loan).

   This transaction was also approved by the audit committee and board of directors of Delek Real Estate and it is subject, among others, to approval of the general meetings of the Company and Delek Real Estate and final approval of the bank.

   If and when the transaction is completed, the financial statements of Roadchef will be consolidated with the financial statements of the Group.

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

G. Other operations (contd.)

3. Further to Note 14(G)(1) to the annual financial statements and section 2 above, as of September 30, 2010, the balance of the loans provided by the Company to Delek Real Estate amounts to NIS 372 million, repayable on December 31, 2010 and the balance of the collateral amounts to NIS 60 million. As of September 30, 2010, the Company's share in the capital deficit of Delek Real Estate amounts to NIS 65 million. On completion of the transaction for acquisition of Roadchef operations as set out above, insofar as it is completed, the balance of the Company's loans to Delek Real Estate will amount to NIS 214 million.

   The management of the Company estimates that at this stage, and in view of the Roadchef transaction set out above, a provision is not required for impairment of the loans and investment of the Company in Delek Real Estate.

   For details of the loan that The Phoenix provided to Delek Real Estate, see Note 9(E) below.

4. 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 outside of Israel.

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

   – The accounting classification of Delek Real Estate's investments in Hilton and Marriot hotels
   – The value of a foreign company that owns parking lots in the UK, leased to NCP Ltd., as presented in the financial statements of Delek Real Estate in 2007-2009

   The agreement of a foreign subsidiary of Delek Real Estate with a third party in respect of the operation of RoadChef properties

   On August 31, 2010, the Securities Authority announced that it had completed the investigation of Delek Real Estate and sent the investigative material to the prosecution, which will decide how to proceed. The Securities Authority also claims that the results of the investigation include suspicions regarding the issues set out in sections 2 and 3 above, which refer mainly to classification and valuation of Roadchef in the Company's books and the valuation of a sub-subsidiary of Delek Real Estate that owns parking lots in the UK.

   On September 16, 2010, Delek Real Estate received notice from the District Attorney's Office in Tel Aviv (Taxation and Economy) pursuant to section 60(A) of the Criminal Procedure Law [Consolidated Version], 1982, regarding the transfer of the investigative material to the prosecution.

   The managements of the Company and Delek Real Estate estimate, based on their knowledge at this stage, that the investigation has no effect on the financial statements. However, the Company cannot estimate the prosecution's decision in the case and any consequences that this decision may have. Furthermore, it is not possible to estimate the outcome of any investigations by the Securities Authority, if at all, on the accounting classification of the issues set out above and on the financial statements.

   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 owns 5% of the shares of Delek Real Estate. Any investigation of the financial statements of Delek Real Estate could affect the Group's financial statements for the relevant reporting periods.

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

G. Other operations (contd.)

5. 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.

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

H. Condensed information for an equity-accounted company

1. The Group owns 50% of the shares of IDE Technologies Ltd. ("IDE"). The Group's investment in IDE is accounted for using the equity method. The Group's share in the profits of IDE for the nine and three months ended September 30, 2010 amounted to NIS 51 million and NIS 24 million, respectively, exceeding 20% of the Group's net profit attributable to the Group's shareholders. The financial statements of IDE were not attached to the Group's financial statements since in the prior reporting period, the Group's share in the results of IDE did not exceed 20% of the net profit attributable to the shareholders of the Company and it is expected that this will remain unchanged in the next reporting period. Following is condensed financial information for IDE for each reporting period (USD millions):

	September 30		December 31
	2010	2009	2009
	Unaudited		Audited
	USD millions		
Current assets	183	190	212
Non-current assets	379	344	346
Current liabilities	108	113	138
Non-current liabilities	286	275	270
Equity attributable to Company shareholders	169	146	150

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	USD millions				
Revenue	157	314	43	81	377
Gross profit	44	84	14	16	96
Operating profit	24	65	5	10	68
Financing revenue, net	11	1	6	1	12
Net profit	27	68	13	12	71

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

H. Condensed information for an equity-accounted company (contd.)

2. The Group owns 48% of the shares of Barak Capital Ltd. ("Barak Capital"). The Group's investment in Barak Capital is accounted for using the equity method. The Group's share in the profits of Barak Capital for the nine and three months ended September 30, 2010 amounted to NIS 17 million and NIS 4 million, respectively, exceeding 10% of the Group's net profit attributable to the shareholders of the Group for the nine and three months ended September 30, 2010. Following is condensed financial information for Barak Capital for each reporting period.

	September 30		December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
Current assets	4,676	2,955	5,462
Non-current assets	17	13	13
Current liabilities	4,580	2,902	5,395
Non-current liabilities	-	4	4
Equity attributable to Company shareholders	112	62	76

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS millions				
Revenue	165	177	42	65	232
Operating profit	89	96	23	37	124
Financing expenses, net	(8)	(3)	(2)	-	(4)
Net profit	36	43	8	20	57

I. Investments in available-for-sale financial assets

Further to Note 13(1) to the annual financial statements, in the reporting period the Group acquired additional shares of Noble for NIS 1.118 billion. In addition, during the period, the Company sold some of the shares at a total profit of NIS 39 million. At September 30, the investment in Noble amounts to NIS 1.326 billion.

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NOTE 4 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION

A. Tamar lease

1. 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 by 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.

   The Petroleum 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 regarding the pipeline and receiving terminals and onshore handling facilities, including storage arrangements

   On September 26, 2010, Noble, the project operator, announced that the board of directors of Noble approved the development plan for the Tamar project. The plan includes development of five wells, each capable of producing 200-250 million cubic feet per day of natural gas, flowing through two 16-inch pipelines to a new platform that will be constructed off the Ashdod coast, adjacent to the Mari B platform. The Tamar platform will connect to the existing 30-inch pipeline that delivers natural gas to the Yam Tethys onshore receiving terminal in Ashdod, which will be rehauled to allow preliminary processing capacity of up to 1 billion cubic feet of gas per day, reflecting 10 BCM annually. According to Noble's announcement, the development plan will also allow storage of natural gas from the Tamar reservoir in the Mari B reservoir and significant expansion of gas supply capacity, if required and according to the needs of the country.

   The total development cost (100%) is estimated at $3 billion. Development drillings are planned to begin in 2011 and running in of the project systems is expected to begin in the fourth quarter of 2012.

   At this stage, the development costs are estimates only, received from the operator, and there is no certainty as to the actual costs.

   At the approval date of the financial stations, Noble has yet to submit the development plan (including the budget and timetables) to the project partners for approval and accordingly the plan has yet to be approved. Furthermore, the partners estimate, based on information received from Noble, that commercial operation of the Tamar project is expected to begin in the second half of 2013.
   At the approval date of the financial statements, Delek Drilling and Avner approved agreements for project development and purchase of equipment and services amounting to $1.3 million (for 100% of the project).

   The total investment for development of the Tamar natural gas field as of September 30, 2010 amounted to $345 million (the share of the Delek Drilling and Avner is $54 million each).

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.

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

A. Tamar lease (contd.)

2. (contd.)

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 limited 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 limited 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 terms). The loan will be repaid in a bullet 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.

As of September 30, 2010, the partnerships received $23 million on account of these loans.

B. Surveys in the Alon, Ruth and Avia licenses

Subsequent to the balance sheet date, on October 10, 2010, the partnerships approved a 3D seismic survey in the Alon and Ruth licenses (“the Alon and Ruth seismic survey”).
The survey started in September 2010 and is being performed by PGS as a continuation of its survey in 2009. PGS will also process the survey, which is expected to continue for six months, ending in the second half of 2011. The survey will cover another part of the partnership’s work plan, on 2,350 km^2 in the Alon B, Alon C, Alon D, Alon F, Ruth A, Ruth B and Ruth C licenses and drilling areas in the Tamar and Dalit leases. The total cost of the 3D seismic survey, including data processing and related works, is $19 million.

Delek Drilling holds a 26.4705% interest in the Alon licenses and 27.835% in the Ruth licenses. The associate partnership Avner holds a 26.4705% interest in the Alon licenses and 25.106% in the Ruth licenses. Noble, the license operator, holds a 47.059% interest in each of the licenses.

In addition, the limited partnerships in the Avia licenses (50% each) approved a 3D seismic survey covering 200 km^2 of the license area. PGS will perform this survey as well, which is expected to continue for ten days. Processing of the survey is expected to continue for three months, ending in the middle of 2011. The total cost of the 3D seismic survey, data processing and related works is $2.75 million. The share of each limited partnership amounts to $1.4 million.

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

C. Leviathan 1 well

Subsequent to the balance sheet date, on October 18, 2010, Noble, the operator of the exploration project in the Ratio Yam licenses (Rachel, Amit, Hannah, David and Eran) ("the licenses") informed the license partners that the Sedco Express drilling rig had arrived at the Leviathan 1 structure in the Rachel license and has started drilling.

The Leviathan 1 well is 135 km west of Haifa at a water depth of 1,634 m. Drilling of three targets is planned (see below) to a final depth of 7,200 km (including water depth) and is expected to take about five months. This will be the deepest water depth drilled to date off the coast of Israel and there is limited information about pressure and other conditions prevailing at the depths of the secondary targets depths. Therefore, when deepening the drilling to the secondary target and due to technical or other considerations, the rig may be replaced with the Pride North America rig for drilling the deeper section. After the Leviathan 1 drilling, the Sedco Express rig is expected to start development drilling at the Tamar project.

On November 29, 2010, Noble informed the partners that the drill has penetrated the primary target (NG10 prospect). Preliminary evaluation of data obtained while drilling indicates that the primary target includes sands containing natural gas.

At this stage, these are initial indications only and it is not possible to determine the quantity, quality or commercial viability of the prospect.

Drilling through the primary target will continue, and various tests, including electrical logs, will be made. After completion of the logs, which could take about two weeks, an updated report will be given

The main objective in the Leviathan 1 drilling is a gas prospect in Tertiary-Oligocene age sands (the equivalent sand layer identified in the NG10 well in the Tamar project) to a depth of about 5,095 meters (including water depth). As previously reported, based on seismic information in its possession, Noble estimates the gross unrisked mean resources of natural gas in the NG10 prospect at about 16 TCF (453 BCM). This estimate does include the probability of geological success (pg), which is estimated at 50%.

After completing electric logs and other evaluations at the NG10 prospect, drilling will be deepened to compile and assess geological and engineering information for two secondary drilling objectives, as follows:
Leviathan prospect (lower Oligocene) at a total depth of about 5,800 meters (including water depth) and Leviathan prospect (lower Cretaceous prospect) at a total depth of about 7,200 meters (including water depth).

The information available for these targets is significantly less than information available for the NG10 prospect, therefore it is very difficult to assess whether these targets contain oil and/or gas and the resource potential of the hydrocarbons in the prospect and the probability of their existence. Therefore, it is emphasized that it is highly unlikely that commercial quantities of oil and/or gas will be found.
In the event of a discovery, the partners may decide to perform production tests using the Pride North America rig.

The total budget approved by the partners for the Leviathan 1 drilling is estimated at $150 million (including mobilization costs). This budget does not take into account production tests, which would need to be approved by the partners in a separate budget.

These assessments and information, including the average economic potential of the natural gas reserves and the probability of geological success, as provided by Noble, are estimates which are as yet uncertain and 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

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

Additional prospects

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").
As the other Ratio prospects and the additional prospects are in the initial stages of formation, the final probability of geological success has yet to be formulated, and it could be lower than that of the Leviathan prospect.

D. **Sheshinski Committee**

On April 12, 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 submitted their position to the committee, supported by economic and legal opinions, objecting 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.

On November 16, 2010, the draft recommendations of the Sheshinski Committee were published. The main recommendations are that the royalty rate remains unchanged, the depletion allowance is abolished and a gas and oil profits levy is introduced at a progressive rate of between 20% and 60%, which will apply after recovery of the investment plus 50%, as well as other recommendations related to tax. If the committee concludes that the proposed system impairs the ability to finance projects under development, the committee will review required solutions.
The committee is expected to submit its final recommendations to the ministers by the end of the year, after hearing public remarks.

In view of the publication of the draft recommendations and their possible negative implications (if they are accepted), DES, Delek Drilling and Avner decided to assess the implications of the draft recommendations, including financing and development of the Tamar project according to the original plan, and to examine their steps accordingly.

At this preliminary stage, DES, Delek Drilling and Avner are unable to assess the implications of the committee's recommendations on their operations. However, it is already possible to estimate that if the committee's recommendations in the draft recommendations are accepted, insofar as the Ministers of Finance and National Infrastructures adopt these recommendations, and insofar as they materializes into a binding law that withstands the scrutiny of the High Court of Justice, application of the recommendations is expected to increase the tax burden considerably and adversely affect the business and operations of the Company and the limited partnerships.

As the Group, DES, Delek Drilling and Avner do not accept the recommendations, they intend to act in the framework of a hearing before the committee and in further measures in the government and Knesset to change the recommendations, with the aim of allowing continuation of financing and development of the Tamar project according to the original plan and continuation of exploration in the licenses that they hold.

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 redemption 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.

NOTE 5 – DEBENTURES AND CONVERTIBLE DEBENTURES (CONTD.)

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 debenture 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, *Financial Instruments: Presentation*, 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 NIS 500,000,000 par value Debentures (Series R), 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.

D. Subsequent to the balance sheet 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 did not have a material effect on the results of the Group's operations.

E. In September 2010, a wholly-owned subsidiary of The Phoenix issued, in a public offering, NIS 200,000,000 par value Debentures (Series B) and NIS 175,420,000 par value Debentures (Series C). The Debentures (Series B) are for a period of twelve years (with an option for early redemption after nine years), are linked to the CPI and bear interest at a rate of 3.6%. The Debentures (Series C) are for a period of ten years (with an option for early redemption after seven years) and bear interest at a rate of 6%. Debentures (Series C) are not linked to the CPI or any currency.
In addition, subsequent to the balance sheet date, in October 2010, NIS 24,580,000 par value Debentures (Series C) of the subsidiary were issued in a private offering to a classified investor.

The consideration for the issuance was deposited at The Phoenix Insurance, which undertook to comply with the payment terms of the debentures, and will be recognized as hybrid tier 2 capital of The Phoenix Insurance, subject to restrictions on the maximum rate of tier 2 capital, as set out in the draft circular regarding the composition of an insurer's equity. These debentures have special features in accordance with the directives of the Insurance Commissioner, among others, in respect of deferral of payments, early redemption and added interest.

F. Subsequent to the balance sheet date, in November 2010, the Company issued NIS 559,910,000 par value Debentures (Series S), listed for trading. The debentures are linked to the CPI and are repayable in four equal payments, on the November 10^{th} of each of the years from 2019 to 2022. The debentures bear annual interest of 4.65% paid twice a year on May 10^{th} and November 10^{th} of each year as from May 10, 2011. The consideration of the issuance amounted to NIS 554 million (after offsetting issuance expenses of NIS 5 million). The effective interest of the debentures is 4.8%.

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, among others, in a fraudulent, misleading and negligent manner and violated their statutory duty. The motions and claims were filed following an investigation by the Israel Police concerning the dilution of fuels at several gas stations marketing Delek Israel fuels and in view of possible damages that may have been incurred as a result. The motions amount to NIS 1.4 billion.

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

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

The management of Delek Israel estimates, based on the opinion of its legal counsel, that until the applicants submit a response to Delek Israel's response in respect of the motion for certification 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.

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

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 a motion for its dismissal. The court gave the consent of the parties the validity of a ruling and ordered the dismissal of the class action.

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 motion for certification as a class action, and Delek Israel agreed to compensate him for his legal expenses. Subsequent to the balance sheet 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.

Further to Note 33(A)(19) to the annual financial statements, subsequent to the balance sheet date, in October 2010, the court approved a settlement, according to which the applicant will receive financial compensation from Delek Israel in an amount that is insignificant.

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 balance sheet date, in October 2010, a motion for certification as a class action was filed against Delek Israel and other fuel companies. The applicants claim that the series of agreements between each respondent and some of its station owners, including retail and property agreements, constitute a restrictive arrangement that prevents station owners from entering into agreements with other entities, which prevents price competition. The amount of the claim against all the respondents is NIS 1.2 billion. In view of the preliminary stage of the procedure, Delek Israel is unable to assess the outcome of the motion.

In addition, subsequent to the balance sheet date, in November 2010, a motion for certification as a class action was filed against the Group, a subsidiary of Delek Israel and other fuel companies. The applicant claims, among others, that the respondents violated section 6 of the Container Deposit Law, 1999 ("the Deposit Law") and Amendment 4 to the Deposit Law by refusing to give refunds to consumers who purchase beverage containers at convenience stores under their management in the amount of the deposit stated on the container and for charging customers with VAT on the deposit refund. The amount of the claim against all the respondents is estimated at NIS 3 billion. In view of the preliminary stage of the procedure, the Company and Delek Israel are unable to assess the outcome of the motion.

NOTE 6 – CONTINGENT LIABILITIES CONTD.)

E. 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 the 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).

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 submitted their responses to the motion for certification as a class action on November 14, 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 motion for certification as a class action will be dismissed, therefore a provision was not included in the financial statements.

F. Further to Note 33(A)(26) to the annual financial statements, several lawsuits have been filed against The Phoenix, its investees and others, including motions for certification 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. In the reporting period, a number of lawsuits were dismissed, partially due to settlements reached by the parties. In respect of the other motions for certification as class actions, the management of The Phoenix estimates, based, among others, on the opinion of its legal counsel, that it is more likely than not that the statements of defense of The Phoenix and/or its subsidiaries will be accepted and the motion for certification as a class action will be dismissed. Therefore these lawsuits are not covered by a provision in the financial statements. Provisions were included in the financial statements to cover the exposure estimated by the Company and/or the subsidiaries for motions for certification as class action lawsuits in which it is more likely that the statement of defense of the Company and/or its subsidiaries will be dismissed.

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 matters described above). Recently, for most of the lawsuits, the management of The Phoenix concluded, based on the opinion of its legal counsel, that at these preliminary stages it is not possible to assess the outcome of the motions for certification as class actions, therefore provisions were not included in the financial statements. For details see the statements of The Phoenix that are available to the public.

G. 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. On July 26, 2010, the Group declared distribution of a dividend to its shareholders in the amount of NIS 120 million. The dividend was paid in August 2010.

F. On September 21, 2010, the Group declared distribution of a dividend to its shareholders in the amount of NIS 90 million. The dividend was paid in October 2010.

G. Subsequent to the balance sheet date, on November 30, 2010, the Group declared distribution of a dividend to its shareholders in the amount of NIS 500 million.

NOTE 8 – OPERATING SEGMENTS

A. General

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

- Fuel operations in Israel: The main operation is marketing and sale of fuels and commodities at gas stations and other outlets, and storage and supply of fuels in facilities.

- Fuel operations in the 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. Further to Note 3(F), the Company presented the results of the vehicle sector as a discontinued operation.

- Insurance and finances in Israel: The main operation is performed by The Phoenix.

- Insurance and finances outside of Israel: The main operation is performed by Republic in the United States.

- Oil and gas exploration and production: The main operation is performed 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.

NOTE 8 – OPERATING SEGMENTS (CONTD.)

B. Segment reporting

1. Revenue

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009 **	2010	2009 **	2009 **
	Unaudited				Audited
	NIS millions				
Fuel operations in Israel	3,811	3,079	1,345	1,180	4,286
Fuel operations in the United States	10,437	7,215	3,326	3,204	10,413
Fuel operations in Europe	8,718	7,796	3,828	2,691	10,681
Oil and gas exploration and production	408	329	169	161	449
Insurance and finance in Israel *	6,799	8,228	3,015	2,687	10,631
Insurance operations outside of Israel *	1,012	1,311	359	410	1,668
Other segments and adjustments	495	400	144	139	575
Total in statement of income	31,680	28,358	12,186	10,472	38,703

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

** Reclassified, see Note 3(F)

2. Segment results and adjustment to net profit

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009 ***	2010	2009 ***	2009 ***
	Unaudited				Audited
	NIS millions				
Fuel operations in Israel	154	188	52	103	230
Fuel operations in the United States	50	253	(30)	(9)	189
Fuel operations in Europe	145	86	44	41	97
Oil and gas exploration and production	280	199	105	126	265
Insurance and finance in Israel	540	437	170	93	507
Insurance operations outside of Israel	90	36	45	(16)	77
Other segments	71	194**	20	16**	212 **
Adjustments *	(244)	(401)	(111)	(116)	(427)
Total operating profit	1,086	992	295	238	1,150
Financing expenses, net	808	761**	349	363**	924 **
Gain from disposal of investments in investees, net	-	35	-	4	518
Group's share in profits of associates and partnerships, net	148	132**	65	11**	91 **
Income tax (tax benefit)	152	22	11	(125)	83
Profit from discontinued operations	320	321	100	112	451
Net profit	594	697	100	127	1,203

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

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

*** Reclassified, see Note 3(F)

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, in 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. Subsequent to the balance sheet date, on November 30, 2010, the board of directors of the Company approved (after approval of the Company's audit committee on November 28, 2010) the extension of the loan provided to the CEO of the Company in November 2007 for acquisition of IDE shares, for three more years, up to November 29, 2013. On the approval date of the extension, the loan amounted to NIS 3 million, linked to the CPI plus annual interest of 4%. The loan is a non-recourse loan.

C. In 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 owns 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 notional approach. 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.

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

E. Further to Note 14(G) to the annual financial statements, in August 2010, the general meeting of the shareholders of The Phoenix approved the amendment to the loan agreement with Delek Real Estate, after the approval of the audit committee and the board of directors, 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 from July 2010 to October 3, 2010 and increase of the annual interest rate to 10%.
Pursuant to the amended loan terms as set out above, Delek Real Estate was due to repay NIS 50 million by October 2, 2010. Delek Real Estate requested The Phoenix to defer the final payment date to January 2, 2011. The audit committee and board of directors of The Phoenix approved the deferral. A general meeting to approve the deferral will convene on December 12, 2010.

F. Subsequent to the balance sheet date, on October 3, 2010, the general meeting of the Company approved a bonus of NIS 0.5 million for the chairman of the Group's board of directors, after approval of the board of directors of the Company.

G. Further to Note 46(B) to the annual financial statements, in September 2010, the chairman of the Company's board of directors repaid the full amount of the loan that the Company had provided to him. At the repayment date, the outstanding balance of the loan amounted to NIS 10 million.

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 Commissioner's directives.

	September 30 2010	December 31 2009
	Unaudited	Audited
	NIS millions	
Minimum capital		
Amount required under the revised capital regulations	2,213	2,133
Amount required under the equity regulations immediately before publication of the amendment	1,425	1,392
Difference (a)	788	741
Addition as of the balance sheet date to the amount required under the equity regulations immediately before publication of the amendment (a)	355	222
Amount required at the balance sheet date under the regulations and directives of the Commissioner (a)	1,780	1,614
Actual amount calculated in accordance with the equity regulations		
Primary capital	1,766	1,489
Secondary capital, subordinated notes	883	788
Total actual amount at the balance sheet date calculated in accordance with the equity regulations	2,649	2,277
Excess	869	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 Commissioner's directives therefore constituting non-distributable excess (b)	339	309

(a) In September 2009, an amendment was published for the Financial Services Control Regulations (Minimum Equity Required from an Insurer) (Amendment) 5769-2009 ("the Amendment").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 balance sheet date. The capital will be increased at the dates and rates set out below:

- Up to the publication date of the financial statements as of December 31, 2009, at least 30% of the difference
- Up to the publication date of the financial statements as of 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 Commissioner'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 Commissioner 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 Commissioner 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 approval of the Commissioner, provided the Commissioner was notified of such and the relevant documents were submitted to the Commissioner 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 September 30, 2010, and the balance of the amount by December 31, 2010..

   According to a preliminary estimate, and insofar as the requirements are adopted in their current format, at September 30, 2010, the capital requirements from The Phoenix Pension and Provident and the management company of Excellence would have increased by NIS 41 million.

B. In accordance with the US National Association of Insurance Commissioners (NAIC), Republic requires minimum capital of $52 million. At September 30, 2010, the capital of Republic amounted to $320 million.

DELEK GROUP LTD.

Financial Information from the Interim Consolidated Financial Statements Attributed to the Company

As at September 30, 2010

Unaudited

Breakdown of Financial Information from the consolidated financial statements of the Company

	September 30		As at December 31
	2010	2009	2009
	Unaudited		Audited
	NIS millions		
Current assets			
Cash and cash equivalents	21	153	313
Short-term investments	494	335	479
Other receivables (mainly interest received from investees)	94	81	91
Total current assets	609	569	883
Non-current assets			
Long-term loans	-	10	9
Investments in investees	3,599	2,950	3,422
Loans to investees	5,232	3,996	4,332
Total non-current assets	8,831	6,956	7,763
	9,440	7,525	8,646
Current liabilities			
Credit from banks and others	-	151	-
Current maturities of debentures	143	64	83
Dividend due	90	-	183
Creditors and credit balances (particularly interest to be paid)	174	106	102
Total current liabilities	407	321	368
Non-current liabilities			
Loans from investees	253	233	236
Debentures	6,737	5,134	5,910
Debentures convertible into Company shares	247	-	-
Option warrants	-	1	9
Deferred taxes	13	21	13
Other liabilities	1	3	2
Total non-current liabilities	7,251	5,392	6,170
Equity attributable to the Company's shareholders			
Share capital	13	13	13
Share premium	1,622	1,590	1,590
Warrants and receipts for conversion option	32	25	25
Retained earnings	711	628	869
Adjustments for translation of financial statements of foreign operations	(349)	(187)	(166)
Capital reserve from transactions with holders of non-controlling rights	(104)	-	-
Other capital reserves	(19)	(129)	(94)
Treasury shares	(124)	(128)	(129)
Total capital	1,782	1,812	2,108
	9,440	7,525	8,646

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

Breakdown of Financial Information from the consolidated statements of profit and loss of the Company

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS millions				
Company's share in earnings of investees, net	376	426	61	60	847
Administrative fees from investees	4	6	1	2	6
General and administrative expenses	13	12	4	6	10
Other expenses	-	-	-	-	1
Pre financing profit	367	420	58	56	842
Financing income (mainly for financial investments), net	31	96	23	64	107
Financing expenses (mainly with respect to debentures)	377	373	166	204	477
Net financing income with respect to loans to investees	281	280	118	144	375
Profit from continuing operations	302	423	33	60	847
Profit from discontinued operations	-	17	-	-	17
Net earnings attributed to Company shareholders	302	440	33	60	864

Breakdown of Financial Information from the consolidated statements of comprehensive income of the Company

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS millions				
Net earnings attributed to Company shareholders	302	440	33	60	864
Other comprehensive income (loss) attributed to investees (after impact of tax)	(108)	(5)	50	(130)	51
Other comprehensive income from continuing operations, net	194	435	83	(70)	915
Other comprehensive income from discontinued operations, net	-	198	-	-	198
Total comprehensive income attributed to Company shareholders	194	633	83	(70)	1,113

Breakdown of Financial Information from the consolidated statements of cash flows of the Company

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS millions				
Cash flows from operating activities					
Net profit	302	440	33	60	864
Adjustments to reconcile cash flows from operating activities (a)	(370)	(91)	7	300	(915)
Net cash provided by (used in) current activities	(68)	349	40	360	(51)
Cash flow from investing activities					
Investment in investees	(6)	(6)	-	-	(6)
Short-term investments	(25)	163	(1)	(8)	29
Repayment of other loans	10	-	10	-	-
Grant of loans to investees, net	(725)	(380)	(405)	(366)	(614)
Net cash used for investing activities	(746)	(223)	(396)	(374)	(591)
Cash flow from finance activities					
Dividend paid to shareholders of the Company	(553)	(177)	(120)	(177)	(177)
Share options exercised	16	-	-	-	-
Issue of option warrants	-	25	-	25	25
Acquisition of treasury shares	-	(32)	-	(1)	(33)
Sale of treasury shares	-	15	-	-	15
Short term credit from banks and others, net	-	(118)	-	(6)	(269)
Receipt of long-term loans and proceeds of issue debentures and convertible debentures	1,089	314	-	314	1,483
Repayment of loans of debentures and convertible debentures	(30)	(30)	-	(3)	(119)
Net cash from (used for) financing activities	522	(3)	(120)	152	925
Increase (decrease) in cash and cash equivalents	(292)	123	(476)	138	283
Balance of cash flow and cash equivalents for beginning of period	313	30	497	15	30
Cash balance and cash equivalents at end of period	21	153	21	153	313

Breakdown of Financial Information from the consolidated statements of cash flows of the Company

		Nine months ended September 30		Three months ended September 30		Year ended December 31
		2010	2009	2010	2009	2009
		Unaudited				Audited
		NIS millions				
(a)	Adjustments to reconcile statement of cash flows from operating activities:					
	Income and expenses not involving cash flows:					
	Loss from discontinued operation, net	-	(17)	-	-	(17)
	Increase in the value of loans provided, net	(87)	(117)	(63)	(70)	(156)
	Company's share in lprofits of investees, net	(376)	(426)	(61)	(60)	(847)
	Increase in value of long-term liabilities, net	89	528	58	437	186
	Proceeds from early redemption and exchange of debentures	-	(38)	-	(38)	(38)
	Change in fair value of short-term investments	10	(42)	3	(21)	(51)
	Changes in asset and liability items:					
	Decrease (increase) in other receivables	(92)	(22)	3	(3)	(29)
	Increase (decrease) in other payables	86	43	67	55	37
		(370)	(91)	7	300	(915)
(b)	Significant non-cash activities					
	Convertible debentures converted into shares	-	1	-	-	1
	Dividend declared	90	-	90	-	183
	Exercise of options into shares	13	-	-	-	-
	Previously consolidated subsidiary distributed and division as dividend in kind	-	171	-	-	171
	Replacement of Debenture	-	658	-	658	658
	Re-issue of debentures	-	24	-	24	24
(c)	Additional information on cash flows					
	Cash paid during the period for:					
	Interest	217	153	48	40	241
	Cash received during the period for:					
	Interest	15	14	3	2	16

Additional information

1. GENERAL

This separate financial information was drafted in a condensed format pursuant to the provisions of article 38(d) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. This separate financial information should be reviewed in relation to the separate financial information to the annual financial statements as at December 31, 2009, and for the year ended on said date, and to their accompanying notes as well as in relation to the Group's consolidated interim financial statements as at September 30, 2010.

2. CONTINGENT LIABILITIES

There are certain contingent claims against certain investees for significant sums that might reach several hundred million or even billion shekels. In some cases, it is not possible to assess their outcome at this stage, and therefore no provision was recorded in the financial statements as set forth in Note 6 to the consolidated interim financial statements as at September 30, 2010.

3. SHESHINSKI COMMITTEE

On april 12, 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”).

On November 16, 2010, the draft recommendations of the Sheshinski Committee were published. The main recommendations are that the royalty rate remains unchanged, the depletion allowance is abolished and a gas and oil profits levy is introduced at a progressive rate of between 20% and 60%, which will apply after recovery of the investment plus 50%, as well as other recommendations related to tax. If the Committee concludes that the proposed system impairs the ability to finance projects under development, the Committee will review required solutions.

At this preliminary stage, Delek Energy Systems ("Delek Energy"), Delek Drilling Limited Partnerships and Avner Oil Exploration (Limited Partnerships) ("The Partnerships") are unable to fully assess the implications of the committee's recommendations on their operations. Nonetheless, it is already possible to estimate at this stage that if the committee’s recommendations as published in the draft recommendations are accepted, and insofar as the ministers of finance and national infrastructures adopt these recommendations, and insofar as they materialize into a binding law that withstands the scrutiny of the high court of justice, application of the recommendations is expected to increase the tax burden considerably and adversely affect the Company's business and the business of Delek Energy, including the business of the limited partnerships held by it and on their operations. For further information, see Note 4D to the interim consolidated financial statements as at September 30, 2010.