Delek Group

FINANCIAL STATEMENTS

UNAUDITED

AS OF SEPTEMBER 30, 2016

Delek Group

ISRAEL ישראל

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

IMPORTANT

This document is an unofficial translation for convenience only of the Hebrew original of September 30, 2016 financial report of Delek Group Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on November 29, 2016.

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

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Chapter A

Corporate Description

Delek Group

Update of Chapter A (Description of the Corporation's Business) to the Board of Directors' Report of the Delek Group Ltd. ("The Company") for 2015[1]

General Development of the Company's Business:

Referring to Section 1.4 to the Periodic Report - Distribution of Dividends

On August 29, 2016, the Company's Board of Directors decided to distribute a total of NIS 80 million in dividends. This dividend was paid on September 28, 2016. For more information, see the Company's immediate report of August 30, 2016 (ref. no. 2016-01-112708), included herein by way of reference.

Description of Company Operations by Segment:

1. Energy

A. Referring to Section 1.7.5(i) to the Periodic Report - Leviathan Reservoir

On November 3, 2016, Delek Drilling Limited Partnership and Avner Oil Exploration Limited Partnership (jointly - "the Partnerships") published discounted cash flow data for part of the contingent resources in the Leviathan Reservoir located in the I/14 Leviathan South and I/15 Leviathan North leases. For more information, see the Company's immediate report of November 3, 2016 (ref. no. 2016-01-071832), included herein by way of reference.

B. Referring to Section 1.7.9 to the Periodic Report - License 399/Roy ("the Roy License")

On October 18, 2016, Ratio Oil Exploration (1992) Limited Partnership ("Ratio"), announced that in the start of October 2016 the operator in the Roy License filed an application with the Ministry of National Infrastructures, Energy and Water's Oil Commissioner ("the Commissioner") to update the schedule specified in the work plan for the Roy License. As part of its application, the operator included a signed contract with a drilling contractor for drilling operations in the Roy License, whose submission date had been set for October 15, 2016. As of the date of this report, the Commissioner's reply to the application has yet to be received.

It is clarified, that in light of the fact that the Partnerships are only granted an option in the Roy License, and they do not have access to information concerning the Roy Licenses, the said update is based solely on publicly available information.

C. Referring to Section 1.7.11 to the Periodic Report - License 353/Eran ("the Eran License")

As part of a petition filed by the partners in the Eran License to the Supreme Court of Israel ("the Supreme Court") against the Minister for National Infrastructures, Energy and Water ("the Energy Minister") and the Commissioner, concerning the Energy Minister's decision to deny an appeal filed by the partners in the Eran License against the Commissioner's decision not to extend the Eran License, on June 2, 2016, the Supreme Court ratified the parties' agreement to pursue mediation at the Court's suggestion. With the parties' consent, the President (Ret.) of the Supreme Court, Mr. A. Grunis, was appointed. According to the Supreme Court's decision, the parties must update the Court on the results of said mediation no later than February 1, 2017.

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[1] The update contains material changes or developments in the Company's business during the third quarter of 2016 and up to immediately prior to the date of this report, in any matter which must be disclosed in the periodic report and which was not updated in the quarterly report for the first and second quarter of 2016. The updated refers to the section numbers in Chapter A (Description of the Corporation's Business) of the periodic report for 2015 (ref. no. 2016-01-020628), and supplements the content disclosed therein.

D. Referring to Section 1.7.12(d)(1)(3) to the Periodic Report - Gas Supply Agreement between the Tamar Partners and Israel Electric Corporation Ltd. ("the Agreement" and "IEC", respectively)

On September 1, 2016, the Tamar Partners including the Partnerships, and IEC signed an amendment to the Agreement concerning the exercise of the option to increase the gas quantities consumed by IEC. For more information, see the Company's immediate reports of September 4, 2016 and November 20, 2016 (ref. no. 2016-01-116773 and 2016-01-129427, respectively), included herein by way of reference.

E. Referring to Section 1.7.13(k)(2) to the Periodic Report - Contracts for Exporting Natural Gas from the Leviathan Project

On September 26, 2016, an agreement for the supply of natural gas was signed between NBL Jordan Marketing Limited, a distributor wholly-owned by the partners in the Leviathan Project, including the Partnerships, and Jordan's National Electric Power Company. For more information, see the Company's immediate report of September 26, 2016 (ref. no. 2016-01-054558), included herein by way of reference. In this regard, it is noted that on November 4, 2016, the partners in the Leviathan Project applied to the Commissioner for approval to export natural gas to Jordan.

F. Referring to Section 1.7.14(a) to the Periodic Report - Marketing and Distribution to the Domestic Market

On November 24, 2016, an agreement for the supply of natural gas was signed between the Leviathan partners and Paz Oil Refineries Ashdod Ltd. ("the Buyer"), whereby the Buyer will buy natural gas from the Leviathan partners for operating the Buyer's facilities in Ashdod. For more information, see the Company's immediate report of November 24, 2016 (ref. no. 2016-01-131392), included here by way of reference.

G. Referring to Section 1.7.22 to the Periodic Report - Financing

1. On November 26, 2016, a letter of commitment was signed between the Partnerships and HSBC Bank PLC and J.P. Morgan Limited, for underwriting a limited-recourse project financing transaction, to finance the Partnerships' share in developing the Leviathn Project, to the amount of USD 1.5 to 1.75 billion (100%). For more information, see the Company's immediate report of November 27, 2016 (ref. no. 2016-01-132058), included herein by way of reference.

2. To the best of the Company's knowledge, as of the date of this report, the Partnerships are considering options for issuing debentures, which will be listed for trading on the Tel Aviv Stock Exchange Ltd. ("the TASE"). It is clarified that the issue of such debentures is subject to approval by the boards of the Partnerships' general partners, and receipt of all approvals required by law for their issue and listing on the TASE. It is further clarified that there is no certainty that such issue will indeed be completed.

3. On September 6, 2016, the special-purpose subsidiary, Delek and Avner (Tamar Bond) Ltd., held by the Partnerships in equal parts (50%-50%), notified the debenture holders, through the trustee, of the early repayment of the first series with a total (original) value of USD 400 million out of 5 different series of debentures with a total (original) value of USD 2 billion. For more information, see the Company's immediate report of September 7, 2016 (ref. no. 2016-01-118957), included herein by way of reference. The said repayment was made on October 6, 2016.

H. Referring to Section 1.7.27(j)(1) to the Periodic Report - Licenses 337/Avia and 338/Keren ("the Licenses")

On March 30, 2016, a hearing was held on the Partnerships' petition to the Supreme Court, against the Energy Minister and the Commissioner (jointly - "the Respondents"), concerning the Energy Minister's decision to deny the Partnerships appeal against the Commissioner's decision not to extend the Licenses. A hearing in this petition was held on September 4, 2016, following which the Supreme Court ordered the Respondents to respond whether, and under what terms, the Partnerships could bid for new licenses in the areas covered by the Licenses. On October 31, 2016, the Respondents replied that the Partnerships could not bid for new licenses under an upcoming competitive process. In accordance with the Court's decision from the aforesaid hearing, on November 13, 2016, the Partnerships replied that they stand by their petition that there is no justification, competitive or otherwise, to prevent them from bidding on the new licenses within the Avia and Keren Licenses, and that they reserve all their rights in this matter. As of the date of this report, the Court's decision on the petition has not yet been received.

I. Natural Gas and condensate production data from the Tamar Project for the first and second quarter of 2016:[2]

		Natural gas			Condensate		
		Q1	**Q2**	**Q3**	**Q1**	**Q2**	**Q3**
Total output (attributable to equity holders of the Company) for the period (in MMCF for natural gas and MBBL for condensate)		13,652	14,207	15,871	18.4	19.4	22.4
Average price per output unit (attributable to equity holders of the Company) (USD per MCF and BBL)		5.17	5.12	5.20	29.4	39.7	39.2
Average royalties (each payment derived from the output of the producing asset, including the gross income from the oil asset) paid per output unit (attributable to equity holders of the Company) (USD per MCF and BBL)	The State	0.6	0.6	0.6	3.3	4.5	4.4
	Third parties	0.1	0.1	0.1	0.5	0.7	0.5
	Principal shareholders	0.14	0.14	0.14	0.8	1	1
Receipts for average royalties (each payment derived from the output of the producing asset, including the gross income from the oil asset) received per output unit (attributable to the Company's share) (USD per MCF and BBL)		0.2	0.2	0.2	1	1.3	1.3
Average production costs per output unit (attributable to equity holders of the Company) (USD per MCF and BBL)[3]		0.4	0.4	0.3	2.2	2.4	1.5
Average net proceeds per output unit (attributable to equity holders of the Company) (USD per MCF and BBL)		4.1	4.08	4.26	23.6	32.4	33.1

2. Chapter D – Matters Relating to the Company as a Whole

A. Referring to Section 1.16.8 to the Periodic Report - Ratings

On September 21, 2016, Standard & Poor's Maalot re-affirmed its ilA rating for the Company's debentures. For more information, see the Company's immediate report of September 21, 2016 (ref. no. 2016-01-127048), included here by way of reference.

B. Referring to Section 1.17.3 to the Periodic Report - Seller Loans

On November 20, 2016, the Company announced that the loan provided by Delek Europe Holdings Ltd. ("the Seller") to a foreign fund ("the Buyer") as part of a transaction to sell its rights in Delek Europe BV, to a total amount of EUR 195 million (NIS 820 million) had been full repaid and the amount had been received by the Company. For more information, see the Company's immediate reports of October 26, 2016 (ref. no. 2016-01-067098), and November 20, 2016 (ref. no. 2016-01-129373), included herein by way of reference.

C. Referring to Section 1.22.1 to the Periodic Report - Goals and Business Strategy

1. On November 27, 2016, the Company signed an agreement with Ratio Petroleum Energy Limited Partnership ("Ratio Petroleum"), whereby the Company will invest in Ratio Petroleum by purchasing securities reflecting a 17.5% stake in Ratio Petroleum's equity as part of an issuance planned by Ratio Petroleum. Subject to completion of the said

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[2] Percentage of output, royalties, production costs and net proceeds attributable to holders of the Company's equity rights rounded to two decimal digits.

[3] It is emphasized that the average production costs per output unit only include current production costs and do not include reservoir exploration and development costs.

issuance, Ratio Petroleum will have an interest in oil rights in international licenses, directly and/or indirectly through its investees. For more information, see the Company's immediate report of November 28, 2016 (ref. no. 2016-01-132667), included herein by way of reference.

2. On November 10, 2016, the Company announced that it, through a wholly-owned foreign subsidiary, had submitted a bid in a tender to participate in rights in offshore exploration licenses in eastern Newfoundland, Canada, as part of a second annual tender, in a program comprising several annual tenders, in which the Canadian government was granting licenses in this area for the first time. On November 9, 2016, the results of the tender were announced, indicating that the Company, through the subsidiary, had won the rights to a license in Block 7, covering an area of 2,000 square kilometers with an estimated target depth of 4,500 meters below sea-level. For more information, see the Company's immediate report of November 10, 2016 (ref. no. 2016-01-076017), included herein by way of reference.

3. On September 15, 2016, the Company announced that after considering options to invest in a reservoir known as Kraken and located in the North Sea, it had decided not to pursue the signing of a binding agreement. For more information, see the Company's immediate reports of July 18, 2016 (ref. no. 2016-01-084259), and September 15, 2016 (ref. no. 2016-01-123547), included herein by way of reference.

Delek Group Ltd.
Date: November 28, 2016
Names and titles of signatories:
Gabriel Last, Chairman of the Board
Asaf Bartfeld, CEO

Chapter B

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

Delek Group

November 28, 2016

Delek Group Ltd.

Board of Directors' report on the state of the Company's affairs
For the nine and three month periods ended September 30, 2016

The Board of Directors of the Delek Group Ltd. ("the Company"), hereby presents the Company's Board of Directors' Report for the nine and three month periods ended September 30, 2016.

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

1. Description of the Company and its business environment

The Company engages in oil and gas exploration and production in Israel and abroad through investee companies and partnerships, and markets fuel products in Israel. In addition, the Company maintains holdings in several other operations, some of which are in various stages of disposal. The main operations which the Company intends to sell off comprise its Insurance and Finance in Israel segment.

In 2015, the Company invested in an international energy company (Ithaca Energy Inc.) with proven operator experience, and is continuing to study options for acquiring oil and gas companies and/or assets abroad which are synergistic and complementary to the Group's current core operations.

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

2. Principal Operations

Gas and oil

- Oil and gas exploration and production in the nine month period of 2016 yielded a profit of NIS 294 million, as compared to a profit of NIS 214 million in the same period last year.[1] This year-on-year increase in profit for the reporting period was mainly due to an increase in revenues from natural gas and condensate sales in the Tamar Project.
- On April 14, 2016, the board of directors of the general partner, Avner Oil and Gas Ltd., and the board of directors of the general partner, Delek Drilling Management (1993) Ltd. (each) ("the General Partners"), appointed a special, independent board committee to study options for implementing a restructuring by way of a merger between the partnerships Delek Drilling Limited Partnership and Avner Oil Exploration Limited Partnership. On September 29, 2016, after obtaining approvals from the General Partners' audit committees and boards, the Partnerships

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

signed a merger agreement which is subject to approval in the Partnerships' general meetings, scheduled for December 22, 2016. For more information concerning the merger agreement and its approval, see Note 5G to the financial statements.

- On May 22, 2016, the government re-affirmed its decision of August 16, 2015 concerning the Gas Framework, and established an alternative arrangement for a 'stable regulatory regime' to guarantee a regulatory regime that would encourage investment in the natural gas exploration and production segment. The Limited Partnerships, together with the partners in the various projects, are working to implement the Gas Framework (as amended), according to its respective terms and the terms of the leases. Furthermore, the Limited Partnerships are working to continue making the necessary investments and carrying out the necessary actions for rapidly developing the Leviathan Reservoir and for planning another expansion of production facilities in the Tamar Project, for negotiating agreements for supplying natural gas from the Tamar Project and the Leviathan Project, for studying alternatives for financing the investments in Tamar and Leviathan including financing through loans from financial entities, debentures, various capital instruments, and other possible alternatives, as part of the Gas Framework's implementation.
- In June 2016, the Ministry of National Infrastructures, Energy and Water's Oil Commissioner approved the updated development plan for the Leviathan Reservoir, with a maximum annual supply volume of 21 BCM. For more information, see Note 5A to the financial statements.
- In August 2016, an agreement was signed between the Limited Partnerships and Ocean Energean Oil and Gas Ltd. for selling all of the Limited Partnerships' and Noble's rights in the I/16 Tanin and I/17 Karish leases, for a total amount of USD 148.5 million (in equal parts between them), covering past expenditure invested in these leases by the Limited Partnerships and Noble, plus royalties for future natural gas and condensate production from these leases. For more information, see Note 5C to the financial statements.
- In September 2016, a detailed natural gas supply agreement was signed between NBL Jordan Marketing Limited ("the Distributor") and Jordan's National Electric Power Company ("NEPCO", and "the Export Agreement", respectively). The Distributor is a wholly-owned subsidiary of the partners in the Leviathan Project. Under the Export Agreement, the Distributor undertook to supply NEPCO with natural gas for a period of 15 years from either the start of commercial supply or once overall supply volumes hit 45 BCM (billions of cubic meters) ("the Total Contractual Amount"). Supply under the Export Agreement is expected to begin with the start of supply from the Leviathan Reservoir and completion of the pipelines needed to pump the natural gas to NEPCO in Israel and in Jordan. Additional marketing agreements have also been signed with Israeli customers to a total volume of 22 BCM. For more information, see Note 5A to the financial statements.
- In October, drilling began on the Tamar 8 development and production well, along with construction work on the accompanying infrastructure in the Tamar Field ("Drilling"). Drilling is expected to continue four months (including completion and connection to the production systems). The Drilling is intended to enable optimal production from the Tamar Reservoir. The budget for the Drilling, including completion and development of the underwater system and connecting the Drilling to existing Tamar infrastructure, totals USD 265 million (100%), of which USD 37 million for equipment purchased for the Tamar South-West Reservoir ("Tamar SW"). For more information, see Note 5B to the financial statements.
- On November 26, 2016, a letter of commitment was signed between the Limited Partnerships and various underwriters for signing a financing transaction, all of whose terms had been agreed upon. According to the financing agreements, the underwriters, whom the Limited Partnerships had exclusively appointed to organize the loan, undertook to provide the Limited Partnerships (in equal parts - 50%-50%) with limited-recourse project financing, to finance their share in the development of the Leviathan Project, to an amount of USD 1.5 to 1.75 billion (100%). Each of the Limited Partnerships, separately, may sign the finance agreement according to the above pre-agreed terms, no later than February 20, 2017. For more information, see Note 5A6 to the financial statements.