

**DELEK GROUP LTD.**

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**As of March 31, 2003**

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Tel-Aviv, May 29, 2003

Delek Group Ltd.  
Netanya, Israel

Dear Sirs,

The accompanying condensed consolidated balance sheets of Delek Group Ltd. (the "Company") as of March 31, 2003 and 2002, and the consolidated statements of income, changes in shareholders' equity and cash flows for the three month periods then ended are derived from the unaudited financial statements of the Company. The accompanying condensed consolidated balance sheet of the Company as of December 31, 2002 and the consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended are derived from the audited financial statements of the Company.

The abovementioned financial statements were prepared on the basis of historical cost adjusted for changes in the general purchasing power of the Israeli currency as measured by changes in the Consumer Price Index.

The accompanying financial statements are condensed financial statements and do not include disclosures regarding requests to approve class action lawsuits against an associated company, requests to authorize class action lawsuits against subsidiaries, the possible effects on the Company in the event draft litigation to amend the Petroleum Law is approved, and other disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the consolidated financial position, results of operations and cash flows of the Company. Accordingly, the accompanying financial statements are not designed for those who are not informed about such matters.

**Luboshitz Kasierer**  
Certified Public Accountants (Isr.)

# DELEK GROUP LTD.

## CONSOLIDATED BALANCE SHEETS

In millions of shekels of March 2003

	<u>March 31</u>		<u>December 31</u>
	<u>2003</u>	<u>2002</u>	<u>2002</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	491	316	459
Short-term investments	121	117	177
Trade receivables	1,653	1,363	1,430
Other receivables and prepayments	260	266	246
Inventories	762	1,089	896
Real estate held for sale	17	5	6
	<u>3,304</u>	<u>3,156</u>	<u>3,214</u>
<b>LONG-TERM LOANS AND INVESTMENTS</b>			
Investee and other companies	598	483	558
Real estate	2,684	2,490	2,650
Land held for construction	176	174	197
Long-term loans, deposits and receivables	265	233	267
Investments in petroleum and gas exploration	773	509	701
	<u>4,496</u>	<u>3,889</u>	<u>4,373</u>
<b>FIXED ASSETS</b>			
Cost	2,785	2,552	2,702
Less - accumulated depreciation	1,048	908	992
	<u>1,737</u>	<u>1,644</u>	<u>1,710</u>
<b>OTHER ASSETS AND DEFERRED CHARGES</b>	<u>506</u>	<u>446</u>	<u>506</u>
	<u>10,043</u>	<u>9,135</u>	<u>9,803</u>

	<u>March 31</u>		<u>December 31</u>
	<u>2003</u>	<u>2002</u>	<u>2002</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
<b>CURRENT LIABILITIES</b>			
Short-term borrowings - banks and others	3,020	4,036	2,951
Trade payables	595	347	467
Other payables and accrued expenses	458	367	448
Dividend payable	50	-	-
	<u>4,123</u>	<u>4,750</u>	<u>3,866</u>
<b>LONG-TERM LIABILITIES</b>			
Long-term loans	3,916	2,566	3,932
Convertible debentures	165	163	165
Other debentures	320	261	321
Accrued severance pay, net	19	15	19
Other liabilities	80	59	62
	<u>4,500</u>	<u>3,064</u>	<u>4,499</u>
<b>MINORITY INTEREST</b>	<u>273</u>	<u>253</u>	<u>284</u>
<b>SHAREHOLDERS' EQUITY</b>	<u>1,147</u>	<u>1,068</u>	<u>1,154</u>
	<u>10,043</u>	<u>9,135</u>	<u>9,803</u>

See accompanying accountants' letter.

## DELEK GROUP LTD.

### CONSOLIDATED STATEMENTS OF INCOME

In millions of shekels of March 2003, except earnings per share

	For the three months ended March 31		For the year ended December 31
	2003	2002	2002
	(Unaudited)		(Audited)
REVENUES	3,023	(*) 2,256	10,103
LESS - EXCISE, CUSTOMS AND PURCHASE TAXES	706	576	2,605
	2,317	1,680	7,498
COST OF REVENUES	1,927	1,341	6,051
Gross profit	390	339	1,447
SELLING, MARKETING AND GAS STATION OPERATING EXPENSES	177	(*) 172	717
GENERAL AND ADMINISTRATIVE EXPENSES	66	63	283
Operating income	147	104	447
FINANCING EXPENSES, NET	20	24	178
Income before other income (expenses)	127	80	269
ASSET IMPAIRMENT LOSS DUE TO ADOPTION OF ACCOUNTING STANDARD NO. 15	35	-	-
OTHER INCOME (EXPENSES), NET	4	8	(8)
Income before taxes on income	96	88	261
TAXES ON INCOME	41	29	103
Income after taxes on income	55	59	158
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATED COMPANIES	7	(8)	(8)
MINORITY INTEREST	(22)	(9)	(46)
Net income	40	42	104
EARNINGS PER SHARE			
Net income per NIS 1 par value of share capital (in shekels)	4.18	4.34	10.70

(\*) Reclassified.

See accompanying accountants' letter.

## DELEK GROUP LTD.

### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In millions of shekels of March 2003

	Share capital	Capital reserves		Retained earnings		Shares of Company held by subsidiary	Total
		Premium on shares	Adjustments arising on translation of financial statements	Dividend declared after balance sheet date	Unappropriated retained earnings		
<b>Unaudited</b>							
Balance as of January 1, 2003	11	789	30	50	287	(13)	1,154
Adjustments arising on translation of financial statements of investee companies	-	-	3	-	-	-	3
Dividend declared	-	-	-	(50)	-	-	(50)
Net income	-	-	-	-	40	-	40
Balance as of March 31, 2003	<u>11</u>	<u>789</u>	<u>33</u>	<u>-</u>	<u>327</u>	<u>(13)</u>	<u>1,147</u>
Balance as of January 1, 2002	11	789	4	-	285	(12)	1,077
Shares of Company acquired by subsidiary	-	-	-	-	-	(1)	(1)
Adjustments arising on translation of financial statements of investee companies	-	-	3	-	-	-	3
Capital reserve arising on transaction with controlling shareholder	-	-	-	-	(53)	-	(53)
Net income	-	-	-	-	42	-	42
Balance as of March 31, 2002	<u>11</u>	<u>789</u>	<u>7</u>	<u>-</u>	<u>274</u>	<u>(13)</u>	<u>1,068</u>
<b>Audited</b>							
Balance as of December 31, 2001	11	789	4	-	285	(12)	1,077
Shares of Company acquired by subsidiary	-	-	-	-	-	(1)	(1)
Adjustments arising on translation of financial statements of investee companies	-	-	26	-	-	-	26
Capital reserve arising on transaction with controlling shareholder	-	-	-	-	(52)	-	(52)
Net income	-	-	-	-	104	-	104
Dividend declared after balance sheet date	-	-	-	50	(50)	-	-
Balance as of December 31, 2002	<u>11</u>	<u>789</u>	<u>30</u>	<u>50</u>	<u>287</u>	<u>(13)</u>	<u>1,154</u>

See accompanying accountants' letter.

# DELEK GROUP LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of shekels of March 2003

	For the three months ended March 31		For the year ended December 31
	2003	2002	2002
	(Unaudited)		(Audited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	40	42	104
Adjustments to reconcile net income to net cash provided by operating activities (see A below)	113	122	613
Net cash provided by operating activities	153	164	717
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of fixed and other assets	(59)	(49)	(253)
Proceeds from sale of fixed assets and real estate	1	6	17
Investment in real estate and real estate for rental	(13)	(8)	(109)
Collection of long-term loans granted	14	59	110
Increase in joint ventures in petroleum and gas exploration - capitalized drilling costs	(67)	(38)	(233)
Investment in investee companies, partnerships and loans to others	(45)	(147)	(281)
Acquisition of businesses and newly-consolidated subsidiaries (see B below)	(57)	-	(7)
Other investments	(1)	(1)	(2)
Acquisition of marketable securities, net	(23)	(30)	(84)
Redemption of deposits, net	80	13	6
Net cash used in investing activities	(170)	(195)	(836)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Short-term borrowings from banks and others, net	(36)	(418)	(950)
Receipt of long-term loans	348	398	1,384
Repayment of long-term loans	(227)	(114)	(413)
Issuance of shares to minority shareholders of subsidiaries	18	24	24
Acquisition of Company shares by subsidiary	-	(1)	(1)
Dividend to minority shareholders of subsidiary	(52)	(20)	(31)
Issuance of debentures, net	-	148	218
Repayment of debentures	-	-	(5)
Net cash provided by financing activities	51	17	226
<b>TRANSLATION DIFFERENCES WITH RESPECT TO CASH BALANCES IN INVESTEE COMPANIES</b>			
	(2)	1	23
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	32	(13)	130
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>			
	459	329	329
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>			
	491	316	459

See accompanying accountants' letter.



# DELEK GROUP LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT.)

In millions of shekels of March 2003

	For the three months ended March 31		For the year ended December 31
	2003	2002	2002
	(Unaudited)		(Audited)
<b>A. ADJUSTMENTS TO RECONCILE NET INCOME</b>			
<b>TO NET CASH PROVIDED BY (USED IN) OPERATING</b>			
<b>ACTIVITIES</b>			
Revenues and expenses not affecting operating cash flows:			
Depreciation and amortization	60	48	214
Deferred taxes, net	15	-	(4)
Increase in accrued severance pay, net	-	1	-
Inflationary increase (decrease) in value of short-term loans in foreign currency	(5)	17	10
Inflationary increase in value of loans granted, net	(4)	(7)	(44)
Gain on sale of fixed assets, real estate and investments, net	(2)	(10)	(14)
Write-down of investments, assets and other	-	-	19
Asset impairment loss due to adoption of Accounting Standard No. 15	35	-	-
Equity in losses (undistributed earnings) of associated companies and partnerships, net (*)	(3)	14	21
Inflationary decrease in value of securities and deposits, net	-	1	2
Inflationary decrease in value of long-term liabilities, net	(50)	(17)	(40)
Minority interest	22	9	46
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	(222)	63	(12)
Decrease (increase) in other receivables and prepayments	(17)	27	59
Decrease in inventories	156	50	242
Increase (decrease) in trade payables	116	(31)	68
Increase (decrease) in other payables and accrued expenses	12	(43)	46
	113	122	613
	4	6	13
(*) Net of dividends received			
<b>B. ACQUISITION OF BUSINESSES AND NEWLY-</b>			
<b>CONSOLIDATED SUBSIDIARIES</b>			
Working capital deficiency (working capital) (except cash)	(4)	-	5
Fixed assets, real estate, investments and other assets	(47)	-	(41)
Goodwill	(6)	-	(3)
Long-term liabilities, net	-	-	2
Loans to shareholders in newly-consolidated subsidiaries	-	-	(5)
Minority interest	-	-	7
Investment at equity on date of acquisition (formerly – associated companies)	-	-	28
	(57)	-	(7)
<b>C. NONCASH ACTIVITIES</b>			
Acquisition of fixed assets on credit	-	2	2
Investment in petroleum and gas exploration	45	36	41
Dividend declared	50	-	-

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See accompanying accountants' letter.