

DELEK GROUP LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As of June 30, 2003

DELEK GROUP LTD.

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AS OF JUNE 30, 2003**

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Tel-Aviv, August 31, 2003

Delek Group Ltd.
Netanya, Israel

Dear Sirs,

The accompanying condensed consolidated balance sheets of Delek Group Ltd. (the "Company") as of June 30, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six month and 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 and requests to authorize class action lawsuits against subsidiaries 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 June 2003

	<u>June 30</u>		<u>December 31</u>
	<u>2003</u>	<u>2002</u>	<u>2002</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
CURRENT ASSETS			
Cash and cash equivalents	553	309	453
Short-term investments	216	136	175
Trade receivables	1,653	1,428	1,412
Other receivables and prepayments	263	290	242
Inventories	720	1,012	885
Real estate held for sale	14	6	6
	<u>3,419</u>	<u>3,181</u>	<u>3,173</u>
LONG-TERM LOANS AND INVESTMENTS			
Investee and other companies	610	505	551
Real estate	2,624	2,597	2,616
Land held for construction	178	173	194
Long-term loans deposits and receivables	261	238	264
Investments in petroleum and gas exploration	820	557	692
	<u>4,493</u>	<u>4,070</u>	<u>4,317</u>
FIXED ASSETS			
Cost	2,706	2,588	2,668
Less - accumulated depreciation	1,057	924	979
	<u>1,649</u>	<u>1,664</u>	<u>1,689</u>
OTHER ASSETS AND DEFERRED CHARGES, NET	<u>473</u>	<u>444</u>	<u>499</u>
	<u>10,034</u>	<u>9,359</u>	<u>9,678</u>

	June 30		December 31
	2003	2002	2002
	(Unaudited)		(Audited)
CURRENT LIABILITIES			
Short-term borrowings - banks and others	2,720	3,149	2,914
Trade payables	738	531	461
Other payables and accrued expenses	494	444	442
	3,952	4,124	3,817
LONG-TERM LIABILITIES			
Long-term loans	3,836	3,367	3,882
Convertible debentures	381	160	163
Other debentures	307	264	317
Accrued severance pay, net	19	14	19
Other liabilities	75	79	61
	4,618	3,884	4,442
MINORITY INTEREST	286	249	280
SHAREHOLDERS' EQUITY	1,178	1,102	1,139
	10,034	9,359	9,678

See accompanying accountants' letter.

DELEK GROUP LTD.

CONSOLIDATED STATEMENTS OF INCOME

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

	<u>For the six months ended June 30</u>		<u>For the three months ended June 30</u>		<u>For the year ended December 31 2002 (Audited)</u>
	<u>2003 (Unaudited)</u>	<u>2002</u>	<u>2003 (Unaudited)</u>	<u>2002</u>	
REVENUES	5,851	(*) 4,799	2,866	(*) 2,571	9,975
LESS - EXCISE, CUSTOMS AND PURCHASE TAXES	<u>1,457</u>	<u>1,277</u>	<u>760</u>	<u>709</u>	<u>2,572</u>
	4,394	3,522	2,106	1,862	7,403
COST OF REVENUES	<u>3,631</u>	<u>2,834</u>	<u>1,728</u>	<u>1,516</u>	<u>5,974</u>
Gross profit	763	688	378	346	1,429
SELLING, MARKETING AND GAS STATION OPERATING EXPENSES	345	(*) 347	170	(*) 170	708
GENERAL AND ADMINISTRATIVE EXPENSES	<u>129</u>	<u>132</u>	<u>64</u>	<u>70</u>	<u>279</u>
Operating income	289	209	144	106	442
FINANCING EXPENSES, NET	<u>72</u>	<u>42</u>	<u>53</u>	<u>19</u>	<u>176</u>
Income before other income (expenses)	217	167	91	87	266
ASSET IMPAIRMENT LOSS DUE TO ADOPTION OF ACCOUNTING STANDARD NO. 15	35	-	-	-	-
OTHER INCOME (EXPENSES), NET	<u>5</u>	<u>5</u>	<u>1</u>	<u>(4)</u>	<u>(8)</u>
Income before taxes on income	187	172	92	83	258
TAXES ON INCOME	<u>71</u>	<u>62</u>	<u>31</u>	<u>32</u>	<u>102</u>
Income after taxes on income	116	110	61	51	156
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATED COMPANIES	9	(8)	3	-	(8)
MINORITY INTEREST	<u>(40)</u>	<u>(19)</u>	<u>(19)</u>	<u>(9)</u>	<u>(45)</u>
Net income	<u>85</u>	<u>83</u>	<u>45</u>	<u>42</u>	<u>103</u>
EARNINGS PER SHARE					
Net income per NIS 1 par value of share capital (in shekels)	<u>8.74</u>	<u>8.59</u>	<u>4.62</u>	<u>4.30</u>	<u>10.63</u>

(*) Reclassified.

See accompanying accountants' letter.

DELEK GROUP LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In millions of shekels of June 2003

	Share capital	Capital reserves		Retained earnings		Shares of Company held by subsidiary	Total
		Premium on shares and other	Adjustments arising on translation of financial statements	Dividend declared after balance sheet date	Unappro- priated retained earnings		
Unaudited							
Balance as of January 1, 2003	11	779	30	49	283	(13)	1,139
Shares of Company sold by subsidiary	-	1	-	-	-	8	9
Adjustments arising on translation of financial statements of investee companies	-	-	(6)	-	-	-	(6)
Dividend	-	-	-	(49)	-	-	(49)
Net income	-	-	-	-	85	-	85
Balance as of June 30, 2003	<u>11</u>	<u>780</u>	<u>24</u>	<u>-</u>	<u>368</u>	<u>(5)</u>	<u>1,178</u>
Balance as of January 1, 2002	11	779	4	-	281	(12)	1,063
Acquisition of Company shares by subsidiary	-	-	-	-	-	(1)	(1)
Adjustments arising on translation of financial statements of investee companies	-	-	10	-	-	-	10
Capital reserve arising on transaction with controlling shareholder	-	-	-	-	(53)	-	(53)
Net income	-	-	-	-	83	-	83
Balance as of June 30, 2002	<u>11</u>	<u>779</u>	<u>14</u>	<u>-</u>	<u>311</u>	<u>(13)</u>	<u>1,102</u>
Balance as of April 1, 2003	11	779	33	-	323	(13)	1,133
Shares of Company sold by subsidiary	-	1	-	-	-	8	9
Adjustments arising on translation of financial statements of investee companies	-	-	(9)	-	-	-	(9)
Net income	-	-	-	-	45	-	45
Balance as of June 30, 2003	<u>11</u>	<u>780</u>	<u>24</u>	<u>-</u>	<u>368</u>	<u>(5)</u>	<u>1,178</u>
Balance as of April 1, 2002	11	779	8	-	269	(13)	1,054
Adjustments arising on translation of financial statements of investee companies	-	-	6	-	-	-	6
Net income	-	-	-	-	42	-	42
Balance as of June 30, 2002	<u>11</u>	<u>779</u>	<u>14</u>	<u>-</u>	<u>311</u>	<u>(13)</u>	<u>1,102</u>
Audited							
Balance as of January 1, 2002	11	779	4	-	281	(12)	1,063
Acquisition of Company shares 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	-	-	-	-	103	-	103
Dividend declared after balance sheet date	-	-	-	49	(49)	-	-
Balance as of December 31, 2002	<u>11</u>	<u>779</u>	<u>30</u>	<u>49</u>	<u>283</u>	<u>(13)</u>	<u>1,139</u>

See accompanying accountants' letter.

DELEK GROUP LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of shekels of June 2003

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31 2002
	2003	2002	2003	2002	(Audited)
	(Unaudited)		(Unaudited)		
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	85	83	45	42	103
Adjustments to reconcile net income to net cash provided by operating activities (see A below)	386	335	274	214	605
Net cash provided by operating activities	<u>471</u>	<u>418</u>	<u>319</u>	<u>256</u>	<u>708</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of fixed and other assets	(103)	(137)	(52)	(89)	(250)
Proceeds from sale of investee companies, fixed assets and real estate	6	8	5	2	17
Investment in real estate and real estate for rental	(36)	(21)	(15)	(13)	(108)
Increase in joint ventures in petroleum and gas exploration - capitalized drilling costs	(123)	(79)	(57)	(42)	(230)
Investment in investee companies, partnerships and loans to others	(73)	(186)	(28)	(40)	(279)
Collection of long-term loans granted	19	67	5	9	109
Acquisition of businesses and newly-consolidated subsidiaries (see B below)	(56)	-	-	-	(7)
Acquisition of marketable securities, net	(98)	(46)	(75)	(16)	(83)
Short-term deposits, net	56	8	(23)	(4)	6
Net cash used in investing activities	<u>(408)</u>	<u>(386)</u>	<u>(240)</u>	<u>(193)</u>	<u>(825)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Short-term borrowings from banks and others, net	(172)	(484)	(134)	(51)	(938)
Receipt of long-term loans	439	645	97	232	1,367
Repayment of long-term loans	(350)	(353)	(130)	(240)	(401)
Issuance of shares to minority shareholders of subsidiaries	17	23	-	-	23
Proceeds from sale of Company shares by subsidiary	9	-	9	-	-
Acquisition of Company shares by subsidiary	-	(1)	-	-	(1)
Dividend to minority shareholders of subsidiary	(52)	(19)	(1)	-	(31)
Issuance of debentures, net	213	147	213	-	215
Repayment of debentures	(12)	(12)	(12)	(12)	(12)
Dividend paid	(49)	-	(49)	-	-
Net cash provided by (used in) financing activities	<u>43</u>	<u>(54)</u>	<u>(7)</u>	<u>(71)</u>	<u>222</u>
TRANSLATION DIFFERENCES WITH RESPECT TO CASH BALANCES IN AUTONOMOUS INVESTEE COMPANIES					
	(6)	6	(4)	5	23
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
	100	(16)	68	(3)	128
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD					
	<u>453</u>	<u>325</u>	<u>485</u>	<u>312</u>	<u>325</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD					
	<u><u>553</u></u>	<u><u>309</u></u>	<u><u>553</u></u>	<u><u>309</u></u>	<u><u>453</u></u>

See accompanying accountants' letter.

DELEK GROUP LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT.)

In millions of shekels of June 2003

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2003	2002	2003	2002	2002
	(Unaudited)		(Unaudited)		(Audited)
A. ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Revenues and expenses not affecting operating cash flows:					
Depreciation and amortization	116	98	57	50	211
Deferred taxes, net	-	6	(15)	6	(4)
Increase (decrease) in accrued severance pay, net	1	(1)	1	-	-
Inflationary increase (decrease) in value of short-term loans in foreign currency, net	(17)	12	(12)	(5)	10
Inflationary increase (decrease) in value of loans granted, net	3	(26)	9	(19)	(43)
Gain on sale of fixed assets, real estate and investments, net	(3)	(13)	(1)	(2)	(14)
Writedown of investments, assets and other	3	-	3	-	19
Asset impairment loss due to adoption of Accounting Standard No. 15	35	-	-	-	-
Equity in losses (undistributed earnings) of associated companies and partnerships, net (*)	(6)	18	(3)	5	21
Inflationary decrease in value of securities and deposits, net	1	2	1	1	2
Inflationary increase (decrease) in value of long-term liabilities	(40)	(39)	9	(22)	(39)
Minority interest	40	19	19	9	45
Changes in operating assets and liabilities:					
Increase in trade receivables	(256)	(35)	(37)	(97)	(12)
Decrease (increase) in other receivables and prepayments	(16)	3	-	(25)	58
Decrease in inventories and real estate held for sale	185	112	31	62	239
Increase in trade payables	275	150	160	180	67
Increase in other payables and accrued expenses	65	29	52	71	45
	<u>386</u>	<u>335</u>	<u>274</u>	<u>214</u>	<u>605</u>
(*) Net of dividends received	<u>3</u>	<u>10</u>	<u>-</u>	<u>5</u>	<u>13</u>
B. ACQUISITION OF BUSINESSES AND NEWLY CONSOLIDATED SUBSIDIARIES					
Working capital deficiency (working capital), net (except cash)	(4)	-	-	-	5
Fixed assets, real estate, investments and other assets	(46)	-	-	-	(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
	<u>(56)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7)</u>
C. NONCASH ACTIVITIES					
Acquisition of fixed assets on credit	-	-	-	-	2
Investment in petroleum and gas exploration	<u>42</u>	<u>49</u>	<u>42</u>	<u>13</u>	<u>38</u>

See accompanying accountants' letter.

DELEK GROUP LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT.)

In millions of shekels of June 2003

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See accompanying accountants' letter.