

DELEK GROUP LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As of September 30, 2003

DELEK GROUP LTD.

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2003**

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Tel-Aviv, November 30, 2003

Delek Group Ltd.
Netanya, Israel

Dear Sirs,

The accompanying condensed consolidated balance sheets of Delek Group Ltd. (the "Company") as of September 30, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the nine 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 contingent liabilities of 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 September 2003

	September 30		December 31
	2003	2002	2002
	(Unaudited)		(Audited)
CURRENT ASSETS			
Cash and cash equivalents	447	323	449
Short-term investments	230	267	173
Trade receivables	1,659	1,450	1,398
Other receivables and prepayments	282	248	240
Inventories	926	927	876
Real estate held for sale	22	6	6
	3,566	3,221	3,142
LONG-TERM LOANS AND INVESTMENTS			
Investee and other companies	786	518	546
Real estate	2,735	2,608	2,590
Land held for construction	170	181	192
Long-term loans, deposits and receivables	248	216	261
Investments in petroleum and gas exploration	866	635	685
	4,805	4,158	4,274
FIXED ASSETS			
Cost	2,793	2,636	2,642
Less - accumulated depreciation	1,093	950	970
	1,700	1,686	1,672
OTHER ASSETS AND DEFERRED CHARGES, NET			
	479	440	495
	10,550	9,505	9,583

	<u>September 30</u>		<u>December 31</u>
	<u>2003</u>	<u>2002</u>	<u>2002</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
CURRENT LIABILITIES			
Short-term borrowings - banks and others	2,757	3,364	2,885
Trade payables	869	496	456
Other payables and accrued expenses	449	470	438
	<u>4,075</u>	<u>4,330</u>	<u>3,779</u>
LONG-TERM LIABILITIES			
Long-term loans	4,025	3,198	3,843
Convertible debentures	562	160	161
Other debentures	319	334	314
Accrued severance pay, net	20	14	19
Other liabilities	88	76	62
	<u>5,014</u>	<u>3,782</u>	<u>4,399</u>
MINORITY INTEREST	<u>263</u>	<u>262</u>	<u>277</u>
SHAREHOLDERS' EQUITY	<u>1,198</u>	<u>1,131</u>	<u>1,128</u>
	<u>10,550</u>	<u>9,505</u>	<u>9,583</u>

See accompanying accountants' letter.

DELEK GROUP LTD.

CONSOLIDATED STATEMENTS OF INCOME

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

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (Unaudited)	2002 (Audited)
REVENUES	8,949	(*)7,440	3,157	(*)2,688	9,876
LESS - EXCISE, CUSTOMS AND PURCHASE TAXES	2,198	1,906	756	641	2,546
	6,751	5,534	2,401	2,047	7,330
COST OF REVENUES	5,546	4,457	1,952	1,654	5,915
Gross profit	1,205	1,077	449	393	1,415
SELLING, MARKETING AND GAS STATION OPERATING EXPENSES	533	(*)533	191	(*)189	701
GENERAL AND ADMINISTRATIVE EXPENSES	196	191	68	59	276
Operating income	476	353	190	145	438
FINANCING EXPENSES, NET	142	109	72	63	174
Income before other income (expenses)	334	244	118	82	264
ASSET IMPAIRMENT LOSS DUE TO ADOPTION OF ACCOUNTING STANDARD NO. 15	35	-	-	-	-
OTHER INCOME (EXPENSES), NET	(6)	10	(10)	2	(8)
Income before taxes on income	293	254	108	84	256
TAXES ON INCOME	111	97	41	35	101
Income after taxes on income	182	157	67	49	155
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATED COMPANIES	15	(10)	6	(2)	(8)
MINORITY INTEREST	(63)	(33)	(23)	(15)	(45)
Net income	134	114	50	32	102
EARNINGS PER SHARE					
Net income per NIS 1 par value of share capital (in shekels)	13.82	11.79	5.17	3.30	10.44

(*) Reclassified.

See accompanying accountants' letter.

DELEK GROUP LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In millions of shekels of September 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	Unappropriated retained earnings		
Unaudited							
Balance as of January 1, 2003	11	772	29	49	280	(13)	1,128
Shares of Company sold by subsidiary	-	1	-	-	-	8	9
Adjustments arising on translation of financial statements of investee companies	-	-	12	-	-	-	12
Dividend	-	-	-	(49)	(36)	-	(85)
Net income	-	-	-	-	134	-	134
Balance as of September 30, 2003	<u>11</u>	<u>773</u>	<u>41</u>	<u>-</u>	<u>378</u>	<u>(5)</u>	<u>1,198</u>
Balance as of January 1, 2002	11	772	3	-	278	(12)	1,052
Acquisition of Company shares by subsidiary	-	-	-	-	-	(1)	(1)
Capital reserve arising on transactions with controlling shareholder	-	-	-	-	(51)	-	(51)
Adjustments arising on translation of financial statements of investee companies	-	-	17	-	-	-	17
Net income	-	-	-	-	114	-	114
Balance as of September 30, 2002	<u>11</u>	<u>772</u>	<u>20</u>	<u>-</u>	<u>341</u>	<u>(13)</u>	<u>1,131</u>
Balance as of July 1, 2003	11	773	23	-	364	(5)	1,166
Adjustments arising on translation of financial statements of investee companies	-	-	18	-	-	-	18
Dividend	-	-	-	-	(36)	-	(36)
Net income	-	-	-	-	50	-	50
Balance as of September 30, 2003	<u>11</u>	<u>773</u>	<u>41</u>	<u>-</u>	<u>378</u>	<u>(5)</u>	<u>1,198</u>
Balance as of July 1, 2002	11	772	13	-	309	(13)	1,092
Adjustments arising on translation of financial statements of investee companies	-	-	7	-	-	-	7
Net income	-	-	-	-	32	-	32
Balance as of September 30, 2002	<u>11</u>	<u>772</u>	<u>20</u>	<u>-</u>	<u>341</u>	<u>(13)</u>	<u>1,131</u>
Audited							
Balance as of January 1, 2002	11	772	3	-	278	(12)	1,052
Acquisition of Company shares by subsidiary	-	-	-	-	-	(1)	(1)
Adjustments arising on translation of financial statements of investee companies	-	-	26	-	-	-	26
Capital reserve arising on transactions with controlling shareholder	-	-	-	-	(51)	-	(51)
Net income	-	-	-	-	102	-	102
Dividend declared after balance sheet date	-	-	-	49	(49)	-	-
Balance as of December 31, 2002	<u>11</u>	<u>772</u>	<u>29</u>	<u>49</u>	<u>280</u>	<u>(13)</u>	<u>1,128</u>

See accompanying accountants' letter.

DELEK GROUP LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of shekels of September 2003

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31 2002
	2003 (Unaudited)	2002	2003 (Unaudited)	2002	(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	134	114	50	32	102
Adjustments to reconcile net income to net cash provided by operating activities (see A below)	334	453	(37)	118	599
Net cash provided by operating activities	<u>468</u>	<u>567</u>	<u>13</u>	<u>150</u>	<u>701</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of fixed and other assets	(160)	(184)	(58)	(48)	(248)
Proceeds from sale of investee companies, fixed assets and real estate	10	9	4	-	17
Investment in real estate and real estate for rental	(48)	(38)	(13)	(18)	(107)
Increase in joint ventures in petroleum and gas exploration - capitalized drilling costs	(208)	(159)	(86)	(80)	(228)
Investment in investee companies, partnerships and loans to others	(259)	(207)	(185)	(23)	(276)
Collection of long-term loans granted	30	80	11	14	108
Acquisition of businesses and newly-consolidated subsidiaries (see B below)	(55)	-	-	-	(7)
Acquisition of marketable securities, net	(99)	(68)	(11)	(20)	(82)
Proceeds from issuance of debentures deposited in trust	-	(69)	-	(69)	-
Short-term deposits, net	56	(19)	1	(26)	6
Net cash used in investing activities	<u>(733)</u>	<u>(655)</u>	<u>(337)</u>	<u>(270)</u>	<u>(817)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Short-term borrowings from banks and others, net	(7)	(408)	162	(682)	(929)
Receipt of long-term loans	663	677	228	792	1,353
Repayment of long-term loans	(638)	(395)	(291)	(46)	(397)
Issuance of debentures, net	393	214	181	69	214
Sale of debentures held by subsidiary	19	-	19	-	-
Repayment of debentures	(12)	(12)	-	-	(12)
Issuance of shares to minority shareholders of subsidiaries	17	23	-	-	23
Proceeds from sale of Company shares by subsidiary	9	-	-	-	-
Acquisition of Company shares by subsidiary	-	(1)	-	-	(1)
Dividend to minority shareholders of subsidiary	(99)	(28)	(47)	(9)	(31)
Dividend paid to shareholders	(85)	-	(36)	-	-
Net cash provided by financing activities	<u>260</u>	<u>70</u>	<u>216</u>	<u>124</u>	<u>220</u>
TRANSLATION DIFFERENCES WITH RESPECT TO CASH BALANCES IN AUTONOMOUS INVESTEE COMPANIES					
	<u>3</u>	<u>19</u>	<u>8</u>	<u>13</u>	<u>23</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2)	1	(100)	17	127
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>449</u>	<u>322</u>	<u>547</u>	<u>306</u>	<u>322</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>447</u></u>	<u><u>323</u></u>	<u><u>447</u></u>	<u><u>323</u></u>	<u><u>449</u></u>

See accompanying accountants' letter.

DELEK GROUP LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT.)

In millions of shekels of September 2003

	For the nine months ended September 30		For the three months ended September 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	172	153	58	56	209
Deferred taxes, net	6	11	6	5	(4)
Increase (decrease) in accrued severance pay, net	2	(1)	1	-	-
Inflationary increase (decrease) in value of short-term loans in foreign currency, net	(9)	15	7	3	10
Inflationary increase in value of loans granted, net	(15)	(47)	(17)	(21)	(43)
Gain on sale of fixed assets, real estate and investments, net	(4)	(12)	(1)	-	(14)
Writedown of investments, assets and other	12	-	10	-	19
Asset impairment loss due to adoption of Accounting Standard No. 15	35	-	-	-	-
Equity in losses (undistributed earnings) of associated companies and partnerships, net (*)	1	23	7	4	21
Inflationary decrease (increase) in value of securities and deposits, net	(14)	6	(6)	2	2
Inflationary increase (decrease) in value of long-term liabilities	(44)	(52)	(5)	(14)	(39)
Minority interest	63	33	23	15	45
Changes in operating assets and liabilities:					
Increase in trade receivables	(269)	(68)	(16)	(33)	(12)
Decrease (increase) in other receivables and prepayments	(18)	30	(2)	27	57
Decrease (increase) in inventories and real estate held for sale	(21)	188	(205)	78	237
Increase (decrease) in trade payables	416	120	133	(28)	66
Increase (decrease) in other payables and accrued expenses	21	54	(30)	24	45
	<u>334</u>	<u>453</u>	<u>(37)</u>	<u>118</u>	<u>599</u>
(*) Net of dividends received	<u>16</u>	<u>13</u>	<u>13</u>	<u>2</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	(45)	-	-	-	(41)
Goodwill	(6)	-	-	-	(3)
Loans to shareholders in newly-consolidated subsidiaries	2	-	-	-	(5)
Long-term liabilities, net	-	-	-	-	2
Minority interest	-	-	-	-	7
Investment at equity on date of acquisition (formerly associated companies)	(2)	-	-	-	28
	<u>(55)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7)</u>
C. NONCASH ACTIVITIES					
Investment in petroleum and gas exploration	<u>20</u>	<u>51</u>	<u>20</u>	<u>13</u>	<u>38</u>

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See accompanying accountants' letter.