

**DELEK GROUP LTD.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF MARCH 31, 2004**

**UNAUDITED**

**INDEX**

	<u>Page</u>
<b>Auditors' Letter</b>	<b>2</b>
<b>Condensed Consolidated Financial Statements :</b>	
<b>Consolidated Balance Sheets</b>	<b>3 - 4</b>
<b>Consolidated Statements of Income</b>	<b>5</b>
<b>Statements of Changes in Shareholders' Equity</b>	<b>6 - 7</b>
<b>Consolidated Statements of Cash Flows</b>	<b>8 - 10</b>

-----

Delek Group Ltd.  
Netanya

Dear Sirs,

The accompanying condensed consolidated balance sheets of Delek Group Ltd. ("the Company") as of March 31, 2004 and 2003, and the related condensed consolidated statements of income, changes in shareholders' equity and cash flows for the three months 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, 2003 and the related condensed 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 as of December 31, 2003, and March 31, 2003, and for the periods then ended 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 through December 2003. The abovementioned financial statements as of March 31, 2004, and for the three months then ended were prepared in reported amounts. Reported amounts relating to non-monetary items are a combination of the adjusted amounts as of December 31, 2003, and transactions in nominal values that occurred after December 31, 2003. Reported amounts relating to monetary items are presented in nominal values.

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 accompanying 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.

Tel-Aviv, Israel  
May 30, 2004

**KOST FORER GABBAY & KASIERER**  
A Member of Ernst & Young Global

**CONSOLIDATED BALANCE SHEETS**

	March 31,		December 31,
	2004	2003	2003
	Unaudited		Audited
NIS in millions			
	Reported	Adjusted (1)	
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	546	478	588
Short-term investments	269	118	272
Trade receivables	1,654	1,609	1,612
Other accounts receivable	342	253	240
Inventories	920	742	925
Real estate held for sale	19	17	10
	<u>3,750</u>	<u>3,217</u>	<u>3,647</u>
<b>INVESTMENTS AND LONG-TERM LOANS AND RECEIVABLES:</b>			
Investment in investees and other companies	1,013	582	801
Real estate	2,961	2,613	2,856
Land held for construction	166	171	171
Loans, deposits and long-term receivables	198	258	227
Investments in petroleum and gas exploration and extraction	906	753	850
	<u>5,244</u>	<u>4,377</u>	<u>4,905</u>
<b>FIXED ASSETS:</b>			
Cost	2,872	2,711	2,818
Less - accumulated depreciation	1,144	1,020	1,120
	<u>1,728</u>	<u>1,691</u>	<u>1,698</u>
<b>OTHER ASSETS AND DEFERRED CHARGES, NET</b>	<u>492</u>	<u>493</u>	<u>479</u>
	<u><u>11,214</u></u>	<u><u>9,778</u></u>	<u><u>10,729</u></u>

(1) Adjusted to the NIS of December 2003.

**CONSOLIDATED BALANCE SHEETS**

	March 31,		December 31,
	2004	2003	2003
	Unaudited		Audited
NIS in millions			
	Reported	Adjusted (1)	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term credit from banks and others	3,222	2,940	2,703
Trade payables	783	579	877
Other accounts payable	523	446	458
Dividend payable	54	49	-
	<u>4,582</u>	<u>4,014</u>	<u>4,038</u>
<b>LONG-TERM LIABILITIES:</b>			
Long-term loans	3,626	3,812	4,082
Convertible debentures	621	161	620
Other debentures	673	312	325
Accrued severance pay, net	17	18	17
Deferred taxes	65	40	55
Other liabilities	71	38	38
	<u>5,073</u>	<u>4,381</u>	<u>5,137</u>
<b>MINORITY INTEREST</b>	<u>269</u>	<u>266</u>	<u>296</u>
<b>SHAREHOLDERS' EQUITY</b>	<u>1,290</u>	<u>1,117</u>	<u>1,258</u>
	<u>11,214</u>	<u>9,778</u>	<u>10,729</u>

(1) Adjusted to the NIS of December 2003.

**CONSOLIDATED STATEMENTS OF INCOME**

	Three months ended March 31,		Year ended December 31,
	2004	2003	2003
	Unaudited		Audited
	NIS in millions		
	Reported	Adjusted (1)	
Revenues	3,211	2,943	12,105
Less - excise, customs and purchase taxes	845	687	3,075
Cost of revenues	2,366 1,924	2,256 1,876	9,030 7,430
Gross profit	442	380	1,600
Selling, marketing and gas station operating expenses	179	172	711
General and administrative expenses	66	65	256
Operating income	197	143	633
Financial expenses, net	65	20	216
	132	123	417
Gain from sale of investments in investees, net	-	-	32
Other income (expenses), net	4	(30)	(47)
Income before taxes on income	136	93	402
Taxes on income	55	40	153
Income after taxes on income	81	53	249
Equity in earnings of affiliates and partnerships, net	5	7	20
Minority interest in earnings of subsidiaries, net	(26)	(21)	(86)
Net income	60	39	183
Net income per NIS 1 par value of share capital (in shekels)	6.17	4.07	18.90

(1) Adjusted to the NIS of December 2003.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Premium on shares	Additional Paid-in capital	Retained earnings	Dividend declared subsequent to the balance sheet date	Total
	Unaudited					
	Reported NIS in millions					
Balance as of January 1, 2004 (audited)	11	770	50	373	54	1,258
Decrease in unrealized losses on interest rate swap transaction of an associated company	-	-	1	-	-	1
Foreign currency translation adjustments for investees	-	-	25	-	-	25
Dividend	-	-	-	-	(54)	(54)
Net income	-	-	-	60	-	60
Balance as of March 31, 2004	11	770	76	433	-	1,290

	Share capital	Premium on shares	Additional paid-in capital	Retained earnings	Dividend declared subsequent to the balance sheet date	Shares of company held by subsidiary	Total
	Unaudited						
	Adjusted NIS in millions (1)						
Balance as of January 1, 2003 (audited)	11	768	29	279	49	(12)	1,124
Foreign currency translation adjustments for investees	-	-	3	-	-	-	3
Dividend	-	-	-	-	(49)	-	(49)
Net income	-	-	-	39	-	-	39
Balance as of March 31, 2004	11	768	32	318	-	(12)	1,117

(1) Adjusted to the NIS of December 2003.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Premium on shares	Additional paid-in capital	Retained earnings	Dividend declared subsequent to the balance sheet date	Shares of company held by subsidiary	Total
	Unaudited						
	Adjusted NIS in millions (1)						
Balance as of January 1, 2003 (audited)	11	768	29	279	49	(12)	1,124
Shares of company sold by subsidiary	-	2	-	-	-	12	14
Unrealized losses on interest rate swap transaction of an associated company	-	-	(9)	-	-	-	(9)
Foreign currency translation adjustments for investees	-	-	30	-	-	-	30
Divided	-	-	-	(35)	(49)	-	(84)
Net income	-	-	-	183	-	-	183
Dividend declared subsequent to the balance sheet date	-	-	-	(54)	54	-	-
Balance as of December 31, 2003	11	770	50	373	54	-	1,258

(1) Adjusted to the NIS of December 2003.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31,</b>		<b>December 31,</b>
	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>NIS in millions</b>		
	<b>Reported</b>	<b>Adjusted (1)</b>	
<b><u>Cash flows from operating activities:</u></b>			
Net income	60	39	183
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(81)	115	521
Net cash provided by (used in) operating activities	(21)	154	704
<b><u>Cash flows from investing activities:</u></b>			
Purchase of fixed and other assets	(90)	(57)	(210)
Proceeds from sale of fixed assets and real estate	5	1	15
Investment in real estate and real estate for rental	(7)	(13)	(39)
Realization (purchase) of marketable securities, net	58	(22)	(127)
Collection of long-term loans granted	14	14	55
Short-term deposits, net	(10)	84	41
Increase in joint ventures for oil and gas exploration	(19)	(65)	(227)
Proceeds from sale of investments in investees and others	39	-	47
Investment in investees and partnerships	(197)	(45)	(261)
Acquisition of businesses and newly consolidated subsidiaries (b)	-	(54)	(54)
Loans granted to others	(30)	-	(28)
Net cash used in investing activities	(237)	(157)	(788)
<b><u>Cash flows from financing activities:</u></b>			
Short-term credit from banks and others, net	50	(40)	(245)
Receipt of long-term loans	228	340	882
Repayment of long-term loans	(398)	(221)	(747)
Issuance of shares to minority in subsidiary	-	17	17
Dividend paid	-	-	(84)
Dequisition of Company shares by subsidiary	-	-	14
Dividend paid to minority in subsidiary	(56)	(51)	(99)
Sale of debentures held by subsidiary	-	-	29
Issuance of debentures and convertible debentures, net	386	-	472
Repayment of debentures	-	-	(12)
Net cash provided by financing activities	210	45	227
Translation differences with respect to cash balances in autonomous investee companies	6	(2)	7
Increase (decrease) in cash and cash equivalents	(42)	40	150
Cash and cash equivalents at the beginning of the year	588	438	438
Cash and cash equivalents at the end of the year	546	478	588

(1) Adjusted to the NIS of December 2003.



**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three months ended		Year ended
	March 31,		December 31,
	2004	2003	2003
	Unaudited		Audited
NIS in million			
	Reported	Adjusted (1)	
(a) <u>Adjustments to reconcile net income to net cash provided by operating activities:</u>			
Income and expenses not involving cash flows:			
Depreciation, amortization and writedown of assets	57	92	331
Deferred taxes, net	4	15	2
Decrease in accrued severance pay, net	-	-	(1)
Increase in value and accrued interest of loans granted, net	(2)	(4)	(25)
Gain on sale of fixed assets, real estate and investments, net	(10)	(2)	(34)
Equity in losses (undistributed earnings) of associated companies and partnerships, net *)	(4)	(3)	1
Increase in value of securities and deposits, net	(29)	-	(11)
Increase in value of long-term liabilities	(6)	(49)	(41)
Minority interest in earnings of subsidiaries	26	21	86
Changes in operating assets and liabilities:			
Increase in trade receivables	(51)	(216)	(243)
Decrease (increase) in other accounts receivable	(9)	(17)	33
Decrease (increase) in inventories	1	152	(57)
Increase (decrease) in trade payables	(103)	113	420
Increase in other accounts payable	45	13	60
	<u>(81)</u>	<u>115</u>	<u>521</u>
*) Net of dividend received	<u>1</u>	<u>4</u>	<u>21</u>

(1) Adjusted to the NIS of December 2003.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**


---

	Three months ended		Year ended
	March 31,		December 31,
	2004	2003	2003
	Unaudited		Audited
NIS in millions			
	Reported	Adjusted (1)	
(b) <u>Acquisition of businesses and newly consolidated subsidiaries:</u>			
Working capital, net (except cash)	-	(4)	(4)
Goodwill	-	(6)	(6)
Fixed assets, real estate, investments and other assets	-	(44)	(44)
	-	(54)	(54)
(c) <u>Significant non-cash activities:</u>			
Purchase of fixed assets by credit	12	-	6
Investment in oil and gas exploration by credit	31	44	26
Investment in oil and gas exploration against long term liabilities	32	-	-
Dividend declared	54	49	-
Receivables for sale of marketable securities	-	-	14

(1) Adjusted to the NIS of December 2003.

-----