

DELEK GROUP LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2004

IN N.I.S.

UNAUDITED

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Delek Group Ltd.
Netanya

Dear Sirs,

The accompanying condensed consolidated balance sheets of Delek Group Ltd. ("the Company") as of June 30, 2004 and 2003, and the related condensed consolidated statements of income, changes in shareholders' equity and cash flows for the six months and 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 June 30, 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 June 30, 2004, and for the six months and 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 lawsuits against investees 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
August 29, 2004

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

CONSOLIDATED BALANCE SHEETS

	June 30,		December 31,
	2004	2003	2003
	Unaudited		Audited
NIS in millions			
	Reported	Adjusted (1)	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	434	541	588
Short-term investments	178	217	272
Trade receivables	1,953	1,630	1,612
Other accounts receivable	324	259	240
Inventories	990	710	925
Real estate held for sale	19	10	10
	<u>3,898</u>	<u>3,367</u>	<u>3,647</u>
INVESTMENTS AND LONG-TERM LOANS AND RECEIVABLES:			
Investment in investees and other companies	1,168	602	801
Real estate	2,877	2,588	2,858
Land held for construction	171	176	171
Loans, deposits and long-term receivables	207	257	227
Investments in petroleum and gas exploration and extraction	880	809	850
	<u>5,303</u>	<u>4,432</u>	<u>4,907</u>
FIXED ASSETS:			
Cost	3,281	2,668	2,818
Less - accumulated depreciation	1,189	1,040	1,117
	<u>2,092</u>	<u>1,628</u>	<u>1,701</u>
OTHER ASSETS AND DEFERRED CHARGES, NET	<u>519</u>	<u>466</u>	<u>479</u>
	<u><u>11,812</u></u>	<u><u>9,893</u></u>	<u><u>10,734</u></u>

(1) Adjusted to the NIS of December 2003.

CONSOLIDATED BALANCE SHEETS

	June 30,		December 31,
	2004	2003	2003
	Unaudited		Audited
NIS in millions			
	Reported	Adjusted (1)	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	3,253	2,682	2,703
Trade payables	1,011	728	877
Other accounts payable	538	483	460
	<u>4,802</u>	<u>3,893</u>	<u>4,040</u>
LONG-TERM LIABILITIES:			
Long-term loans	3,797	3,781	4,082
Convertible debentures	625	376	620
Other debentures	665	303	325
Accrued severance pay, net	17	19	17
Deferred taxes	117	19	55
Other liabilities	68	58	41
	<u>5,289</u>	<u>4,556</u>	<u>5,140</u>
MINORITY INTEREST	<u>321</u>	<u>282</u>	<u>296</u>
SHAREHOLDERS' EQUITY	<u>1,400</u>	<u>1,162</u>	<u>1,258</u>
	<u><u>11,812</u></u>	<u><u>9,893</u></u>	<u><u>10,734</u></u>

(1) Adjusted to the NIS of December 2003.

CONSOLIDATED STATEMENTS OF INCOME

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	Unaudited				Audited
NIS in millions					
	Reported	Adjusted (1)	Reported	Adjusted (1)	Adjusted (1)
Revenues	7,008	5,770	3,797	2,826	12,105
Less - excise, customs, purchase taxes and royalties	1,847	1,437	1,002	749	3,075
	5,161	4,333	2,795	2,077	9,030
Cost of revenues	4,217	3,581	2,293	1,704	7,430
Gross profit	944	752	502	373	1,600
Selling, marketing and gas station operating expenses	379	340	200	168	711
General and administrative expenses	134	128	68	63	256
Operating income	431	284	234	142	633
Financial expenses, net	145	71	80	52	216
	286	213	154	90	417
Gain from sale of investments in investees, net	76	-	76	-	32
Other income (expenses), net	(11)	(30)	(15)	1	(47)
Income before taxes on income	351	183	215	91	402
Taxes on income	126	70	71	31	153
Income after taxes on income	225	113	144	60	249
Equity in earnings of affiliates and partnerships, net	20	9	15	3	20
Minority interest in earnings of subsidiaries, net	(69)	(39)	(43)	(19)	(86)
Net income	176	83	116	44	183
Net income per NIS 1 par value of share capital (in shekels)	18.07	8.62	11.90	4.56	18.90

(1) Adjusted to the NIS of December 2003.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	<u>Share capital</u>	<u>Premium on shares</u>	<u>Additional Paid-in capital</u>	<u>Retained earnings</u>	<u>Dividend declared subsequent to the balance sheet date</u>	<u>Total</u>
	Unaudited					
	Reported NIS in millions					
Balance as of January 1, 2004 (audited)	11	770	50	373	54	1,258
Capital reserve arising on transaction with controlling shareholder	-	-	-	(6)	-	(6)
Decrease in unrealized losses on interest rate swap transaction of an associated company	-	-	7	-	-	7
Foreign currency translation adjustments for investees	-	-	19	-	-	19
Dividend	-	-	-	-	(54)	(54)
Net income	-	-	-	176	-	176
Dividend declared subsequent to the balance sheet date	-	-	-	(97)	97	-
Balance as of June 30, 2004	<u>11</u>	<u>770</u>	<u>76</u>	<u>446</u>	<u>97</u>	<u>1,400</u>

	<u>Share capital</u>	<u>Premium on shares</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Dividend declared subsequent to the balance sheet date</u>	<u>Shares of company held by subsidiary</u>	<u>Total</u>
	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	-	1	-	-	-	8	9
Foreign currency translation adjustments for investees	-	-	(5)	-	-	-	(5)
Dividend	-	-	-	-	(49)	-	(49)
Net income	-	-	-	83	-	-	83
Balance as of June 30, 2004	<u>11</u>	<u>769</u>	<u>24</u>	<u>362</u>	<u>-</u>	<u>(4)</u>	<u>1,162</u>

(1) Adjusted to the NIS of December 2003.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	<u>Share capital</u>	<u>Premium on shares</u>	<u>Additional Paid-in capital</u>	<u>Retained earnings</u>	<u>Dividend declared subsequent to the balance sheet date</u>	<u>Total</u>
	Unaudited					
	Reported NIS in millions					
Balance as of April 1, 2004 (audited)	11	770	76	433	-	1,290
Capital reserve arising on transaction with controlling shareholder	-	-	-	(6)	-	(6)
Decrease in unrealized losses on interest rate swap transaction of an associated company	-	-	6	-	-	6
Foreign currency translation adjustments for investees	-	-	(6)	-	-	(6)
Net income	-	-	-	116	-	116
Dividend declared subsequent to the balance sheet date	-	-	-	(97)	97	-
Balance as of June 30, 2004	<u>11</u>	<u>770</u>	<u>76</u>	<u>446</u>	<u>97</u>	<u>1,400</u>
	<u>Share capital</u>	<u>Premium on shares</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Shares of company held by subsidiary</u>	<u>Total</u>
	Unaudited					
	Adjusted NIS in millions (1)					
Balance as of April 1, 2003 (audited)	11	768	33	318	(12)	1,118
Shares of Company sold by subsidiary	-	1	-	-	8	9
Foreign currency translation adjustments for investees	-	-	(9)	-	-	(9)
Net income	-	-	-	44	-	44
Balance as of June 30, 2004	<u>11</u>	<u>769</u>	<u>24</u>	<u>362</u>	<u>(4)</u>	<u>1,162</u>

(1) Adjusted to the NIS of December 2003.

CONSOLIDATED 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	<u>11</u>	<u>770</u>	<u>50</u>	<u>373</u>	<u>54</u>	<u>-</u>	<u>1,258</u>

(1) Adjusted to the NIS of December 2003.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	Unaudited				Audited
NIS in millions					
	Reported	Adjusted (1)	Reported	Adjusted (1)	Adjusted (1)
<u>Cash flows from operating activities:</u>					
Net income	176	83	116	44	183
Adjustments to reconcile net income to net cash provided by operating activities (a)	(129)	385	(51)	267	510
Net cash provided by operating activities	47	468	65	311	693
<u>Cash flows from investing activities:</u>					
Purchase of fixed and other assets	(240)	(102)	(150)	(51)	(210)
Proceeds from sale of fixed assets and real estate	10	6	5	5	15
Investment in real estate and real estate for rental	(22)	(35)	(15)	(15)	(39)
Realization (purchase) of marketable securities, net	77	(97)	19	(74)	(127)
Collection of long-term loans granted	32	18	12	5	55
Short-term deposits, net	8	72	24	(11)	52
Increase in joint ventures for oil and gas exploration	(19)	(122)	-	(56)	(227)
Proceeds from sale of investments in investees and others	125	1	87	-	47
Investment in investees, partnerships and others	(308)	(60)	(111)	(24)	(261)
Acquisition of businesses and newly consolidated subsidiaries (b)	(104)	(54)	(104)	-	(54)
Loans granted to others	(41)	(12)	(11)	(4)	(28)
Net cash used in investing activities	(482)	(385)	(244)	(225)	(777)
<u>Cash flows from financing activities:</u>					
Short-term credit from banks and others, net	175	(186)	125	(144)	(245)
Receipt of long-term loans	738	433	510	96	882
Repayment of long-term loans	(895)	(345)	(496)	(128)	(747)
Issuance of shares to minority in subsidiary	-	17	-	-	17
Dividend paid	(54)	(49)	(54)	(49)	(84)
Dequision of Company shares by subsidiary	-	9	-	9	14
Dividend paid to minority in subsidiarys	(60)	(51)	(3)	-	(99)
Sale of debentures held by subsidiary	7	-	7	-	29
Issuance of debentures and convertible debentures, net	386	210	-	210	472
Repayment of debentures	(21)	(12)	(21)	(12)	(12)
Net cash provided by (used in) financing activities	276	26	68	(18)	227
Translation differences with respect to cash balances in autonomous investee companies	5	(6)	(1)	(4)	7
Increase (decrease) in cash and cash equivalents	(154)	103	(112)	64	150
Cash and cash equivalents at the beginning of the period	588	438	546	477	438
Cash and cash equivalents at the end of the period	434	541	434	541	588

(1) Adjusted to the NIS of December 2003.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	Unaudited				Audited
NIS in millions					
	Reported	Adjusted (1)	Reported	Adjusted (1)	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	139	152	82	59	331
Deferred taxes, net	15	-	11	(15)	2
Decrease (increase) in accrued severance pay, net	-	1	-	1	(1)
Increase (decrease) in value and accrued interest of loans granted, net	(6)	3	(4)	6	(25)
Gain on sale of fixed assets, real estate and investments, net	(87)	(3)	(77)	(1)	(34)
Equity in losses (undistributed earnings) of associated companies and partnerships, net *)	(19)	(6)	(15)	(3)	1
Increase (decrease) in value of securities and deposits, net	(29)	1	-	1	(11)
Increase (decrease) in value of long-term liabilities	16	(38)	21	11	(41)
Minority interest in earnings of subsidiaries	69	39	43	19	86
Changes in operating assets and liabilities:					
Increase in trade receivables	(329)	(252)	(280)	(36)	(243)
Decrease (increase) in other accounts receivable	(29)	(16)	(18)	-	33
Decrease (increase) in inventories	(23)	183	(24)	31	(57)
Increase in trade payables	103	282	206	169	420
Increase in other accounts payable	51	39	4	25	49
	<u>(129)</u>	<u>385</u>	<u>(51)</u>	<u>267</u>	<u>510</u>
*) Net of dividend received	<u>1</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>21</u>

(1) Adjusted to the NIS of December 2003.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	Unaudited				Audited
	NIS in millions				
	Reported	Adjusted (1)	Reported	Adjusted (1)	Adjusted (1)
(b) <u>Acquisition of businesses and newly consolidated subsidiaries:</u>					
Working capital deficiency (working capital), net (except cash and cash equivalents)	140	(4)	140	-	(4)
Fixed assets, real estate, investments and other assets	(270)	(44)	(270)	-	(44)
Long-term liabilities	54	-	54	-	-
Goodwill	(28)	(6)	(28)	-	(6)
	<u>(104)</u>	<u>(54)</u>	<u>(104)</u>	<u>-</u>	<u>(54)</u>
(c) <u>Significant non-cash activities:</u>					
Purchase of fixed assets by credit	<u>8</u>	<u>-</u>	<u>8</u>	<u>-</u>	<u>6</u>
Increase in investment in oil and gas exploration against long term liabilities	<u>21</u>	<u>41</u>	<u>21</u>	<u>41</u>	<u>26</u>
Receivables for sale of marketable securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14</u>
Receivables for sale of an airplane	<u>59</u>	<u>-</u>	<u>59</u>	<u>-</u>	<u>-</u>
Decrease in deferred interest income against decrease in deposits	<u>14</u>	<u>-</u>	<u>14</u>	<u>-</u>	<u>-</u>
Deferred Interest income in advance against investment in deposits	<u>-</u>	<u>13</u>	<u>-</u>	<u>13</u>	<u>14</u>

(1) Adjusted to the NIS of December 2003.
