

DELEK GROUP LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2004

IN N.I.S.

UNAUDITED

INDEX

	<u>Page</u>
Accountants' Letter	2
Condensed Consolidated Financial Statements :	
Consolidated Balance Sheets	3 - 4
Consolidated Statements of Income	5
Consolidated Statements of Changes in Shareholders' Equity	6 - 8
Consolidated Statements of Cash Flows	9 - 11

Delek Group Ltd.
Netanya

Dear Sirs,

The accompanying condensed consolidated balance sheets of Delek Group Ltd. ("the Company") as of September 30, 2004 and 2003, and the related condensed consolidated statements of income, changes in shareholders' equity and cash flows for the nine 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 September 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 September 30, 2004, and for the nine 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
November 30, 2004

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

CONSOLIDATED BALANCE SHEETS

	September 30,		December 31,
	2004	2003	2003
	Unaudited		Audited
NIS in millions			
	Reported	Adjusted (1)	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	481	445	588
Short-term investments	278	229	272
Trade receivables	1,828	1,656	1,622
Other accounts receivable	296	277	230
Inventories	901	922	925
Real estate held for sale	49	22	10
	<u>3,833</u>	<u>3,551</u>	<u>3,647</u>
INVESTMENTS AND LONG-TERM LOANS AND RECEIVABLES:			
Investment in investees and other companies	1,372	783	801
Real estate	3,021	2,724	2,858
Land held for construction	409	169	171
Loans, deposits and long-term receivables	171	247	227
Investments in petroleum and gas exploration and extraction	854	863	850
	<u>5,827</u>	<u>4,786</u>	<u>4,907</u>
FIXED ASSETS:			
Cost	3,374	2,782	2,818
Less - accumulated depreciation	1,227	1,089	1,117
	<u>2,147</u>	<u>1,693</u>	<u>1,701</u>
OTHER ASSETS AND DEFERRED CHARGES, NET	<u>686</u>	<u>477</u>	<u>479</u>
	<u><u>12,493</u></u>	<u><u>10,507</u></u>	<u><u>10,734</u></u>

(1) Adjusted to the NIS of December 2003.

CONSOLIDATED BALANCE SHEETS

	September 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	3,532	2,746	2,703
Trade payables	830	866	877
Other accounts payable	583	447	460
	<u>4,945</u>	<u>4,059</u>	<u>4,040</u>
LONG-TERM LIABILITIES:			
Long-term loans	4,384	4,009	4,082
Convertible debentures	601	560	620
Other debentures	598	318	325
Accrued severance pay, net	21	20	17
Deferred taxes	121	48	55
Other liabilities	69	40	41
	<u>5,794</u>	<u>4,995</u>	<u>5,140</u>
MINORITY INTEREST	<u>365</u>	<u>260</u>	<u>296</u>
SHAREHOLDERS' EQUITY	<u>1,389</u>	<u>1,193</u>	<u>1,258</u>
	<u><u>12,493</u></u>	<u><u>10,507</u></u>	<u><u>10,734</u></u>

(1) Adjusted to the NIS of December 2003.

CONSOLIDATED STATEMENTS OF INCOME

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	Unaudited				Audited
	NIS in millions				
	Reported	Adjusted (1)	Reported	Adjusted (1)	Adjusted (1)
Revenues	10,949	8,912	3,941	3,147	12,105
Less - excise, customs, purchase taxes and royalties	2,631	2,189	784	753	3,075
	8,318	6,723	3,157	2,394	9,030
Cost of revenues	6,827	5,524	2,610	1,944	7,430
Gross profit	1,491	1,199	547	450	1,600
Selling, marketing and gas station operating expenses	596	532	217	191	711
General and administrative expenses	213	193	79	70	256
Operating income	682	474	251	189	633
Financial expenses, net	264	141	119	71	216
	418	333	132	118	417
Gain from sale of investments in investees, net	100	-	24	-	32
Other income (expenses), net	(6)	(42)	5	(10)	(47)
Income before taxes on income	512	291	161	108	402
Taxes on income	175	111	49	41	153
Income after taxes on income	337	180	112	67	249
Equity in earnings of affiliates and partnerships, net	28	15	8	6	20
Minority interest in earnings of subsidiaries, net	(108)	(63)	(39)	(23)	(86)
Net income	257	132	81	50	183
Net income per NIS 1 par value of share capital (in shekels)	26.43	13.76	8.36	5.15	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	-	-	4	-	-	4
Foreign currency translation adjustments for investees	-	-	27	-	-	27
Dividend	-	-	-	(97)	(54)	(151)
Net income	-	-	-	257	-	257
Balance as of September 30, 2004	<u>11</u>	<u>770</u>	<u>81</u>	<u>527</u>	<u>-</u>	<u>1,389</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	-	-	12	-	-	-	12
Dividend	-	-	-	(35)	(49)	-	(84)
Net income	-	-	-	132	-	-	132
Balance as of September 30, 2003	<u>11</u>	<u>769</u>	<u>41</u>	<u>376</u>	<u>-</u>	<u>(4)</u>	<u>1,193</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 July 1, 2004	11	770	76	446	97	1,400
Unrealized losses on interest rate swap transaction of an associated company	-	-	(3)	-	-	(3)
Foreign currency translation adjustments for investees	-	-	8	-	-	8
Dividend	-	-	-	-	(97)	(97)
Net income	-	-	-	81	-	81
	<u>11</u>	<u>770</u>	<u>81</u>	<u>527</u>	<u>-</u>	<u>1,389</u>
Balance as of September 30, 2004						
	<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 July 1, 2003	11	769	24	362	(4)	1,162
Foreign currency translation adjustments for investees	-	-	17	-	-	17
Dividend	-	-	-	(36)	-	(36)
Net income	-	-	-	50	-	50
	<u>11</u>	<u>769</u>	<u>41</u>	<u>376</u>	<u>(4)</u>	<u>1,193</u>
Balance as of September 30, 2003						

(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
	Audited						
	Adjusted NIS in millions (1)						
Balance as of January 1, 2003	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

	Nine months ended September 30,		Three months ended September 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	257	132	81	50	183
Adjustments to reconcile net income to net cash provided by operating activities (a)	10	322	140	(49)	510
Net cash provided by operating activities	267	454	221	1	693
<u>Cash flows from investing activities:</u>					
Purchase of fixed and other assets	(321)	(159)	(81)	(58)	(210)
Proceeds from sale of fixed assets and real estate	98	10	88	4	15
Investment in real estate and real estate for rental	(34)	(27)	(12)	(8)	(39)
Realization (purchase) of marketable securities, net	71	(99)	(6)	(11)	(127)
Collection of long-term loans granted	59	30	27	11	55
Withdrawal (investment) of deposits, net	(56)	65	(64)	9	52
Increase in joint ventures for oil and gas exploration	(19)	(207)	-	(86)	(227)
Proceeds from sale of investments in investees and others	153	-	28	-	47
Investment in investees, partnerships and others	(249)	(258)	(18)	(184)	(261)
Acquisition of businesses and newly consolidated subsidiaries (b)	(350)	(54)	(171)	-	(54)
Loans granted to others	(51)	-	(9)	-	(28)
Net cash used in investing activities	(699)	(699)	(218)	(323)	(777)
<u>Cash flows from financing activities:</u>					
Short-term credit from banks and others, net	67	(16)	(108)	169	(245)
Receipt of long-term loans	1,018	660	280	227	882
Repayment of long-term loans	(973)	(636)	(78)	(290)	(747)
Issuance of shares to minority in subsidiary	1	17	1	-	17
Dividend paid	(151)	(84)	(97)	(36)	(84)
Dequisition of Company shares by subsidiary	-	9	-	-	14
Dividend paid to minority in subsidiarys	(61)	(99)	(1)	(47)	(99)
Sale of debentures held by subsidiary	7	19	-	19	29
Issuance of debentures and convertible debentures, net	459	391	73	180	472
Repayment of debentures	(46)	(12)	(25)	-	(12)
Net cash provided by financing activities	321	249	45	222	227
Translation differences with respect to cash balances in autonomous investee companies	4	3	(1)	8	7
Increase (decrease) in cash and cash equivalents	(107)	7	47	(92)	150
Cash and cash equivalents at the beginning of the period	588	438	434	537	438
Cash and cash equivalents at the end of the period	481	445	481	445	588

(1) Adjusted to the NIS of December 2003.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 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	216	218	77	68	331
Deferred taxes, net	42	6	27	6	2
Increase (decrease) in accrued severance pay, net	1	2	1	1	(1)
Increase (decrease) in value and accrued interest of loans granted, net	(13)	(15)	1	(17)	(25)
Gain on sale of investments, real estate and fixed assets, net	(141)	(4)	(54)	(1)	(34)
Equity in undistributed earnings of associated companies and partnerships, net *)	(27)	1	(8)	7	1
Increase in value of securities and deposits, net	(29)	(14)	-	(6)	(11)
Increase (decrease) in value of long-term liabilities, net	6	(44)	(17)	(5)	(41)
Minority interest in earnings of subsidiaries, net	108	63	39	23	86
Changes in operating assets and liabilities:					
Decrease (increase) in trade receivables	(176)	(268)	153	(16)	(243)
Decrease (increase) in other accounts receivable	(24)	(18)	5	(2)	33
Decrease (increase) in inventories	91	(21)	112	(204)	(57)
Increase (decrease) in trade payables	(76)	414	(179)	132	420
Increase (decrease) in other accounts payable	32	2	(17)	(35)	49
	<u>10</u>	<u>322</u>	<u>140</u>	<u>(49)</u>	<u>510</u>
*)Net of dividend received	<u>1</u>	<u>16</u>	<u>-</u>	<u>13</u>	<u>21</u>

(1) Adjusted to the NIS of December 2003.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 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)	346	(4)	205	-	(4)
Fixed assets, real estate, investments and other assets	(900)	(44)	(630)	-	(44)
Long-term liabilities	417	-	364	-	-
Goodwill	(213)	(6)	(185)	-	(6)
Investment in a newly consolidated affiliate	-	-	75	-	-
	<u>(350)</u>	<u>(54)</u>	<u>(171)</u>	<u>-</u>	<u>(54)</u>
(c) <u>Significant non-cash activities:</u>					
Purchase of fixed assets by credit	<u>5</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u>
Increase in investment in oil and gas exploration against liabilities	<u>13</u>	<u>20</u>	<u>-</u>	<u>20</u>	<u>26</u>
Receivables for sale of marketable securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14</u>
Deferred interest income in advance against investment in deposits	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14</u>
Receivables for realization of investment in investee	<u>9</u>	<u>-</u>	<u>9</u>	<u>-</u>	<u>-</u>

(1) Adjusted to the NIS of December 2003.
