IMPORTANT

This document is an unofficial translation from the Hebrew original of the annual report of Delek Group Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on March 30, 2005.

The Hebrew version submitted to the TASE and the Israeli Securities Authority shall be the sole binding version.

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Chapter 1 – Corporate Description

Key:

What follows are the abbreviations that occur in the report and their explanations.

The Company	Delek Group, Ltd.
Gadot	Gadot Industries and Biochemicals, Ltd.
Delek USA	Delek US Holdings, Inc.
Delek Energy	Delek Energy Systems, Ltd.
Delek Belron	Delek Belron International, Ltd.
Delek Investments	Delek Investments and Properties, Ltd.
Delek Israel	Delek The Israeli Fuel Corporation, Ltd.
Delek Real Estate	Delek Real Estate, Ltd.
Delek Petroleum	Delek Petroleum, Ltd.
Delek Infrastructure	Delek Infrastructure, Ltd.
DMR	Delek Motors Systems, Ltd.
Dankner	Dankner Investments, Ltd.
Desalinization Eng.	IDE Technologies, Ltd.
Menora	Menora Holdings, Ltd.
Matav	Matav Cable Systems, Ltd.
Avner Partnership	Avner Oil Exploration – Limited Partnership
Delek Drilling Partners	Delek Drilling – Limited Partnership

he chapter dealing with the description of the corporation includes forward ooking statements. Forward looking statements should not be construed as roviding definite information about the future of the Company. It is based on nformation that is available to the Company or managements assessments of it and is correct at the time of the report. This information may not produce the results anticipated by the Company and the actual results of the Company could be very different from those expected or implied at the current time due to, among other reasons, the risks that are detailed throughout the document in regard to each of the sectors of the Company. This is specifically true for paragraph 23. In certain circumstances it is possible to identify sections that include forward looking statements by the phrases "The Company estimates", "It is the intention of the Company", "The Company forecasts", "In the estimation of the Company", etc. However, forward looking statements may also be phrased otherwise.

Part A: A Description of the General Development of the Company's Businesses

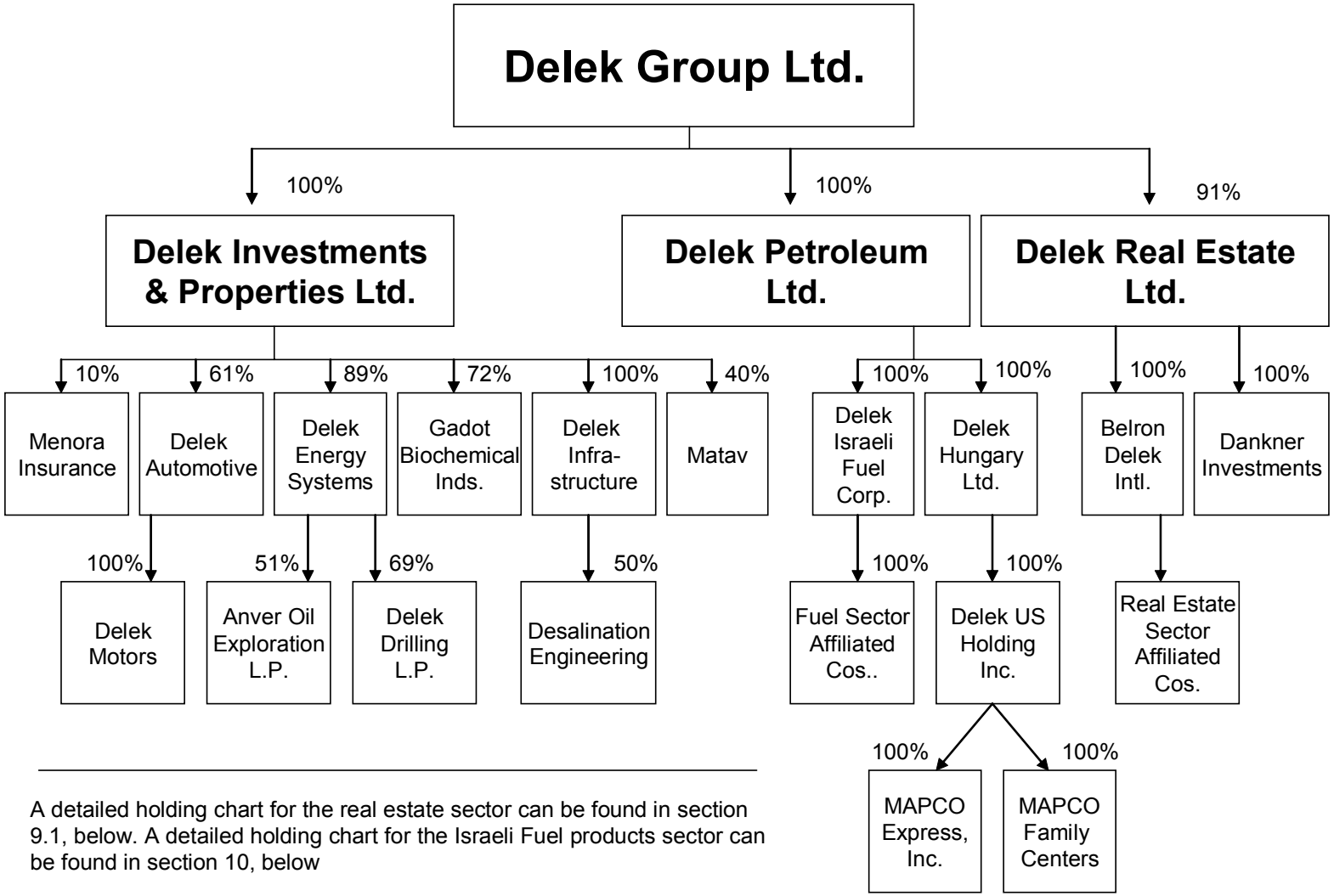
1 The Company's Activities and the Development of its Business

1.1 Delek Group Ltd, ("the Company") is a holding company that operates as a parent company for all the corporations that belong to the Delek Group (from hereon in the Company and its holdings will be referred to as: The Company or as The Delek Group, or as The Group).

1.2 The Company was incorporated on October 26, 1999 as a public company.[1]

1.3 What follows is a listing of the main holdings of the Group:

[1] The Company incorporated as part of a reorganization where the groups activities were separated an divided into three main subsidiaries, over which was established the parent company. Until the reorganization the company's activities were included in Delek Israel which was incorporated on December 12, 1951 and is today, after the reorganization, responsible for the fuel sector in Israel.



A detailed holding chart for the real estate sector can be found in section 9.1, below. A detailed holding chart for the Israeli Fuel products sector can be found in section 10, below

2 Sectors

2.1 **The Group is active in seven sectors, as follows**:

2.1.1 **Energy**: This sector includes activities related to oil and gas exploration and the production of natural gas.

2.1.2 **Automotive**: This sector includes the importation, sales and marketing in Israel, of Mazda and Ford private and commercial vehicles.

2.1.3 **Real Estate**: This sector includes the development, marketing and holding of real estate in Israel and abroad.

2.1.4 **Fuel Products in Israel**: This sector includes the sale of fuel and oil products and the operation of gasoline stations and convenience stores within the stations in Israel.

2.1.5 **Fuel Products in the USA**: This sector includes the sale of fuel and old products and the operation of gasoline stations and convenience stores within the stations in the United States.

2.1.6 **Biochemicals**: This sector includes the production of Fructose (sugar substitute), citric acid and salts for use in the food, the pharmaceutical and detergent industries.

2.1.7 **Telecommunications**: This sector includes the cable TV company, Matav Cable Systems (Matav).

2.2 In addition to these sectors, The Delek Group has other activities that are not included on the list above. These activities include the holding of 9.99% in the insurance company Menora Holdings Ltd., infrastructure projects (the desalinization plant and electric generating station), holdings in technology companies and other financial investments and business opportunities (see below, paragraph 14).

3 Equity Investments in the Company and Transactions in its Shares

To the best of the Company's knowledge, in the previous two years the equity investments and /or material transactions made by insiders and/or interested parties outside the Tel-Aviv Stock Exchange are as follows (from the most recent to earliest).

Date	Insider/Interested Party	Type of Deal	%of Issued Shares	Consideration NIS 000's
3-Jan-05	Yitzchak Sharon Teshuva*	Sale	1.45	50,400
8-Sept-04	Yitzchak Sharon Teshuva*	Sale	1.45	50,505
15-July-04	Bank Discount Registration Co.	Conversion of Bond to Shares	0.02	750
1-June-04	Yitzchak Sharon Teshuva*	Sale	2.3	83,250
16-Dec-03	Yitzchak Sharon Teshuva*	Sale	0.6	20,262
15-Dec-03	Yitzchak Sharon Teshuva*	Sale	1.39	48,330

- These deals were executed by private companies ultimately 100% held by Mr. Yitzchak Sharon (Teshuva)

4 Dividend Distribution

What follows are the dividend declarations by the Company from 2003 until the date of the report:

Declare Date	Pay Date	Per Share Amount (NIS)	(Approx)Total Div. Amt. (NIS 000's)
30-Mar-05	3-May-05	2.67	26,000
9-Mar-05	31-Mar-05	8.00	77,870
29-Aug-04	23-Sept-04	10.00	97,337
30-Mar-04	3-May-04	5.50	53,525
4-Sept-03	29-Sept-03	3.70	36,001
31-Mar-03	27-May-03	5.10	49,632

4.1 Dividend Distribution Policy - On March 30, 2005 the Board of Directors of the Company decided on a dividend policy whereby the Company will strive to distribute every year approximately 50% of its annual net income (after taxes). The decision is dependent upon the following conditions:

4.1.1 The Board of Directors will decide from time to time on the dividend distribution and its decision will be made according to the law and its limitations.

4.1.2 The decision of the Board regarding the amount of the distribution will depend on the financing requirements of the Company, its obligations, liquidity and investment plan s may be from time to time.

4.1.3 The decision of the Board regarding the amount of the distribution will be made such that it will not harm the Company's third party obligations including to its bank creditors and bond holders.

Part Two – Other Information

5 Financial Information Regarding the Group's Sectors

For financial information regarding the Group's sectors see note 33 of the financial reports.

6 The General Environment and Outside Influences

The Company is a holding company that comprises a large number of companies dealing in a wide range of activities.

The financial data and results of the Company are influenced by the financial results and profits of the companies it holds as well as from the purchase and sales of these holdings. The cash flow is influenced by, among other things, dividends and management fees that the holdings pay and distribute as well as the proceeds earned as a result of the sale of shares in the Company's holdings, from investments made by the Group and from the dividends it distributes to its shareholders.

The activities of the Company are influenced, amongst other things, from the security and geo-political situation in Israel and the Middle East as well as by the economic situation in Israel and the world. The security situation and the Israel's economic situation can also influence the readiness of foreign parties to enter into business dealings with Israeli companies.

A change in the capital markets in Israel and the world can have an influence on the prices of the securities of the Company and its holdings and on their ability to produce capital gains from the sale of their investments. Amongst other things, this might be reflected in the difficulty in executing private or public offerings by the holdings or in finding alternative sources of financing. Similarly, the Company and its specific holdings are particularly sensitive to changes in interest rates, inflation and currency rates as well as to changes in the prices of raw materials, all of which can have an influence on the business results of the said companies and on the value of their assets and liabilities.

The Company and some of its holdings are limited by law or by government regulation in their business activities. These regulations include antitrust regulations, regulations concerning holding of tenders for business contracts, price controls for goods and services and regulations of telecommunications activities.

The Company and some of its holdings are influenced by the "Proper Conduct of Banking Business Directives" law issued by the Supervisor of the Banks (of the Bank of Israel – Israel's Central Bank) which includes, amongst other things, limitations as to the scope of loans that Israeli banks can issue to "single borrowers", to the six largest borrowers and to the "largest borrower" of the specific bank (as defined by the Supervisor of the Banks). The Company and its main shareholder as well as some of its holdings are considered "one borrowing group". In light of this, the ability of these groups to borrow money from Israeli banks can be limited.

The Company and its holdings are also influenced by government policy decisions in many areas (for example monetary policy) and from the requirements of the environmental regulators. Similarly, a significant rise in Israel's minimum wage, significant changes in work laws that apply in Israel, strikes and labor unrest can have an influence on the financial results of the Company and its holdings.

Some the Group's companies in the group have activities abroad. Some market and sell products and services abroad or have their stocks traded on non-Israeli stock exchanges. Legislative and regulatory initiatives by foreign powers and exposure to currency changes can influence the results of these companies.

For specific information on the general environment and outside influences of the activities of the Delek Group, see the individual description of each of the sectors.

Part Three – Business Description of the Corporation by Sector

What follows is a sector by sector description of the Company's businesses:

7 Energy Sector

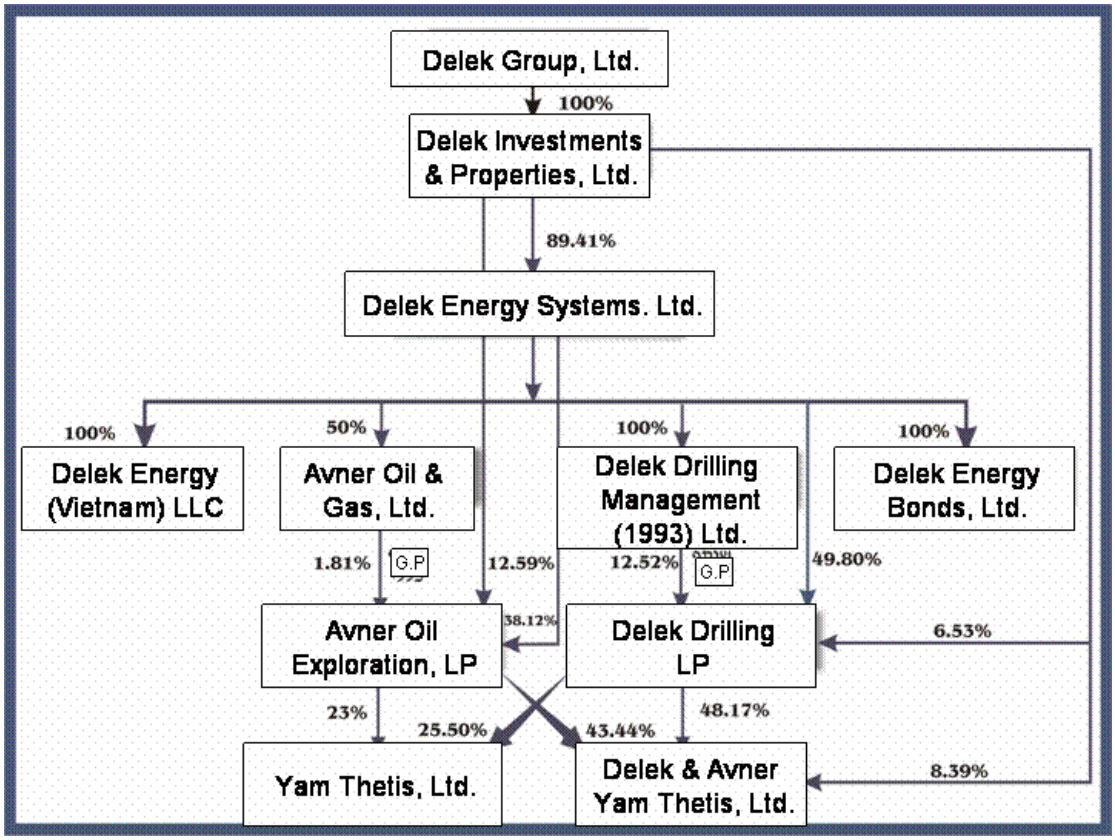
7.1 General

7.1.1 The Company is active in the exploration and production of oil and gas, and its main activities are in Israel. Similarly, the Company participates in the exploration of natural gas in Vietnam through Delek Energy (Vietnam) LLC.

7.1.2 Gas and oil exploration and production activities in Israel are accomplished through its direct and indirect holdings in Delek Energy Systems, Ltd (Delek Energy), in its limited partnerships Delek Drilling (Delek Drilling Partnerships), and Avner Oil Explorations (Avner Partnerships) (A partnership of Delek Drilling and Avner which will be called "The Partnership" or the "Limited Partnership" throughout part 7) and through Delek Investments.

7.1.3 The general partner in Delek Drilling Partnership is a wholly owned subsidiary of Delek Energy and the general partner of Avner is a company in which Delek Energy holds half of the shares.

7.1.4 The following is a chart describing the Group's main holdings in this sector:



7.1.5 The Company holds, in combination, about 68.85%[1] of the participatory units that were issued by Delek Drilling Trusts, Ltd (a wholly owned subsidiary of Delek Energy), the limited partner and trustee of Delek Drilling (referred to as Delek Units). It also holds ultimately 51.61%[2] of the participation units that were issued by Avner Trusts, Ltd. (a company half of whose equity is owned by Delek Energy), the limited partner and trustee of Avner Partnerships, which acquires the right to participate in the rights of the limited partner Avner (Avner Units). In addition, Delek Energy and Delek Investments have overriding royalty

[1] The above calculation is done for each holding of Delek Energy Partnership including its minority holding in Delek Energy

[2] The above calculation is done for each holding of Delek Energy Partnership including its minority holding in Delek Energy

rights to Delek Drilling's[1] share at a rate of 3% until a return of the investment and of 13% after a return of the investment. It also receives royalties at a rate of 1% of Avner Partnership, from the sale of gas to the Israel Electric Company, LTD (IEC). It should be noted that, according to the instructions of the Tel-Aviv Stock Exchange (TASE) the limited partners have committed to execute exploration and production projects that are clearly outlined in each of the partnership's limited partnership agreements. Within the framework agreement of each partnership there are definitions of the geographical region which includes oil assets in which the partnerships have rights and additional regions in which the partnerships had oil rights in the past. As of the date of this report, Delek Investments and the Limited Partnerships have rights that include 52.941% of petroleum leas I/7 Noa and I/10 Ashkelon, where there are natural gas reservoirs Noa and Mari as well as lease rights, licensing and other preliminary permits as will be detailed below.

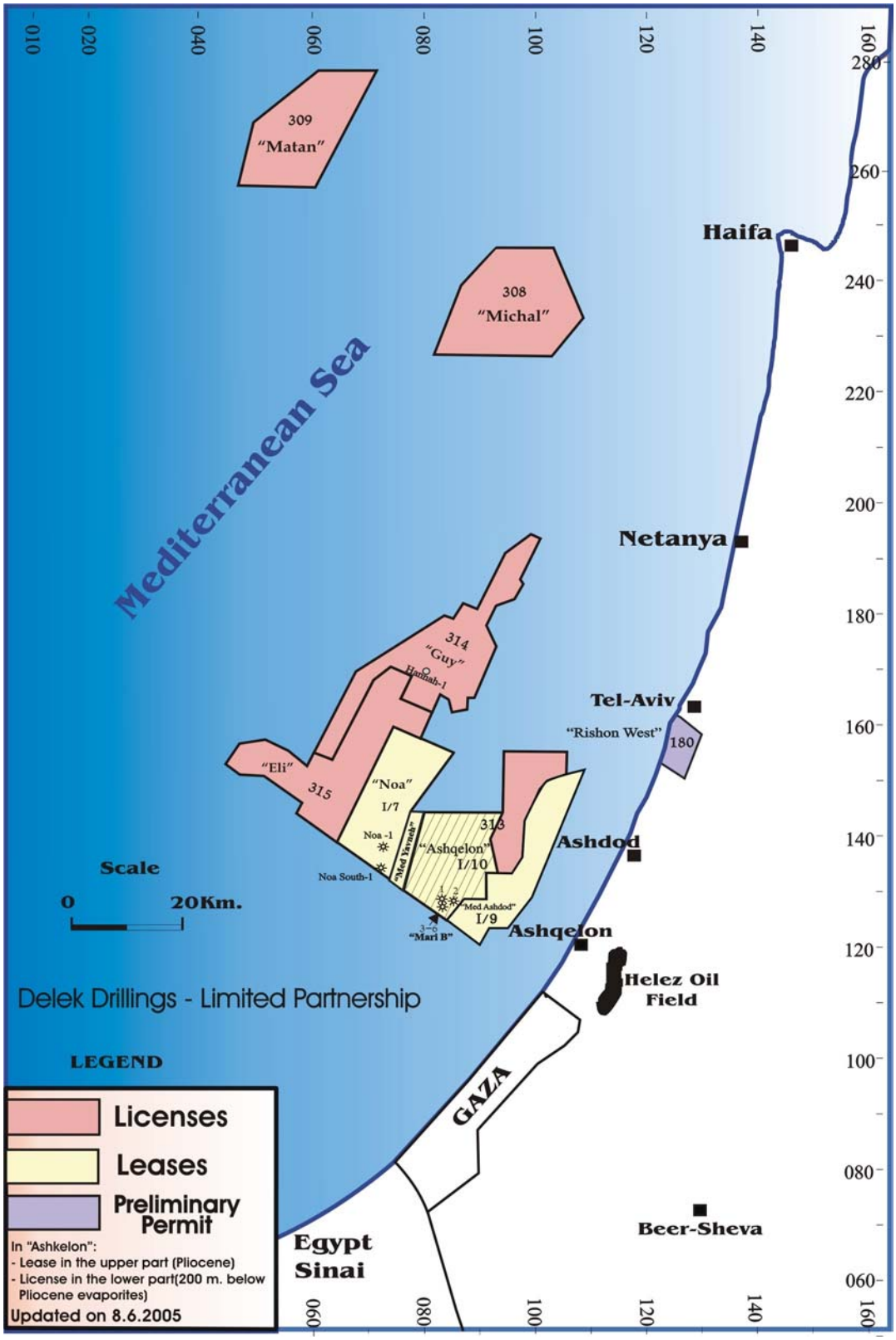
7.1.6 In 2004 Delek Investments and Partnerships first started to sell natural gas which was extracted from the Mari reservoir in Ashkelon lease. Also in 2004 the company registered its first significant revenues from the energy sector.

7.1.7 The exploration and production of oil and gas in Israel are regulated by the Oil Law and the Gas Law (see paragraph 7.18 below).

7.1.8 The main barrier to entry in this sector is the need to receive licenses and permits to perform explorations as well as the high investment and high relative risk level necessary to search for oil and gas.

7.1.9 The following is a map of oil assts of Delek Investments and Limited Partnerships.

[1] It should be noted that as part of the agreement with Ratio as described in paragraph 6.3.2 below, Ratio took responsibility the partnership liabilities of Delep Drilling Partnership to pay royalties for the above relating to the oil rights transferred to Ratio.


Mediterranean Sea
309
"Matan"
308
"Michal"
314
"Guy"
Hannah-1
"Eli"
315
"Noa"
I/7
Noa -1
Noa South-1
"Med Yavneh"
"Ashqelon"
I/10
318
"Med Ashdod"
I/9
"Mari B"
Haifa
Netanya
Tel-Aviv
"Rishon West"
180
Ashdod
Ashqelon
Helez Oil Field
GAZA
Beer-Sheva
Egypt
Sinai
Scale
0
20Km.
Delek Drillings - Limited Partnership
LEGEND
Licenses
Leases
Preliminary Permit
In "Ashkelon":
- Lease in the upper part (Pliocene)
- License in the lower part(200 m. below Pliocene evaporites)
Updated on 8.6.2005

7.2 Yam Thetis Project

7.2.1 The Company's main operations in the production of gas and the exploration for oil and gas are through the framework of oceanic licenses and leases defined as "Yam Thetis Project". The operation of the Yam Thetis Project is managed under the joint venture defined by the joint operating agreement of February 24, 1999 (see paragraph 7.19.1 below) whose partners are: Nobel Energy Mediterranean Ltd. (47.059%), Delek Drilling Partnership (25.500%), Avner Partnership (23.000%) and Delek Investments (4.441%).

7.2.2 The Yam Thetis Project partners hold two proven gas reservoirs. The Noa reservoir was discovered in June, 1999 and the Mari reservoir in February 2000. In light of the findings the partners in the Yam Thetis Project started developing the reservoirs in 2001 by establishing a production infrastructure and a gas transmission to the shore.

Phase One of the production included the creation of a production platform and its installation above the Mari reservoir (Mari Drill 3) of a infill drilling for Mari 4,5 and 6: The completion of an deep sea infill drilling for Mari 2 and its connection to the platform and the laying of a 42 km gas transmission line from the production platform to the reception terminal in Ashdod. This was completed in 2003. Stage One also included the establishment of a permanent reception terminal at the Ashdod shore whose costs to the Yam Thetis partners was $26 million. As of December 31, 2004 the expenses for Stage One of the production facility (for 100% of the rights) totaled about $310 million (not including the permanent receiving station).
Phase Two of the production facility, which has yet to start, is expected to include the completion of the sub sea facility for the Noa field and its connection to the production platform. Their cost for the project may come to $120 million without the participation of other groups. We should note that between Nobel and British Gas there were deliberations concerning the joint development of the South Noa gas field seem part of which lies in the Noa gas field and part of it lies

in areas where British Gas has received rights from the Palestinian Authority.

The estimates of the Company as set above regarding the cost of Phase Two and for the reception station are forward looking statements that are based on current general cost estimates and the preliminary estimates that Delek Investments and Partnerships have received from the operator. As the project moves forward we expect changes in this estimate.

7.2.3 As of the start of 2004 the partners of the Yam Thetis Project are supplying natural gas to the IEC in accordance with the natural gas supply agreement of June 25, 2002. Similarly, the partners signed a supply agreement to the Oil Refineries, Ltd. (ORL) as well as certain non-binding statements of principles for the supply of gas to other customers.

7.2.4 According to the conditions of the Ashkelon and Noa leases and according to the Oil Law, the lease owners must develop the oil and gas reservoirs and produce gas with proper diligence. In addition, the conditions of the leases include rules regarding breach of contract, insurance against environmental damage, abandonment plans and observance of international conventions and state law, coordination with the Ministry of Defense and rules regarding notification of the identity of the operator.

In the joint work plan for the Eli, Guy and Deep Ashkelon permits and the Noa leases it states that if a drilling prospect is identified it will be drilled no later than December 31, 2005 and will be drilled at least 200 meters into the Mesozoic geological layer. This drilling will fulfill the requirements for drilling in the area of the Noa leases (lower section). If this is drilled the licenses will be extended by a year from the date that the drilling is ended – no earlier than December 31, 2006.

7.2.5 While developing the gas discoveries of the Yam Thetis Project, the Yam Thetis Project partners received permits and licenses vested from the Oil Law and the Natural Gas Economy Law for the purpose of establishing and operating a production and a transmission system from the platform to the shore, as follows:

a. License from April 29, 2002 (as amended November 25, 2002)[1] for the establishment and operation of a delivery system according to paragraph 10 of the Natural Gas Economy Law which deals with the transmission system leading from the production platform to the reception terminal near the Eshkol Power Station in Ashdod. The above license includes various conditions, amongst them are rules regarding breaches that will void the license, rules regarding the connection of additional suppliers, connectivity fees, transmission fees, insurance, guarantees and compensation, supervision of the laying of the pipeline and rules regarding the handover of control and means of control.

b. A license from February 25, 2002 for the establishment and installation of the floating natural gas production platform. The above license includes various conditions, amongst them rules regarding standards and procedures for the building of the platforms, rules regarding applying plans to the commissioner, coordination with the Ministry of Defense, coordination with the shipping sector, indemnification for the government against third parties, compensation obligations of the partners obligation to compensate the State for possible acts or omissions by the partners regarding the operation of the platform license and rules regarding insurance.

c. The approval to operate the natural gas production platform was received on July 15, 2003 . The approval will remain in effect as long

[1] The license was given to Yam Thetis, Ltd. which is a wholly owned subsidiary of the Yam Thetis Project.

as the rights for Ashkelon or Noa leases are in effect. The approval includes directives, amongst others, regarding the rules and treaties for the operation of the platform (American standards), evacuation of the platform, adoption of security standards, environmental rules, rules pertaining to the dismantling of the platform at the end of the approval period, providing services to other suppliers, reports and delivering of information, the responsibility to coordinate with security and maritime authorities, as well as other instructions regarding the indemnification of the State, compensation and insurance requirements.

7.2.6 Exploration and production activities in the Yam Thetis Project operate under Joint Operating Agreement of February 24, 1999 as detailed in paragraph 7.2.1, above. The parties of the JOA are the partners in the Yam Thetis Project.

According to the Joint Operating Agreement, Nobel was appointed as the operator of the Yam Thetis Project. Nobel is an indirect subsidiary of Nobel Energy, Inc. which is an American oil company active in the exploration and production of oil and natural gas. Nobel Energy, Inc. is a public company which trades on the New York Stock Exchange (NYSE) under the symbol: NBL.

7.2.7 Gas Reserves Discovered in the Yam Thetis Project: What follows is a table showing the changes in proven[1] gas reserves in the Mari and Noa reservoirs for 2004. The changes are due to the sale of gas to the IEC and from an updated estimate of proven and developed gas reserves in the Mari reservoir (BCM[2]):

[1] The data regarding proven gas reserves are only those that have been "proven" (not including amounts that are "probable" or "possible"). See also paragraph 7.21.7 regarding risks.
[2] The data in this paragraph are for 100% of the reservoir (including the rest of the royalties). BCM is one billion cubic meters.

Proven Gas Reserves for Jan. 1, 2004 (Mari and Noa reservoirs)[1]	32.7
Changes in Proven reserve estimates in Mari[2] reservoir	(0.9)
Total Proven Gas Reserves as of Jan. 1, 2004 (before production)	31.8
Gas sold in 2004	(1.2)
Balance of Proven Reserves as of Dec. 31, 2004 (Noa and Mari reservoirs)	30.6

It should be noted that in the financial reports for 2004 of Nobel's parent company the number listed as the pre-production proven gas reserves in the Noa and Mari reservoirs was 29.9 BCM.

7.2.8 Planned Activities for the Yam Thetis Project:

Throughout 2005 the partners of the Yam Thetis Project are expected to continue building the permanent Receiving Terminal in Ashdod and to assess the way and timing for the execution of Stage B of the production facility. As of the time of the report an exploration plan has yet to be formed and there was no assurance that the operator, Nobel, will recommend an exploration plan for 2005.

7.3 Exploration Activities of the Limited Partners outside the Framework of the Yam Thetis Project

In addition to the production activity of the Yam Thetis Project the partners are involved in the exploration for additional oil and gas reservoirs within the framework of permits and licenses that were given under the Oil Law. What follows is a short description of the oil and gas exploration activities of the limited partnerships in additional areas that are not part of the Yam Thetis Project:

[1] Reserves for Jan 1, 2004 are in line with the reserve estimate report for the Mari and Noa reservoirs of March, 2001, that was released at the request of the operator of the Yam Thetis Project by a leading independent foreign company who specializes in estimating oil and gas reserves.

[2] The change in reserve estimates are in-line with an additional report on reserves that deals only with the developed reservoir in the Mari field, and sets the pre-production proven and developed gas reserves at 25.6 BCM (a reduction of 3.4% relative to the March 2001 report). The report was written by a different leading independent foreign company (NASI) – also a leader in estimates oil and gas reserves. The report was released at the request of the partners and Delek Investments in connection with the raising of capital for the project.

7.3.1 Ashdod I/9 Lease

The Delek Drilling Partnership has participation interests of 21.766% in the Med Ashdod lease excluding natural gas rights only. The lease conditions of Med Ashdod establish mandatory drilling through the Jurassic layer (a geologic layer found at depths of 5-6,000 meters) until December 1, 2005. There is also a condition for the submission and approval of an abandonment plan and a closing of accounts, subject to International treaties and the environment laws of the State as well as coordination with the Ministry of Defense regarding the identity of the operator.

All the rights of Delek Drilling Partnership regarding the exploration, production and use of natural gas (but not oil) were sold according to[1] the agreement of October 28, 2004 to Ratio Oil Exploration (1992) – limited partnership. Therefore this paragraph includes the rights to explore, produce and use oil (not natural gas) and evaluate other materials. Besides Delek Drilling Partnership that holds 21.766% of the participation investment (excluding natural gas), the other main partners of the Med Ashdod lease are Granit-Sonol Oil and Gas Limited Partnership (35.0%) and corporations in the Isramco group (about 34.6%). Isramco, Inc. is acting as the operator (see below, paragraph 7.3 "The Operator").

Exploration Activities:

a. Oil and gas exploration activities for 2002-2004 focused on the location of prospects in the geological layers deeper than Pliocene level (about 2,000 meters where gas is found). A three dimensional survey done on the lease area identified a number of prospective targets for oil and gas at different geological levels. The operator executed comparative studies in order to quantify the risk factors for each prospect.

[1] As of the date of the report, the transfer of the rights has yet to be registered in the Oil Registry.

b. In February, 2004 the operator presented to the partners two prospects for oil exploration purposes and requested responses for their participation in one of the two:

- Prospect "Nitzanim 1" – Drilling to the Jurassic layer (about 5,300 meters) at an established budget of $35 million.
- Prospect "Yam 3" – Drilling to the Jurassic level (about 5,900 meters) at an established budget of $40 million.

The execution of the drill is dependent upon the approval of the Ministry of Defense as well as the signing of an agreement with the owners of the appropriate drilling equipment. According to the information given to Delek Drilling Partnership by the operator, in April 2004 the operator started negotiations with the Ministry of Defense with the goal of getting its approval for the drill. At the same time the operator approached various drilling contractors in order to get their bids for performing the drill. In July, 2004 the Ministry of Defense notified the operator that at that time they could not give approval for the performing of the project. Representatives of Delek Drilling Partnership were informed of the talks between the operator and the Ministry of Defense in October, 2004. It was stated that although progress was made towards approval there were still a number of topics that had to be checked by the operator and the Ministry. When that is done they will hold more meetings and come to decisions.
In light of the fact that approval from the Ministry of Defense has yet to be attained, the operator requested an extension on the drill date. In October 2004, the request was granted and the date was pushed off until December 1, 2005.
At this time and in light of the above problems, it is not possible for the Company to estimate when and if the drill will be executed.

c. On February 7, 2005 a partners meeting was held discussing the operator's recommendation to execute a drill for gas at a depth of 2,600 meters, based on a drilling prospect prepared by an American advisory firm, at a budget of $12 million. In accordance with the agreement with

Ratio, as described in paragraph 7.3.2, below, Delek Drilling Partnership will not participate in the drill for gas (if it is executed). As of the date of this report, Isramco issued a Sole Risk notice to the other partners in the project. Ratio indicated that they will participate in the drill according to its current portion in the project (before the purchase from Delek Drilling – 0.42%) and when the rights purchased from Delek are registered to its name, it will participate with the additional percentages.

7.3.2 Agreement with Ratio regarding Rights in the Med Ashdod and Med Yavne Leases

On October 28,2004 Ratio Oil Explorations (1992) and Delek Drilling Partnership signed an agreement where Delek sold all of its rights in I/8 Med Yavne lease (8% out of 100%) and all of its rights regarding natural gas in I/9 Med Ashdod lease, at a rate of 21.766% out of 100%. The agreement with Ratio was reached in light of instruction form the antitrust commissioner indicating that future purchases of oil rights in the Yam Thetis Project according to the September 1, 2000 agreement is dependent upon the sale of Delek Drilling Partnership's natural gas rights in Ashdod and Yavne leases. In the framework agreement there are definitions of the method in which future activities in Med Ashdod will be acted on – specifically regarding the division of rights as indicated above (amongst other things, regarding decision making regarding work plans in the lease area). In exchange for the rights, Ratio took upon itself all of the obligations of Delek Drilling Partnership, according to existing agreements, for the payment of royalties of its part of the lease areas mentioned (including royalties to Delek Investments and Delek Energy). In addition to the said royalties Ratio is obligated to pay Delek Drilling Partnerships overriding royalties at a rate of 0.625% from its part in the output from the above oil lease areas. On February 7, 2005 the antitrust commission indicated that it does not see any reason to get involved in the agreement between Delek Drilling Partnership and Ratio, so long as a number of conditions detailed in the February 13, 2005 immediate report are upheld. Amongst these conditions are that Delek Drilling Partnership will give up the right of first refusal it has with Ratio should Ratio decide it is no longer

interested in participating in the natural gas drilling. Delek Drilling Partnership intends to approach the antitrust commissioner to try to convince them to eliminate this condition.

7.3.3 Early Permit with Right of Way 180/West Rishon

Each of the limited partnerships has a right (out of 100%) for early permit with right of way for 180/West Rishon (early approval for Rishon). The other partner in the early permit is Federman Enterprises, Ltd. (20%). According to the conditions of the first early permit, the partners of the early permit must, amongst others, ascertain the geological and geophysical characteristics of the permit area. As of the date of the report, a preliminary report was given to the oil commissioner and a complete seismic line display was executed in December, 2004. The operator, Avner Oil and Gas, Ltd., is in the final steps of analyzing the geological and seismic data. After completion of the analysis a decision will be made on issuing an application for a license in the permit area.

7.4 Oil Exploration in Vietnam

7.4.1 Delek Vietnam, a wholly owned subsidiary of Delek Energy has 25% of the rights in an oil exploration project that includes oil assets in Blocks 12W and 12E which cover 6,900 square kilometers and is 400 km southeast of the Vietnamese coastline with a water depth of 100 meters. Throughout the years 2001-2002 three drills were executed as part of the project (Lark, Swan#1 and Swan #2) in the course of which no commercial reserves were found.

7.4.2 In May, 2004 Delek Vietnam signed an agreement with Premier Oil Vietnam Offshore, BV (herein the Agreement and Premier Vietnam, respectively). Premier Vietnam is a subsidiary of Premier Oil, a British company active in the field of international oil and gas exploration and production. According to the Agreement, Premier Vietnam will act as the project operator and holds 75% of the project, while Delek Vietnam holds the remaining 25%. The rights of Delek Vietnam and Premier Vietnam in the project are subject to an option of the Vietnamese government's oil company (Petro-Vietnam) for the purchase of 15%

of the rights. It is also subject to an overriding royalty of 3.8% to the US company Opeco from Texas.

7.4.3 As part of the agreement Premier Vietnam is obligated to execute a total project work plan that includes, mainly, a two dimensional survey, a three dimensional survey and a verification or exploratory drill. It is further obligated to take Delek Vietnam's part in the work plan.

7.4.4 On September 19, 2004 Stage Two of the agreed upon work plan between Delek Vietnam, Premier Vietnam and Petro Vietnam started on Block 12E. Stage Two commits the partners to give up 25% of the area of the block and to start drilling to a level of 4,000 meters by September 18, 2005. Premier Vietnam submitted its proposal relating to a return of the areas of Block E12. Petro Vietnam extended the date on the Stage One work plan to Block 12W until November, 2005. The partners have fulfilled all of their obligations included in the work plan for Stage One in Block 12W.

7.4.5 In October, 2004, Premier Vietnam conducted a two dimensional seismic survey of 1,589 km at a cost of $1.3 million. It was fully financed by Premier Vietnam. Premier Vietnam is expected to start a three dimensional seismic survey by the end of March, 2005 in an area of 304 square km in block 12E, in the area of the Dua oil field.

7.4.6 Due to an increase in the world's demand for floating oil rigs, the expected start date for the exploratory drill in block 12E to a depth of 4,000 meters will be pushed off to the start of 2006. Similarly, the partners will take into account executing an additional drill, dependent on the results of a three dimensional survey expected to be taken in the area. That may be a verification drill in the Dua oil field in Block 12E.

The company's estimations regarding the execution of these activities in the Vietnam project is considered a forward looking statement based on estimates regarding the obligations of the operator and the keeping of timetables as well as the costs associated with oil exploration in Vietnam. These projections may not come to be if technical difficulties arise in the execution of the drill and/or if the drilling rig does not get to the location on time; and/or if Premier Vietnam will decide not go through with the drill and/or if other

non-foreseeable circumstances relating to oil and gas exploration (see also paragraph 7.21, below dealing with risks associated with this activity).

7.5 Products and Services

On the date of this report the partners in the Yam Thetis Project are supplying natural gas to the IEC from the Mari reservoir. The IEC uses the natural gas as an energy source that run the turbines that create the electricity. As more gas and/or oil is discovered the Company will look to sell it.

7.6 Segmentation of Revenues and Profits by its Exploration Activities and the Profitability of Products and Services

Regarding the revenues and the profits of the Company from the sale of natural gas as well as royalties, see note 33 to the financial reports

7.7 Customers

As of the date of the report the partners of the Yam Thetis Project have signed agreements for the sale of natural gas to the IEC and ORL. Similarly, the partners have signed non-binding agreements in principle with three groups for the supply of natural gas and are in various stages of negotiations for the sale of natural gas to other customers. It should be noted that there is no certainty that these negotiations will result in binding contracts.

7.8 Marketing and Distribution

7.8.1 The Yam Thetis Project partners are making efforts to market the natural gas from the Mari and Noa reservoirs to potential customers. Similarly, to the best of the Company's knowledge there are negotiations between the partners and the IEC to increase the amount of natural gas purchased by the IEC from the fixed amount sold according to the agreement. It should be noted the progress of other negotiations and the actual consumption of natural gas is dependent upon the progress of the construction of a national transmission system that will allow the transmission of natural gas to the interior of the country.

7.8.2 As natural gas is discovered in the Vietnam exploration project Delek Energy and its partners will have to market the gas to the local Vietnamese market and to reach agreements for the use of the delivery systems owned by third parties from the gas exploration area in Vietnam to the.

7.9 Order Pipeline

Regarding the binding natural gas supply contracts of Delek Investments and the limited partnerships, see paragraph 7.19, below. In light of the structure of the agreement with the IEC and the dependence on the pace of the sale of the natural gas on the construction of the national transmission system as well as the needs of the IEC, there remains uncertainty regarding the scope of the demand of gas by the IEC over the coming quarters and years. With that, in the project's financing framework there was prepared a base forecast used by the ratings agencies used to estimate the revenues of the partners and Delek Investments from the sale of gas according to the contract with the IEC (the money amounts are in the millions of USD), as follows:

	1Q05	2Q05	3Q05	4Q05	2006	2007
Sale of Gas by all Yam Thetis Partners to IEC in BCM	0.4	0.5	0.6	0.6	2.9	2.1
Company revenues from the sale of gas to IEC	15.1	20.3	24.4	24.4	117.6	85.3

The following are a number of clarifications regarding the data in the table:

7.9.1 The financial figures above relate to the revenues of Delek Investments and the partnerships from the agreement with the IEC only according to the price of gas in the hedging deal, discounting royalties to the State and the third parties (including royalties paid by Avner Partnership to Delek Investments and the royalties paid by Delek Drilling Partnership to Delek Investments and Delek Energy Systems). A substantial change in the demand by the IEC vs. the expectations detailed above can have a significant impact on expected revenues.

7.9.2 The amount of gas is noted in billions of cubic meters (BCM) and relates to 100% of the gas supply contracted to the IEC by the entire Yam Thetis Project group including the Nobel's part and before the payment of royalties.

7.9.3 The estimate regarding the order pipeline as stated above should be considered a forward looking statement and was prepared on the basis of revenue projections based mainly on an expert opinion prepared at the request of Delek Investments and the partnerships, including, among the other things, estimates on electricity demand, the pace at which the IEC will convert to the use of natural gas at its generating stations, the timetable for the construction of the national natural gas transmission system, the date for the entrance of additional natural gas suppliers to the Israeli market and the expected construction of additional coal based generating power stations by the IEC.

Any change from the present situation in light of the assumptions upon which the estimates are based, could have a substantial effect on their realization. This is so especially regarding a change in the date in which new gas suppliers enter the Israeli market, changes regarding the date of completion of the national natural gas transmission system, changes to the date of the conversion of the IEC energy plants to natural gas and a decline in demand for gas by the IEC due to the entry of substantial private power generators in substantial volumes.

7.10 Competition

At the date of this report the Yam Thetis Project partners are the only groups providing natural gas in Israel. In the estimation of the partners, the main potential competitors to Yam Thetis are

the group led by British Gas which has, according to publication, found natural gas off the Gaza coast in amounts similar to the Mari reservoir and the EMG Group, which holds import licenses for Egyptian gas and according to media reports is in advanced negotiations for the supply of natural gas to the IEC. These groups have participated in the tender for gas by the IEC and they are apparently capable of supplying substantial amounts of gas to the Israeli market. Similarly, there are additional potential competitors for smaller customers, amongst them the partners in Med Ashdod and Med Yavne leases. However, due to the extended period it takes to build an infrastructure to supply gas from their respective reservoirs and since to the best of the Company's knowledge they have yet to start construction, we don't see competition for the supply of natural gas in the Israeli market until 2007, at the earliest.

7.11 Seasonality

The demand for gas by the IEC changes with the seasonal change in the demand for power and with the IEC's maintenance plans. In the third quarter (summer months) the demand for electricity increases substantially translating into greater demand for natural gas.

7.12 Facilities and Production Capabilities

As of the date of this report the Yam Thetis Project partners have contracted binding agreements for the sale of 19 BCM of gas, about 60% of the total estimated reserves in the Yam Thetis Project reservoirs. The production capabilities of the project include, amongst others, a production platform, an underwater pipeline of 42 km for the transmission of gas, a temporary reception terminal at the Ashdod shore (construction of a permanent terminal to replace it has started). Production facilities are planned for natural gas production capacity of 600 million cubic feet of gas per day (equal to 6 BCM a year).

7.13 Human Resources

The company's operations are managed by a CEO, joint CEO in Delek Energy Systems, a joint manager the general partnership Delek Drilling Partnership as well as the general partnership of Avner Partnership. In addition, the company is assisted by the company's employees and outside consultants (amongst others, geologists) as is needed. It should be noted that in the operating agreement of the Yam Thetis Project where most of the

Company's energy activities are detailed, Nobel was assigned to be the project operator. Nobel employs the necessary manpower for the management and operation of the project (including those employed to operate the production platform). The general partner of Avner Partnership was appointed as the Israeli operator who is responsible for representing the project before the relevant authorities in Israel.

7.14 Working Capital

Payment from the sale of gas to the IEC is received the month after the gas is supplied, no later than the 20th of the month that the bill is sent or 15 working days from the date the bill is sent. The payments by the limited partners and/or Delek Investments and/or Delek Energy to the operators of the joint business are accomplished in accordance with the conditions detailed in each joint operating agreement. According to the gas supply agreement, the suppliers are responsible to uphold the natural gas specifications detailed in the agreements.

7.15 Financing

7.15.1 Bank Financing:

On May 22, 2003 Delek Investments and the limited partnership contracted with Bank Leumi of Israel Ltd. and Bank Poalim Ltd. (the Banks) for an intermediate credit to finance their part of the expenses in the development of the Yam Thetis Project. The loan is due, according to the agreements mentioned above, on March 31, 2005. On March 9, 2005 the loans were repaid from the financing sources of the project financing, as described below. The intermediate financing was backed by guarantees form companies in the Delek Group for the full value of the loan.

7.15.2 Project Financing:

a. On March 9, 2005 a Special Purpose Company (SPC) formed by Delek Investments and the partnerships called Delek and Avner Yam Thetis, Ltd. issued bonds.

b. The SPC sold the bonds totaling $275 million to institutional investors in the US according to SEC rule 144A (herein "the Bonds"). $175 million were at a fixed annual rate of 5.326% and $100 million were floated at an adjustable

annual rate based on 3 month LIBOR plus yearly 1.1%. Delek Investments is responsible for $25 million, Delek Drilling Partnership for $130 million and Avner for $120 million.

c. The bonds can be called every quarter until August 1, 2013 according to the call schedule that was established (based on the estimate of the expected supply of gas to the IEC). Even with the schedule, if there is a greater demand for gas by the IEC it will be possible to call the adjustable rate bonds after two years from the issuance of the bonds, without an early redemption penalty. On the other hand, should the bonds not be called according to the schedule due to diminishing IEC consumption it will not be considered a breach of the bond.

d. The bonds were issued as non-recourse loans for Delek Investments and the partnerships except for the right of refund by the charged assets backing the bonds as described in paragraph 7.15.3.

e. In addition, Delek Investments and the partnerships took upon themselves a number of covenants which include the following obligations:

(1) Not to reduce their part in the Ashkelon rights.

(2) Not to vote in the operating committee for the execution of additional operations that are not for the purpose of gas production for the use of the IEC unless under a few conditions, the mains one's being: (1) That they have available the monetary resources necessary for the full financing for additional operations and they have given assurances to the trustee of the bond that the monetary sources are liquid and are earmarked for the additional operations, until they are completed; (2) The vote for additional operations have been approved by a majority of the bondholders; (3) Approval by the ratings

agencies that additional obligations will not negatively effect the ratings of the bonds.

(3) Not to agree to obligate to broaden or change the production system except under the following conditions that are detailed in the financing agreement, whose main points are: (1) The trustee to the bondholders received an expert opinion indicating that the changes will not negatively effect the supply of gas to the IEC; (2) The necessary changes were made regarding insurance; (3) The changes are not with conflict to the law.

f. According to the financing documents, the monies received from the IEC for the sale of gas will be deposited in an account that will be charged to the bondholders, such that all necessary payments for the operations and the production of the gas will be conducted out of this account. The transfer of access cash to Delek Investments and the partnerships, from the said accounts are subordinated to the following conditions as detailed in the financing agreement, which mainly states:

(1) There was not breach of the financing agreement

(2) Reserves were deposited, in full.

(3) The cover ratio for three months and for 12 months prior to the distribution date did not fall below 1:1.25.

(4) The cover ratio for three months and for 12 months subsequent to the distribution date will not fall below 1:1.25.

Regarding paragraphs 3 and 4 above, the cover ratio of the debt will in principle be the ratio between the net revenues (after expenses and royalties) and the debt that needs to be redeemed for the same period.

(5) The cover ratio for three months

The cover ratio for the rest of the loan cannot fall below 1:1.3. In this paragraph 5, the cover ratio for the rest of the loan is, in principle, the ratio between the current value of all expected net revenues (after expenses and royalties) until full redemption of the bonds and the balance of the loan fund.

g. The above bonds have a final Moody's rating of Baa3 and an S&P rating of BBB-. The reports of the ratings agencies can be inspected by the public at the Company's internet site – www.delek-group.com.

7.15.3 Charges:

In order to guarantee payment of the above bonds, Delek Investments, the partnerships and the SPC have charged the following assets: Ashkelon lease and the license to operate the platform, the agreement with the IEC, the joint operating agreement (regarding the agreement with the IEC, the rig and the rest of the equipment used for the production of gas for the IEC), the insurance policy, shares in Yam Thetis Project, Ltd. (the license owner for the delivery pipeline), hedging agreements and bank accounts of SPC (including, amongst the other things, the account where the receipts from IEC will be deposited, as well as where the security will be deposited for the service of the debt and the building of the receiving terminal).

7.16 Taxation:

7.16.1 Partnerships are not assessed according to the Income Tax Rules (new version), of 1961 (the Order). Revenues, expenses, profits and losses of each of the partnerships are assigned to the general partner (according to his part of the partnership) and to the relative partners who are the "eligible holders", according to their relative share in the partnership. The "eligible holders" are those who hold participation units as of December 31 of the tax year.

7.16.2 The Eligible Holders are subject to paragraph 63 of the Rule and paragraph 13 of the Inflation Adjustment, 1985. Accordingly, each Eligible Holder is responsible for his portion: Of the revenues for the tax year: Of the partnership's search and development (according to the regulations of the Income Tax Authorities -1956 regarding deductions from revenues for holders of oil rights): Of the revenues and/or expenses of the respective Eligible Holder which is to be included in the reports that he is obligated to submit according to the Rule: Of the deduction of the depleted reserves according to Income Tax

Regulations (regarding deductions for oil rights holders) of 1967, as explained below:

a. When determining the income liable for tax of the owner of the benefit (as defined by the regulations) there will be allowed a deduction of all stocks in the same tax year and from the same benefit (herein "depletion allowance").

b. Depletion Allowance will be the larger of the two, as follows:

(1) By percent – 27.5% of the gross income for the tax year, meaning sale proceeds less royalties, but not more than 50% of the net income attributed to the relevant filer for the same tax year.

(2) Cost depletion, as follows: Divide adjusted cost (cost, less accrued depletion allowances to date) at the beginning of the tax year, by the number of units of gas each relevant filer has in "reserve" at the beginning of said year, times the number of units of gas for that filer, that was produced and used, during the tax year.

7.16.3 Delek Energy and its consolidated companies had final tax assessments until and including the year 2000. As of December 31, 2004 Delek Energy has accumulated tax losses of NIS 228 million.

7.17 Environment

Drilling activities have environmental risks associated with them which could result in an oil blowout or spill and/or gas leak. The Oil Law and its regulations indicate that, amongst other things, the drilling shall be accomplished with caution such that there will not be uninhibited liquids and gases flowing from one geological layer to another. Similarly, reservoirs need to be sealed before they are abandoned. During the execution of a drill and/or during the production of the oil and gas, insurance against environmental damages must be attained to guard against unsupervised spills of oil and/or leaks of gas, at unacceptable amounts.

7.17.1 As was stated above, the licenses and the permits that the Yam Thetis Project partners received, include

obligations of the partners to act in concert with the environmental rules that were set.

7.18 Oversight and Restrictions in the Energy Sector

7.18.1 The Israeli Petroleum Law – 1952 ("Petroleum Law")

a. The search for oil in Israel is regulated mainly under the Petroleum Law amended (the Law), as well as the Petroleum Regulations - 1953 that were set up in accordance with the Law.

b. The Law stipulates that the search for oil can only be done with "preliminary permit", a "license" or a "Lease Certificate" (as determined by the Law). No one can produce oil except in accordance to a license or a lease certificate.

c. Early tests (not including test drills) in any area in order to evaluate the risks associated with the discovery of oil in the area are dependent upon receiving a "preliminary permit". The Law allows preemptive rights to a holder of a preliminary permit on that particular area on the condition that he commits to execute early tests and investments for the exploration of oil as determined by the proper authorities.

d. A "license" allows the holder, in conjunction with the law's instructions and the conditions of the license, the rights to explore for oil in the area of the license in conjunction with a plan that needs to be submitted to the petroleum commissioner, according to the Law. The license holder also has exclusive rights to execute test drills and development drills in the license area and to produce oil from it. The license is given for an original period of three years and can be extended, according to the Law, for a period that will not extend beyond four years.

e. If the license holder finds oil reserves he can get an extension for enough time that will allow him to set the boundaries of the oil field, but not

more than two years and for a specific lease that includes the special right to explore and produce for the entire duration of the lease. The "lease" is given for a period of up to 30 years from the period first given, but if the lease was given as a result of a discovery of oil via a license, the original expiration date of the license is the start date of the lease. Leases can be extended, according to the Law for an additional 20 years. The lease can expire after a proper notice is given by the minister responsible for the Law, if the owner of the lease did not produce or stop producing oil in commercial amounts.

f. The Law obligates, amongst other things, the lease holder to pay the State royalties at a rate of one-eighth of the amount of oil produced from the lease area (excluding the amount of oil the holder used to operate the area)[1]. However, the royalties will not be less than the minimum royalties as determined by the law.

g. The Law also determines that the "commissioner" (as defined by the law) is authorized to cancel the oil rights or the preemptive right if the rights holder has not fulfilled the instructions of the Law or the conditions of the oil rights or of the preliminary permit: Or that he did not act in accordance with the work plan as submitted or if he was late with its execution: Or if he did not invest in oil exploration the amounts promised. In any event this can be done after a warning in writing that was passed to the rights or preliminary permit holder sixty days prior.

7.18.2 Natural Gas Economy Law – 2002

a. In January, 2002 the Natural Gas Economy Law was passed and published. The law deals with rules and regulations for the transmission, marketing and supply of natural gas.

[1] Regarding the agreement with the petroleum commissioner for the calculation of the royalties, see note 36g of the financial reports.

b. The law's goals are, amongst others, the creation of conditions for the development of the natural gas sector in Israel through the private sector and the establishment of competition in accordance with government policy. It also sets the operational standards of the industry.

c. The Natural Gas Economy Law asserts that, amongst other things, the following activities are not permitted unless specifically allowed in the license as given by the National Infrastructure Minister (the Minister), according to his conditions:

(1) The establishment and operation of a transmission system or a part of it.
(2) The establishment and operation of a distribution system, or a part of it.
(3) The establishment and operation of a liquid natural gas facility.
(4) The establishment and operation of a storage facility.

The Natural Gas Economy Law states that a license can only be given to an Israeli corporation according to the Law of Corporations.

d. The Law states that the following shall not sell or market natural gas:

(1) The holder of the transmission license.
(2) An electricity producer or anyone who deals with oil refineries at a rate of greater than 10% of the oil refined in Israel.
(3) Whomever is a licensed controlling shareholder (as determined by the banking law – 1981) or whoever is a linked to those stated in section two, above.
(4) A nominal corporation in which of those stated in section one or two above, is a controlling shareholder or has an interest to one, excluding a corporation that the Minister allows to deal in the sale or marketing according to this law.
(5) A corporation whose controlling shareholder or one who holds control over the corporation (as determined by the Company Law, 1999) which holds a transmission license or controlling corporation.
(6) A corporation whose controlling shareholder is the controlling shareholder in the corporation stated in section 2, above.

The instructions of paragraph 'd' above do not pertain to the holder of a transmission license according to paragraph 10 of the Natural Gas Economy Law. The Minister can give, in consultation with the petroleum commissioner, to give the supplier of natural gas, without a tender, permission to construct and operate pipelines and relating gas facilities for the sole purpose of transporting natural gas of the supplier or other gas suppliers to the facility for the processing of the gas for the connection to the transmission system of another transmission license holder. The transmission license may include conditions for the fulfillment of the goals of the law and for the establishment of its rules, including the capacity of the pipeline for other natural gas suppliers and for the construction of additional pipelines for them. The license must set the terms regarding a return of the costs of constructing the additional pipelines.

e. A transmission license will be assigned via tender that the government appointed tender committee will publish. The Minister will determine the term of the license as long as it is not more than thirty years – non-extendable. (There is nothing to prevent a current holder from applying for a tender for a new license). The Minister, in agreement with the Finance Minister is permitted to determine in the license given under the tender the amount of royalties or the license fee to be paid to the State treasury, as well as the method of calculating the royalties and the method of payment. If these items were part of the tender, they will be as the tender determined. The Minister is also permitted, in agreement with the Finance Minister and with the approval of the Finance Committee of the Knesset (Israel's parliament), to determine the payments and royalties of a license holder if the license was attained without a tender.

f. The Minster is permitted to give the lease holder, without a tender or other public announcement, as long as the lease in effect, a gas storage license for gas that has not been produced by the gas reservoirs in his lease area. Similarly, the Minister is permitted to instruct the lease holder, as long as the lease is in effect, to give others storage services in the reservoir that is in the lease area and to determine the conditions for the services, after the lease holder has been permitted to argue his case – if an ordinance was given then the lease shall be deemed as holding a storage license.

g. A holder of a transmission license cannot deal in the sale or marketing of natural gas except under the conditions determined by the Law. The law stipulates that a corporation whose controlling shareholder or one related to a controlling shareholder, holds a distribution license is authorized to sell or market natural gas in amounts that does not exceed one-third of the amount that can be transferred through the transmission system and will be authorized to market an additional amount of gas so long as it is not more than one-half of the use of natural

gas in Israel, not including the amount of gas that the IEC uses during the same period. The holder of a distribution or transmission license according to paragraph 10 of the law is permitted to sell and market gas according to the terms of their license, so long as it is from a separate corporation and have separate management and financing between corporations.

h. The Law allows the Minister, with the approval of the government, to instruct government companies who purchase more than half of the natural gas transmitted by the transmission system during a specific period to purchase the natural gas from a specific lease holder. The instruction will include reference to a specific time period and amount that will be purchased from the lease holder and at a price and under that same conditions as the company purchases or can purchase natural gas from other suppliers during the same period.

i. A lease holder who received, before the start of the Natural Gas Economy Law, according to paragraph 35-b of the Petroleum Law (for the building of pipelines) will be authorized to receive a transmission license according to paragraph 10 of the Natural Gas Economy Law, regarding pipelines that need approval – this license will be given instead of the approval according to the Petroleum Law.

7.18.3 Antitrust

a. On October 11, 2000 the antitrust commissioner (the Commissioner) gave his agreement to conclude the purchase agreement by Delek Investments and the limited partnerships of rights of Reading & Bates in the Yam Thetis Project. The agreement, as updated, was subject to the following conditions:

(1) At a date not later than that determined by the Commissioner (a date which has been updated several times) Delek Group will not hold (including groups associated with

it), directly or indirectly, the rights in offshore oil and gas exploration project known as Med Ashdod, The Ashdod Enclave, Med Yavne (the Med Project): Or that the holding of the Delek Group in Yam Thetis will be reduced to the level that is not greater than its Yam Thetis holdings as of August 1, 2000. In deliberations held with the Commissioner the Commissioner authorized that the sale of the natural gas part of the Med Project will fulfill the conditions.

(2) There will be a separation of personnel such that information will not be exchanged relating to natural gas between the Yam Thetis and the Med projects (that is, Med Yavne and Med Ashdod).

(3) Any purchase of holdings by the Delek Group (including groups associated to it) at a level of 5% or more in a corporation dealing with the exploration, production, distribution, marketing or sale of natural gas in Israel, requires the prior approval of the Commissioner – if the corporation has natural gas reserves. As stated in this subsection three, this does not pertain to the Yam Thetis Project.

As described in paragraph 7.3.2 above, on October 28, 2004 Delek Drilling Partnership contracted to sell its part of the natural gas rights in the Med Yavne Lease and the Med Ashdod license to Ratio (the sale of the lease Med Ashdod was restricted to natural gas only).

7.18.4 Approvals by the Income Tax Authorities.

By the authorization of the income tax authorities that was given to the partnerships at the time of their establishment, the limited partnerships committed not to take loans for more than 2-3% of the amount raised from investors in the partnership without prior authorized approval from the income tax authorities.

7.19 Material Agreements

Delek Investments, Delek Energy and the partnerships contracted certain material agreements that were in effect as detailed below throughout the period of this report.

7.19.1 Joint Operating Agreement for Yam Thetis Project

What follows is a summary of the main points of the joint operating agreement for the Yam Thetis Project:

a. The goals of the agreement are to determine the mutual rights and responsibilities of the sides relating to activities of the license for Yam Thetis as detailed in the agreement, including exploration, estimation, development and production of hydro-carbon reserves in the area.

b. The agreement specified that Nobel will be the operator according to the JOA and will be exclusively responsible for the management of the joint operations. The management of the joint operations will require the operator to, amongst other things, execute the joint operations according to the conditions of the marine licenses and the rules that pertain to them, the JOA and the instructions of the operating committee: To manage all the joint operations with diligence and in a secure and efficient manner according to the good and prudent oil field and conservation practices that are accepted by the international oil industry, under similar circumstances. The operator will also be required to submit to the insurance arrangements and instructions detailed in the joint operating agreement. The agreement states that the operator is obligated, after receiving reasonable prior notice, to permit representatives of any side at any reasonable time and at their cost and responsibility, access to the joint activities including the right to view the operations, to evaluate the joint equipment and to perform financial audits according to common accounting practices.

c. The operator will determine the number and identity of the workers, their work hours and the salary that will be paid to them regarding the joint operation. The operator will employ only those workers, consultants and agents that are reasonable and necessary for the execution of the joint work plan.

d. Besides the exception in this paragraph, the operator (and for this matter all the directors and officers, the related companies and their directors and officers – the "Indemnified Group") will not bear responsibility (except for their portion of the marine licenses) for any damage, loss, costs, expense or liability that arise due to the implementation or non-implementation of the functions and job of the operator. The indemnified group is released by this from liability to parties that are not the operator, from damage, loss, costs, expenses and liabilities that are a result or are due to the implementation or lack of implementation of the work plan even if it were caused by a previous deficiency, negligence (exclusive, joint or parallel, gross negligence, complete responsibility or any other legal fault of the operator or any indemnified group).

e. The operator is due an operating fee taken from the level of expenses of the joint plan as detailed below:

Annual Expenses	Rate Paid to Operator (as % of Direct Expenses)
Until $4 million	4%
From $4-7 million	3%
From $7-12 million	2%
Over $12 million	1%

Regarding the expenses relevant to development and production activities of the Yam Thetis Project, it was agreed between the sides that these expenses that started January 1, 2004 will be paid 1% to the operator until a limit of $20 million and 0.85% for the amount over that.

f. Besides what is stated otherwise in this paragraph, the parties of the joint operating agreement, relative to their levels of participation in the licenses of Yam Thetis, will defend and indemnify the operator and the indemnified group of all damages, losses, costs, expenses (including legal costs), and unforeseen costs that will arise from lawsuits or other legal demands made by any person, or legal entity that are a result of the joint actions even if they were caused, in full or in part, by a prior defect and negligence (exclusive of joint or parallel, gross negligence, complete responsibility or other legal fault of the operator or other member of the indemnified group, as stated).

g. Nothing said in the JOA releases the operator from his portion relative to his rate of participation from any damage, loss, cost, expense or unforeseen causes or that was the result of joint operations. Even though, if as supervisory officer or the operator or the other companies are involved in gross negligence that causes the parties damage, loss, cost, expense or unforeseen lawsuits or other legal demands, as stated above, then in addition to his part as a participant, the operator will only be responsible for the first $1 million in damages, looses, costs or expenses.

h. According to the joint operating agreement Avner Oil and Gas, Ltd was appointed as the Israeli operator to fulfill tasks, functions and services in Israel for the benefit of the joint operation, with coordination from Nobel. The functions of Avner Oil and Gas include, amongst others, coordination with the governmental authorities, management and accounting services for the payment of local bills, advancing the project for all related to downstream infrastructure, and in general to fulfill the same tasks and provide the same services that are normally provided by a local representative, as well as all other reasonable services that Nobel or the operating committee might request. As consideration for these services, Avner Oil and

Gas, Ltd. will receive operating fees of $20,000 (plus VAT) per month.

i. The parties established, as part of the agreement, an operating committee whose tasks and authority is to oversee and approve the joint operations as needed to fulfill the conditions of the licenses that are subject to the operating agreement. The operating committee is composed of representatives of the parties such that each has voting rights equal to its share in the project unless otherwise stated in the joint operating agreement. All other decisions, authorizations and activities of the operating committee regarding any suggestion brought before it, will require a positive vote by two parties or more (that are not tied to each other) who hold together at least 51% of all of the participation rights in the license area to which the decision relates.

j. The joint operating agreement set procedures regarding the approval of a work plan, budgets and expenditure permits. The operator is required, as much as is possible, to issue tenders for contracts for all services above $100 thousand.

k. The agreement stipulates rules regarding activities that are sole risk (in which not all the parties participate).

7.19.2 Agreements for Project Financing

The partnerships and Delek Investments contracted financing agreements whose main conditions are enumerated in paragraph 7.15.13, above.

7.19.3 Agreement with the IEC

a. In June 25, 2002 the Yam Thetis Project partners (sellers) and the IEC signed a natural gas supply agreement.

b. The period of the agreement runs until July 1, 2014 or until the amount of gas provided reached the equivalent of 643 million MMBTU[1] (about 18 BCM, or the entire contractual amount).

c. Either the sellers or the IEC are authorized to end the agreement if either of the parties (and for the seller, any of the partners) to the agreement have executed a notice of non-payment (as detailed in the agreement) at least 30 days ahead of time, indicating difficulty executing the terms of the agreement. The parties of the agreement have agreed not to use this tool for the ending of the agreement except in circumstances where there are significant problems for continuing the terms of the agreement – and only 90 days after one side has breached the agreement (or less time if indicated in the agreement concerning the breach).

d. Subject to the terms of the agreement, the sellers agree to supply and sell and the buyers agrees to consume and pay for, and in a period of non-consumption, to pay for the gas in the amounts, periods and methods as detailed in the agreement.

e. The agreement also details that the buyer will not be limited in the uses it makes of the gas that it purchases via the agreement or for the purposes for which it purchases the gas. Similarly, it is determined that without breaching its obligations regarding gas reserves, the sellers will not by limited by the sources of the gas which they supply (either from Israel or abroad) to the IEC, according to the agreement

f. The sellers will see to it that in every stage of the agreement they will have remaining reserves in their reservoirs of at least 130% of the remaining TCQ (the total contracted amount remaining

[1] MMBTU equals one million BTU

after deducting gas which was supplied by sellers according to the agreement). The agreement sets instructions for the reporting on and supervision of the remaining reserves regarding specific instructions and adjustments in the agreement in case that the sellers don't have enough reserves to satisfy the reserve percentage demanded in the agreement.

g. The agreement stipulates the annual contracted amount which changes over the period of the agreement according to the pace at which the transmission system is completed and connected to the power stations of the buyer in a way that allow delivery of the gas at the specific power stations (the annual contracted amount).

h. The supply of gas according to the agreement is on an hourly basis with a minimum and maximum amount set per hour, in accordance with the procedures and mechanisms as detailed in the agreement.

i. Minimum Bill Quantity: The agreement sets the minimum bill quantity annual amount, at a level of 80% of the annual contracted amount (subject to adjustments) for which the buyer is committed to pay even if the buyer did not consume the above amount subject to the agreement provisions ("minimum bill quantity"). There are also instructions regarding the calculation and the adjustments of the minimum bill quantity, amongst others, for reasons of force majeure or the non-supply by the sellers. The agreement also sets a mechanism for the accumulation of excess amounts which the buyer consumed over a year such that they can be used to deduct the IEC's minimum quantity obligations for coming years. Similarly, instructions and mechanisms are set to allow the IEC to receive gas without further payment if it has paid for gas which was not used due to the minimum bill quantity mechanism, as mentioned above.

j. Monetary Scope of the Agreement: In the Company's estimate, the total net receipts (excluding royalties to the State and third parties, including parties in the group) to Delek Drilling Partnership, to Avner Partnership and to Delek Investments, as of the beginning of production for relating to their part only, is estimated at $330 million, $300 million and $60 million, respectively, based on the hedging agreements that the partners have executed (see paragraph k below). The estimates above are forward looking statements based on the expert professional opinion that Delek Investments and the partnerships have received regarding the future gas consumption by the IEC. The estimates may not be realized if the actual gas consumption by the IEC are below the projections aforementioned.

k. The contracted price for the gas is set in USD per gas unit BTU and is linked to the basket of fuels and the US Producer Price Index according to the mechanism in the agreement, which includes a minimum and maximum price. The above, it should be noted that in light of contracting hedging agreements as explained in note 35d to the financial reports, after the signing of the contract with the IEC, Delek Investments and the partnerships have fixed the price of the expected gas quantities to be sold according to the agreement with the IEC, at $2.47 per million BTU.

l. Gas Quality: The natural gas designated for delivery needs to be, at the time of delivery, in accordance with specifications that are set in the agreements and according to the demands of the transmission company as approved by the proper authorities, from time to time. The buyer has the right to refuse to accept substandard gas until the deficiency is corrected. Any disagreement by the parties over the quality of the gas will be judged (at the request of either party) by an expert.

m. Breaches and Compensation: According to the agreement, if the sellers will not supply in any given hour, the gas quantities which were ordered by the buyer according to the agreement and the non-supply is an amount above the standard deviation allowed by the agreement, the sellers will compensate the buyers by selling to the buyers gas at a discounted price in the amounts that were not supplied, in the sequential month. Similarly, the agreement sets specific breaches of each of the parties where compensation is paid at high rates (including cash compensation). The agreement also sets responsibility limitations for each of the parties regarding breach of parts of the agreement.

n. Securities and Guarantees: The agreement establishes securities that each of the sellers needs to provide for the benefit of the buyer to guarantee the sellers obligations according to the contract, all in the dates, the conditions and amounts set in the agreement. The total part of Delek Investments, Delek Drilling Partnership and Avner Partnership in the aforementioned security, is $15.9 million until July 1, 2005 and $26.5 million starting with July 1, 2005. The security above are in the form of bank guarantees.

o. Relationship between the Sellers and the Seller's Coordinator: The sellers act together regarding topics such as development of the reservoir, the seller's facilities and gas production, its delivery and supply according to the agreement. Notwithstanding, the buyer declares that each instruction of the agreement will not be considered as creating mutual responsibility amongst the sellers and that each seller will be responsible vs. the buyer only for that portion relative to his part in the oil rights as set in the agreement. Despite that, the buyer is authorized to order gas quantities via a single notice to the seller's coordinator, the amount that will be deemed as ordered from each of the sellers will be the portion of each of the sellers from the total quantity ordered. The amount of

gas that will be supplied by each seller, at any hour, at the delivery point will be equal to each of the sellers relative portion of the gas. If the amount supplied is less than the amount ordered by the buyer, the deficit will be assigned relatively to each of the sellers.

7.19.4 Agreement with Bazan, Ltd.:

a. On September 3, 2004 an agreement was signed between the Yam Thetis Project partners and Oil Refinery Facilities, Ltd. Bazan, Ltd ("Bazan"), for the supply of gas to Bazan Ltd. oil refinery in Ashdod.

b. The total contracted amount that the Group is required to supply to Bazan is 1.3 BCM. Notwithstanding, Bazan has the right, until the date set in the agreement to reduce the contracted amount to 0.8 BCM if it decides not to build a co-generation unit.

c. The period of the contract is ten years from the end of the trial period resolved in the contract or until Bazan will consume the total amount, whichever is earlier.

d. Bazan committed to "take or pay" for a minimum annual amount of gas as noted in the agreement and its mechanism.

e. The monetary scope of the agreement (for all Yam Thetis Project partners) is estimated at between $120 million for the full quantity and $75 million in the case of the low quantity. The actual revenues will be influenced by several conditions, mostly the price of crude oil and the pace and amount of consumption of gas by Bazan.

f. The supply of gas to Bazan will start with the completion of the gas pipeline and the receipt of

all the necessary authorizations for its operations.

7.19.5 Non-Biding Agreement in Principle for the Supply of Gas with Delek Ecology – Limited Partnership[1]:

On July 21, 2002 an agreement in principle was signed between the partners of the Yam Thetis Group and Delek Ecology, Limited Partnership (the buyer) for the supply of natural gas to the power station that the buyer is building near the Ashkelon shore for the purpose of supplying electricity to the desalinization plant that is being built in the area. The deal between the Yam Thetis Group and the buyer is for the supply of an annual amount, in principle, of 0.13 BCM of natural gas. The monetary scope of the deal (for all the partners in the Yam Thetis Group) is estimated at between $8-$13 million per annum and will be influenced by a number of conditions. Among these conditions are the global fuel prices as well as the natural gas supply conditions. It should be noted that Delek Group holds 100% of the rights of the buyer. Dated as of this report a binding supply agreement has yet to be signed with Delek Ecology – Limited Partners.

7.19.6 Non-Binding Agreement in Principle to Supply Gas to Dorad Energy, Ltd. (Dorad):

On May 22, 2004 the partners in the Yam Thetis Project contracted a non-binding agreement in principle for the supply of gas to an 800 mega-watt power station expected to be built by Dorad in the KZAA facility in Ashkelon. Additional details about the agreement in principle as well as an agreement for an investment in Dorad which have not been approved by a shareholder's meeting, are included in an immediate report published by the Group on May 23, 2004.

In light of the decision of the limited partnership not to contract the investment agreements with Dorad, Delek Infrastructure, Ltd., (a subsidiary of Delek Investments) decided to contact Dorad in an investing agreement according to the immediate report mentioned above - yet the agreement has yet to be signed.

[1] A Wholly owned limited partnership of the Delek Group.

7.19.7 Non-Binding Agreement in Principle with Hadera Paper Factories:

On August 30, 2004 a non-binding agreement in principle was signed between the Yam Thetis Project partners and American-Israel Paper Factories, Ltd. for the supply of gas to the Hadera Paper operator. Details of the above agreement were published in an immediate report of August 31, 2004.

7.19.8 The Limited Partnership Agreements of Delek Drilling and Avner :

Delek Drilling Management (1993), Ltd., and Avner Oil and Gas Ltd., are a party, as general partner to the limited partnership agreement of Delek Drilling Partnership and Avner Partnership. Most of the provisions of the limited partnership agreements are similar in their main points.[1] What follows is a summary of the main provisions of the above mentioned agreements ("Limited Partnership Agreement"):

The limited partnership agreement was signed between the general partner on one side and the limited partner and trustee on the other.

The goals of the partnerships are to participate in oil and/or gas exploration activities in those geographical areas that were outlined in the limited partnership agreement.

The main expenses of the partnerships will be "exploration and development expenses" as that term is defined by the income tax authority's rules (for the calculation of tax on the holding and sale of participation units in an oil exploration partnership) of 1988.

The general partner of each of the partnerships is due 0.01% of the revenues and to pay out 0.01% of the expenses and losses of the limited partnership and for expenses and losses of the limited partnership that the limited partner is barred from taking, due to his limitations.

According to the rules of the limited partnership agreement, the general partner will manage all

[1] The limited partnership agreement of Avner Partners determines that the general partner will by authorized to use the operator for oil exploration operation on areas in which the limited partnership has interests and will be authorized to appoint an operator in areas where it will have future interests. In addition, the partnership agreement of Avner determines the royalty rights of the interested parties in the general partnership and the date of the setting up of the limited partnership (Drs Rosenberg and Cohen Development and Industrial Buildings, Ltd.)

businesses and dealings of the limited partnership according to his judgment and to the best of his ability and shall make his best endeavors in order to execute the goals of the limited partnership as detailed in the agreement. Each partnership appointed an overseer with certain specified oversight authority whose goal it is to protect the interests of the holders of units in the partnerships. The general partner is entitled to receive a monthly management fee of $40,000 and for a refund of certain direct expenses that were allowed according to the limited partnership agreement.

The limited partnership agreement determines that all profits that are worthy to be distributed to the partners according to the law and after deducted amounts (that are not included in the profit calculations) will be divided, according to the partner's rights, as determined in the limited partnership agreement.

The general partner and/or his workers and/or his managers will not be responsible to the limited partnership or the limited partner for any act, including omission that was done in the name of the limited partnership according to the authority granted to the general partner by the agreement or by law, unless the said acts were done by malice or fraud of were the result of gross negligence regarding the aforesaid. The agreement also elucidates the insurance and indemnification of the general partner.

The limited partnership will remain in effect as long as it has un-expired direct or indirect oil/gas assets or rights in such assets. The limited partnership will cease before the above dates if it is disbanded before by instruction of the agreement or by law or by the partner's consent.

7.19.9 The Agreement for the Payment of Royalties :

Between Delek Energy and "Delek" Israel Fuel Company, Ltd, (hereinafter the "Transferors"), and between the general partner of Delek Drilling Partnership in the name of Delek Drilling Partnership, was signed in 1993 a rights transfer agreement. According to the agreement mentioned above, the transferors transferred to the limited partnerships, rights for specific oil licenses. In connection with the transfer of the rights mentioned above, Delek Drilling Partnership is obligated to pay to the transferors (the rights of Delek Israel Fuel Company, Ltd. were transferred on March 30, 2000 to Delek Investments and Properties, Ltd., within the framework of the

reorganization of Delek Group) royalties at the rate detailed below from every oil and/or gas and/or other material asset lease of the partnership that will be produced and used from the oil assets, that are in the interest or will be in the future (before deducting for royalties from any type or after depreciation of the oil that will be used for the purpose of the production itself). And these are the royalty rates: Until the date of a return of the investment of Delek Drilling Partnership, royalties will be paid at a rate of 5% of land oil assets and 3% of marine oil assets and after the date of the return – from the land oil assets 15% and from marine 13%.

According to agreements between Delek Drilling Partners and the transferors an expert was appointed in 2002 to determine the proper significance of the terms and stipulations regarding royalties that Delek Drilling Partners needs to pay. This is specifically so regarding determination of the "investment return date". The expert, an attorney from London decided on the proper calculation method as well as which elements should or should not be counted towards the investment return date.

7.20 Goals and Business Strategy

The goals of the Company in this sector are, as follows:

7.20.1 To contract for the sale of all of the gas reserves of the Yam Thetis Project.

7.20.2 To act to increase the available gas reserves and to continue to execute explorations for oil and gas within the framework of the existing oil rights and to examine the possibility of exploration in other geographical areas.

7.20.3 The continuation of the activities in Vietnam and to find other exploration opportunities in Israel and abroad.

7.21 Operational Risk Factors

Oil and gas exploration and the development of oil and gas discoveries are dependent upon large monetary outlays with a high financial risk for reasons that are detailed below. These have even higher significance for all that is related to oil exploration and production at sea.

7.21.1 Fluctuations in the USD Rate:

The revenues of Delek Investments and the limited partnerships according to existing agreements to sell natural gas (and the hedging agreement for the deal with the IEC) are in US dollars and therefore a decline in the value of the USD will cause a drop in the New Israeli Shekel (NIS) revenues. On the other hand, some of the sector's expenses (including oil exploration expenses) are in USD and therefore a rise in the value of the USD increases the NIS expenses.

7.21.2 Dependence on the Global Price of Fuels:

The prices paid by consumers for gas in the reservoirs in which the Company is in partnership are cut by the price of alternative sources of energy like oil and coal. Fluctuations in the prices of alternative fuels could influence the prices that can be received from the Group's customers for the gas and can influence the profitability of producing gas from other reservoirs that might be discovered, if so.

7.21.3 Competition for Gas Supply:

To the knowledge of the Group at the time of this report there exist three main competitors for the supply of natural gas to the Israeli market (see paragraph 7.10, above). In light of the relatively small Israeli gas market, competition could cause a decline in prices and as a result could harm the Group's potential to market its known or future reserves. Also regarding the oil exploration in Vietnam, Delek Energy might have to compete with other gas suppliers in the local natural gas market.

7.21.4 Uncertainty Regarding the Construction of the National Gas Transmission System :

The ability of the partners in the Yam Thetis Project to supply gas to the other potential customers and to increase the amount of gas supplied to the IEC is dependent upon, among other things, the construction of a national gas transmission system. As of the date

of this report, there remains uncertainty regarding the completion of the transmission system.

7.21.5 Insurance:

Even though insurance policies have been purchased to cover damages that might be caused in the Yam Thetis Project, not all the possible risks are covered by the policies and therefore the insurance coverage might not cover all possible losses. Similarly, there is no certainty that it will be possible to continue purchasing insurance in the future at reasonable rates, if any.

7.21.6 Operational Risks:

Oil and gas exploration and production are exposed to many risks which are related to exploration and production of gas, such as uncontrolled eruption from the drilling pit, explosion, collapse and inflammation of the drilling pit. Each of these can cause damage or destruction to the oil or gas reservoirs, production installations, exploration equipment as well as human and other property. An additional risk is the loss of equipment in the drilling pit in a way that the continuance of the drilling is impossible or dependent on large expenses to remedy the situation. Should any of these events occur at sea consequences can be severe and can cause heavy damage. Further, there is a risk of responsibility due to damage via pollution caused by a leak, or eruption of oil or gas reservoir. There is no way to secure against all of these possible risks nor is there a way to assure that the policies that will be in hand will provide the total coverage. It should be noted that decisions made regarding the scope and type of insurance are different and separate for each drilling project taking into consideration, amongst other things, the cost of the insurance and the risks involved. Regarding specific insurance, the general partner or the operators can decide not to carry out.

7.21.7 Dependence on Contractors, Equipment and Professional Services:

Today in Israel there are no contractors who can execute drills or seismic surveys of the type that are executed by the limited partnerships at sea. Therefore, the partnerships need to contract with foreign contractors in order to acquire the necessary services. Further, the number of floating rigs and other vessels capable of drilling at sea in general and

in deep water in particular is small compared to the demand today. There is no guarantee that the proper vessel and equipment will be available in the time needed. Due to this, offshore oil exploration (in Israel and abroad) might be dependent upon high costs and/or could cause significant delays in the timetables that were set in the work plans. Not all of the proper equipment or manpower necessary to execute specific tasks of oil exploration and oil tests are found in Israel or can be ordered at short notice. Therefore, often it is needed to look abroad for the necessary equipment and manpower. This adds to the expense and to the timeframes of the operations. Contracting with foreign contractors to execute offshore oil explorations, development and production operations (including maintenance and repairs contractors) may be sometimes difficult due to the difficult security and political situation of Israel.

7.21.8 Partial Data, Estimates and Assumptions:

Explorations for oil and gas are not exact sciences and therefore requires great financial risk. The geological and geophysical means and techniques are not advanced and cannot provide an exact picture as to the placement, shape, characteristics or size of an oil or gas reservoir. Therefore, the designation of the proper locations for the exploration and the estimates as to the size of the existing proven gas reserves are based on partial and estimated data and on unproven assumptions. It is obvious that it is not possible to be sure that oil or gas will be found at all or that if it will be found that they will be found in commercial amounts. Further, there is a lack of direct geological and geophysical information regarding some of the offshore regions of the Company's oil assets. This is partially, among other things, because of the minimal numbers of drills and lack of information that can be taken from them. Therefore, changes can occur from time to time in estimating the scope of the reserves in the proven reservoirs.

7.21.9 Costs and Estimated Timetables and a Possible Lack of Means:

Estimated costs and estimated timetables for the execution of exploration activities are based on general estimates and could change substantially. Exploration plans could change significantly in light of facts that are discovered during various activities, causing delays and extra expenses. Mishaps during

exploration and production operations as well as other factors can affect the timetable to be extended beyond plan and the costs necessary to finish the project could increase well beyond the planned budget. Similarly, exploration activities can uncover costs that the limited partnerships may not be able to cover. According to the joint operational agreement of the offshore regions, untimely payment by part of the companies or limited partnerships to the approved budget for the approved work plan causes a breach of the agreement and could bring to a loss of rights of the respective oil assets on which the operational agreement holds. Since each side is responsible in the joint operational agreement to pay his relative part on time, any amounts not paid by one side could cause the other partners to pay additional sums, relative to their portion of their participation in the oil asset(s) upon which the breech was conducted, and if payment is not made on time they risk loosing their rights in these assets. Due to the heavy costs of offshore drilling and development, budget overruns - expected and unexpected – could cause a situation where the partnerships will not be able to stand by their financial obligations and as a result, loose their rights.

7.21.10 Field Development in Case of a Discovery:

The decision making process regarding continued investment in a field and commercial production and intermediate operations until commercial production (if decided that needed) can take a long period of time and are dependent upon heavy financial expenses. It should also be noted that production in deep water (as in the Noa lease) is a complicated operation requiring advanced technology for the construction of special rigs.

7.21.11 Dependence on Receiving Permission from External Factors:

Operating in certain regions requires different official permits. To the Group's knowledge, the official approvals necessary in Israel are: Petroleum Law, the Natural Gas Economy Law, the Ministry of Defense and the Israel Defense Forces (IDF) permits, the Nature and Parks Authority, Civil Aviation Authority, Local Councils, Building and Planning Authority, Agriculture Ministry- Fishery Department and the Ports and Railways Authority of the Ministry of Transport. Getting these approvals could be

dependent on costs over and above the budgeted ones or could cause delays in the execution of the planned activities. Dependence on the permission of the Defense Ministry could disrupt the plans of the partners and therefore disrupt the ability to execute the planned activities, on time and at the budgeted costs in the sector.

7.21.12 Regulatory Changes:

In the scope of operations in the sector in Israel petroleum regulatory approvals are required, mostly those stipulated by the Petroleum Law and the Natural Gas Economy Law as well as the from the usual state authorities such as the Ministry of Defense, the Ministry of the Environment and the Building and Planning Authorities. Over the last few years there have been a number of proposals for amendments to existent laws and regulations that are relevant to the activities of the Group. Regulatory changes as aforementioned can have a negative effect on the limited Partnership's operations and activities.

7.21.13 Dependence on Weather and Sea Conditions:

Rough seas and difficult weather could cause delays in the timetables that were set for operation plans at sea. These delays could raise expenses beyond the budget and could even cause large delays.

7.21.14 Tax Risks:

The tax issues dealing with limited partnerships have yet to be litigated in the Israeli tax and legal system and it is impossible to determine or to forecast how the courts will rule in such issues, if and when these issues are brought before them. Similarly, regarding some of the legal issues there is no way to forecast the tax authorities position.

7.21.15 Financing Obligations:

Delek Investments and the limited partnerships have contracted financing agreements as detailed in paragraph 7.15, above. The agreements require Delek Investments and the limited partnerships to collateralize their rights in the Ashkelon lease, in the agreement with the IEC, in the hedging agreements dealing with the IEC deal, in the joint operating agreement for the Yam Thetis Project, in facilities and rights and insurance policies. Breach of the financing agreements could lead to the immediate prepayment

of the financing loans as well as the realization of the assets that have been collateralized.

7.21.16 Dependence on a Main Customer:

Delek Investments and the limited partnerships contracted with the IEC for the supply of natural gas. The IEC is currently the sole and only large consumer of natural gas in Israel and as of today the only large customer of Delek Investments and the limited partnerships. The payments received from the IEC are the sole revenue source of the group's activity in the sector. The inability of the IEC to stand in its undertakings according to the agreement and to pay on time could lead to a breach of the financing agreement and thereupon to the immediate repayments of these agreements. In addition, the conditions of the IEC's license end in March, 2006. It is not possible to foresee the changes in the IEC's operating license (if it will be extended) and how such changes will influence the economic situation of the IEC. It should be noted that the government's policy to increase the competition in Israel's electricity market by introducing new, private producers, as well as the government's intention to privatize the IEC could bring to financial instability of the IEC and could effect its ability to uphold its obligations according to the agreement. The agreement with the IEC has several "force majeure" provisions that releases the IEC from its obligations top continue and execute payments.

7.21.17 Dependence on the Operator:

The Company has a large degree of dependence on Nobel, the operator of the Yam Thetis Project, due to the joint operating agreement, due to Nobel's vast experience in executing projects of this scope in various places around the world as well as due to the relative lack of experience of the Company in such projects. The resignation of Nobel as operator or a change in its status in a way that could not allow it to remain as operator will harm the ability of Delek Investments and the limited partnerships to stand in their obligations according to the gas sales agreements and therefore could effect the costs of production. Also, in the exploration project in Vietnam, the Company is dependent upon an operator, Premier Vietnam. Also, its dependence is due to the fact that the Company has limited experience in such projects, and it does not have representation in Vietnam.

7.21.18 Arrears in Joint Operations:

According to the agreements with the other partners in the oil assets, a party that does not pay in full the amounts it owes might loose his rights in the oil assets without any compensation.

7.21.19 Lack of Resources for the Purpose of Development and Production and Participation in Operations:

Additional commercial discoveries will require the limited partnerships to invest additional monies in order to develop and produce such discoveries, monies beyond what the partnerships have today. These costs, especially regarding offshore discoveries are high and the activities necessary will also be subject to risks, including operational risks. Even if the discovery is very valuable there is no assurance that the collateralizing of such discovery will be enough for the limited partners to be able to attain credit for its development and production. It should be noted that due to the royalty payments duty to the State of Israel and to others, there is no assurance that the discovery will be enough to consider it commercially viable and will therefore not be economically worthy to develop. A sharp rise in the cost of production or a sharp drop in the price of oil could have an influence on the feasibility of production operations.

7.21.20 Cancellation or Expiration of Rights and Assets:

Oil rights are given according to the Petroleum Law for a specified period and their validity is dependent upon fulfilling obligations on time as stipulated in the rights conditions. If the conditions are not met, the rights can be cancelled. An extension of the oil rights is the decision of the proper authorities according to the Oil Law. The authorities can refuse an extension, reduce the rights or add other conditions. The ability to use the oil assets is dependent on having the limited partnership able to finance its activities and in finding the proper equipment and manpower. A lack of equipment or manpower can result in the project being more expensive and harm the effort to fulfill obligations. This could cause a cancellation of the rights or a shortening of the rights period. Regarding the above it should be noted that in certain offshore areas, the Ministry of Energy released in 1994 a document titled "Operational Principles for Deep Sea Exploration" where it was established, among other things, that rights to search for oil in deep water is

dependent upon a 10% (minimum) partner with prior experience in drilling and producing oil in deep water. Non-compliance with these conditions could cause the cancellation of rights in that area and all the monies invested in the said project can be lost.

7.21.21 Migrating Reservoirs:

It is possible that gas from natural gas reservoirs that are discovered or will be discovered in the areas in which the Group has rights in, will "migrate" (from the viewpoint of the geological structure of the reservoir and its size) into areas where the Group has no rights, and vice versa. Also the gas may migrate to areas outside of the continental shelf of the State of Israel. In the case where gas "migrates" to areas in which others have rights, the sides might have to come to an agreement in how to execute production and mutual utilization from the reservoir, in order to achieve maximum efficiency.

The table below represents the risks that were described above (Macro risks, industry risks and special risks), which were rated, according to the estimates of the Company as large, medium or small:

	Risk Levels for the Company's Operations		
	Large	Medium	Small
Macro		USD Volatility Dependence on the Oil Prices	
Industry Risks		Competition from other gas Suppliers Uncertainty regarding National Transmission System Incomplete Information Regulatory Changes	Insurance Operational Risks Dependence on Contractors Estimated Timetables and Costs Oil Field Discovery Development Dependence on Approval from Outsiders Dependence on Weather
Risks Specific to the Company	Dependence on a main Customer	Financing Obligations	Tax Risks Dependence on Operator Arrears in Payments Lack of Production and Development Resources Cancellation or expiration of oil right and assets Migration of gas

8 Automotive Sector

The automotive sector is based on the activities of Delek Motor Systems Ltd. and its subsidiary corporations (Delek Motor Systems Ltd. And the subsidiary corporations shall be referred to herein as DMS).

DMS has been operating in Israel since 1994 as importer and distributor of Mazda cars and car parts. In 1999 it started to import and distribute Ford cars and car parts in Israel. DMS also operates a main automotive garage where it provides maintenance and repair services to its customers as well as giving support and guidance to the authorized garages and dealerships for “Mazda” and “Ford” situated across Israel (for details see paragraphs 8.2.1 and 8.2.2, below). DMS also has the rights to sell, market and distribute Lincoln cars and car parts in Israel. At the date of this report DMS does nor sell Lincoln cars and car parts. In

addition DMS also holds 33.3% of Shagrir Towing Services Ltd. (herein: "Shagrir") which, until its operations were sold on February 28, 2005, provided alternate vehicle and towing services.

At the date of this report, DMS is a public company and its securities are traded on the Tel-Aviv Stock Exchange Ltd..

8.1 General Information Regarding the Sector

8.1.1 Structure and Changes in the Sector

The Israeli automotive market is different than most other markets in the world due to its geographical isolation and the high import taxes on the vehicles. The automotive level is low in relation to western countries, due to a relatively low standard of living, high prices due to high import taxes, poor road infrastructure and high population density.

The automotive market in Israel is relatively dispersed and is comprised of a number of importers of cars produced in different parts of the world. Most importers imports only two or three brands.

The market in Israel is characterized by volatility caused by changes in the macro-economic situation.

What follows are the trends and characteristics of the market as it influences DMS and its competitors: (a) Dependence on suppliers – the general success of car importers is dependent upon the financial and business strength of the car producers and in new product strategies, worldwide brand management, pricing policy and marketing support. (b) Changes in the tastes of the Consumers – The volatility of the Israeli car market is caused by preference of certain models due to technological advantages, price, availability of the vehicle and its resale value. (c) Customs Taxes – In Israel, there are a number of purchase and import taxes on the importation of private cars that amount to over a 100% of vehicle prices. These tax rates are of the highest in the world. The high tax rate has an effect on the purchasing power of private consumer in the purchase of new vehicles and therefore may effect DMS's sales.

8.1.2 Legal, Regulatory and Unique Constraints In the Sector

In 1999 the government started a reform of the Israeli automotive market. The Finance and Transportation Ministries formed a committee in order to remove barriers and eliminate centralization in the automotive

market and to open the market to competition. The committee recommended a series of steps upon which legislation was based. The main reform was the elimination of exclusivity in the import of brands. An additional report was issued in December, 2003. The report recommended that a direct contact between car-maker and dealer no longer be required, allowing the importer to deal with authorized dealers of the brand as long as there's a mechanism that makes sure of the following- the existence of appropriate technical standards, technical suitability of the vehicle to Israel, warranty requirements, parts availability and support services, financial ability of the authorized dealer as stipulated in the committee's report (herein: "parallel import"). After publishing their report the committee's members held a hearing that gave interested parties the opportunity to state their minds on the committee's conclusions. At the end of the hearing the committee decided to make a validity test of the parallel import. As of the date of this report, validity tests are being held for the parallel import, it is still unclear whether legislative action will come to effect regarding parallel importation of vehicles. DMS estimates that there will not be an economic justification for parallel import except for luxury and niche cars. Similarly, according to an agreed upon order by power of section 50b of the Restrictive Trade Practices Law - 1988, came into effect on April 24, 2003, and included restrictions for the purpose of preventing car importers from entering into restrictive arrangement and preventing the entrance of competitors to the business of importing car parts. For further details on the limitations and legal arrangements relevant to the importation of cars and car parts, see paragraph 8.16, below.

8.1.3 Changes in the Scope and Profitability of the Sector

In 2004, due the growth of the commercial leasing market there was a rise in the number of vehicles sold in the Israeli market. Therefore, the leasing companies have a dominant part in the replacement parts market and in the type of parts used for the repair of vehicles. Most of the leasing companies do not turn to DMS's Central Garage and therefore this does not have a big influence on DMS's replacement parts sales.

8.1.4 Main Causes for Success and Possible Changes

In DMS's view there are a number of main issues upon which the success of companies operating in the field of car and car part import, is based: (a) new models and their branding on the consumers. (b) The importer's high marketing ability. (c) The reputation and the level of service of the importer the replacement parts supplier and of the garage. (d) Good relationship with manufacturers. (e) Commercial relationships with the leasing companies. (f) the business environment in which DMS operates and specifically the foreign currency exchange rates according to which the importer buys cars and the exchange rates his competitors are subject to. (g) the resale value of the vehicles in the used car market. (h) Replacement parts prices, in light of the opening of the market to competition. (i) Availability of spare parts.

8.1.5 Competitive Environment and Changes to it

The competition in the automotive market is particularly large. For details, see paragraph 8.6, below.

8.2 Products and Services

8.2.1 Cars manufactured by Mazda and Ford

DMS imports, markets and distributes a wide range of private and commercial cars manufactured by Mazda and Ford, via agreements with the said car manufacturers. For a description of the concession agreements see paragraphs 8.16.1 and 8.17.2, below.

Producer	2004				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Mazda	6,037	7,770	5,536	5,257	5,166	4,675	4,035	6,415
Ford	1,883	3,056	3,184	3,069	2,096	3,143	2,707	3,286
Total	7,920	10,826	8,720	8,326	7,262	7,818	6,742	9,701

The main models marketed by DMS, at the date of the this report are: Mazda 3 which was introduced in September 2003 (first introduction, worldwide), Ford Focus, Mazda 6, Ford Connect, Ford Mondeo, Mazda MPV and Ford Transit.

DMS's total market share for 2004 and for 2003 were 25% and 26%, respectively of the total of cars delivered to clients in Israel.

In addition, DMS has the concession for the marketing and distribution of Lincoln Continental cars and replacement parts. At the date of this report DMS does not sell such cars.

8.2.2 The Importation of Spare Parts and the Supply of Garage Services

DMS markets and distributes every kind of accessory and spare parts for the vehicles it imports.

In addition, DMS provides maintenance and repair services to its customers and support and guidance to the official Ford and Mazda dealers and authorized garages via its central garage in the city of Holon. DMS is planning, in the course of 2005, on moving its central garage to its main logistics center in Nir (see paragraph 8.7, below).

8.3 Revenue and Product Segmentation

What follows is data regarding the segmentation of DMS's revenues (including indirect taxes) from the sale of automotive related products, that were at least 10% of the company's revenues in 2002, 2003, 2004 (in NIS million and in per-cent of revenues):

	2004		2003		2002	
	NIS	%	NIS	%	NIS	%
Mazda 3	1,674	11.2	-	-	-	-

For details regarding the gross profit from the automotive sector see note 33(b)(4) of the financial reports.

8.4 Customers

8.4.1 DMS has two key types of customers: Private and institutional. The meaning of the phrase institutional clients shall include leasing companies, car rental companies and the government's automotive (purchase) manager. In 2004, revenues from sales to private and institutional customers were equal.

8.4.2 DMS customers who purchase replacement parts and maintenance services are mainly: Customers of the central garage, authorized garages, distributors, private customers and insurance companies who provide services for their clients in the framework of the insurance.

8.5 Marketing and Distribution

8.5.1 DMS markets and distributes the cars it imports via eight showrooms owned by DMS as well as through nine showrooms belonging to independent dealers. Most of DMS's sales are committed through it's own showrooms. DMS also sells directly by applying to institutional customers.

8.5.2 DMS's showrooms are distributed throughout the country and are rented from third parties, with the exception of the Mazda showroom in Tel-Aviv, which DMS owns.

8.5.3 DMS has seven independent agents that maintain and operate showrooms in the main urban cities in which the cars imported by DMS are presented. The agreement with the said dealers is not an exclusive one. Therefore, DMS can contract with other dealers at the same or better terms. However, DMS does identify sales areas where it will agree not to put more than one dealer (although DMS itself can act in any area, regardless). The agreements with the dealers are for one-year periods and are renewed automatically for periods of one year unless one side gives three months written notice of his wish to discontinue the agreement.

8.5.4 The marketing of most of the spare parts produced by Mazda and Ford is done by DMS's central logistics center in Nir Tzvi from were they are sold to 57 authorized garages across Israel that were allowed to give service to Ford and Mazda cars (herein the "authorized garages"). DMS also sells parts to

dealers and distributors of spare parts in Israel. According to the agreement with the authorized garages, they must locate, operate, maintain and manage their garages according to rules and instructions of DMS and according to the law. The garage owner is also required to use parts and accessories that are up to the standards of the automobile manufacturer. DMS is authorized to instruct the authorized garages to use specific parts, as detailed in the agreement. The garage owner is required to purchase and hold in inventory the parts in quality, type and number as DMS requires. The garage owner also commits to fix, without charge to the customer all work, according the car-makers warranty agreement or any other service contract that received the prior approval of DMS. DMS will pay the garage owner for the services according to the warranty or the service contract which includes the price for parts minus a discount that will be decided from time to time by DMS, with an addition of labor costs as determined by the agreement. The period of the agreements are for one year from signing and are renewed automatically for one year periods. Each party can end the agreement with three month's written notice of their wish to discontinue the agreement.

8.5.5 DMS markets its products through advertisements in the various media outlets, according to the judgment of DMS management and maintaining the rules stipulated by the manufacturer.

8.6 Competition

The Israeli automotive market is a highly competitive market with a large number of car types imported from various regions of the world: Europe, USA and the Far East. The competition is based on brand, model, price, payment terms, service quality and the car's resale value in the used car market. There are external influences on the Israeli market such as: Competition in the Global automobile markets, car manufacturers and currency rates according to which the cars are purchased. Internal influence comes from the activities of the other importers in the Israeli market. To the best of DMS's knowledge their main competitors are: Union Motors (Toyota importers), Calmobile-Calmotor (Mercedes, Hyundai and Mitsubishi importers), David Lubinski (Peugeot and Citroen), Carasso (Nissan and Renault), Champion Motors (VW, Audi and Seat) and UMI (GM). In 2004

DMS's market share was 25% of the total automotive market, 26% of the private sales and 47% of imports from Japan.
The competition in the spare parts and garage service markets are heavy. There are other parallel importers of original parts and generic replacement parts. Available also are counterfeit parts, parts from used cars, reconditioned parts and stolen parts. The service competition is between official authorized garages and non-official ones. DMS cannot estimate its market share in the service and replacement parts markets.

8.7 Fixed Assets and Facilities

What follows is a short description of the main real-estate and other main fixed assets of DMS:
DMS has a new logistics center near Moshav Nir Tzvi that includes a warehouse and offices totaling 85,000 square meters (herein the "Logistics Center"). At the date of this report the activities in the Logistics Center include the storage of vehicles, preparation and handover of the vehicle to the customer and marketing and sales of spare parts by DMS. Similarly, the management of DMS and the service staff are located in the Logistics Center, DMS intends to transfer its central garage to the Logistics Center by the end of 2005. As of the date of this report, DMS does not have building permits for the central garage in Nir Tzvi. Today, the Logistics Center is capable of storing 2,500 vehicles and will be able to store an additional 1,000 in the future. As of the date of this report, DMS utilizes 80% of the maximum storage area. Throughout 2004, DMS invested NIS 37 million in the said property.
In addition, DMS owns 39 hectares (.4 of an acre) of land near the Logistics Center. In 32.5 of the said real estate, DMS had leasing rights (from the Israel Lands Authority – ILA) that expired in 2002-3. By the date of this report, DMS has approached the ILA to extend the lease, but the ILA has yet to respond. The lands are designated as agricultural and tilling the land is one of the conditions of extending the lease. Some of the land is to be appropriated for the sake of building an access road. As for the rest of the land, 7.5 hectares have a valid ILA lease until 2042 with rights of extension for an additional 49 years.

8.8 Non-Tangible Assets

The company has import concessions for the sale of Mazda and Ford , from the manufacturers as detailed in 8.17.1 and 8.17.2, below. DMS is dependent upon these concessions.

8.9 Human Resources

8.9.1 DMS employs, at the date of this report, 232 workers, as follows:

Department	Number of Workers
Management	7
Finance, Computers, Administration	22
Mechanics	55
Service Workers	29
Sales	40
Logistics	41
Replacement Parts	38
Total	232

It should be noted that Ford as the right to end DMS's concession if there is a change in the management of Delek Motors, Ltd. (a wholly owned subsidiary of DMS) (herein "Delek Motors"): Meaning if Gil Agmon's employment as the head of Delek Motors is stopped without Ford's agreement (see paragraph 8.17.2, below)

8.9.2 Terms and Conditions of the Employment Agreements

DMS workers and management are employed under employment agreements. According to DMS policy and the employee Notice (employment terms) Law, 2002, each DMS worker gets a detailed written notice describing the terms of his employment. The workers receive all the rights due to them according to Israeli labor laws. Most of the DMS workers have manager's

insurance policies that include allocation for retirement and severance pay according to DMS's.

In addition, all of DMS's employees are covered by the collective bargaining agreement for import, export, service and trade sector workers of February, 21, 1977 (as amended June 11, 1980 and October 27, 1983) that was signed by the Histadrut Trade Union, the clerks union, the management and services workers (herein the "workers union")and the Tel-Aviv Yafo Trade office that applied to all the employees in the import and export wholesale sectors by an order of the Labor Secretary.

8.9.3 Investments in Training

DMS has regular training sessions for its workers, as needed. Amongst the rest, DMS sends it professional workers to trade exhibitions and workshops on relevant topics.

8.9.4 Employees Compensation

DMS compensates its workers according to job and seniority. The compensation is not part of the general employment agreement and may differ from year to year.

8.10 Suppliers

The vehicles and spare parts are supplied to DMS by vehicle manufacturers Mazda and Ford, from various factories around the world at the manufacturer's discretion. Most of the Mazda products come from Japan and most of Ford's products from Europe. The company is dependent on these suppliers. Mazda comprises 60-65% of the car and parts imports and Ford between 35-40%. For a description of the dealings with Mazda and Ford see paragraphs 8.17.1 and 8.17.2, below.
Cars and parts are available within 90 days from the time they are ordered according to the respective work plans.

8.11 Working Capital

8.11.1 Car Inventory Policy

DMS customary orders cars once every two months. The cars arrive to Israel 2-3 months after the order. DMS policy is to have in inventory for an estimated two months. On average, a car was held in inventory in 2004 for 2.5 months.

8.11.2 Replacement Parts Inventory Policy

By order of supervision on Consumer Services (Vehicle Import and Service) Law, 1978 the supplier needs to supply a replacement part for any transportation product of any model that the importer sold, within seven days of the receipt of the order. With this, the importer is protected if he can prove that he followed proper procedures and that the delay was beyond his control, as long as the part is supplied within 14 days.

The replacement part inventory policy of DMS is based on the experience of Mazda and Ford as well as DMS experience as to the needs of the Israeli market.

The time it takes for replacement parts to be delivered is about three months from the time of order. Therefore, in order to provide good service, DMS maintains a six month inventory of parts. In cases of immediate orders where it is not possible to supply the part via its regular inventory, DMS purchases the part from Mazda and Ford's central parts facilities in Europe and flies it into Israel. The replacement parts inventory totals about 60,000 items and its financial worth is, according to the financial reports, NIS 55 million.

8.11.3 Warranty Policy

DMS provides a three year warranty to all vehicles it sells, in line with manufacturer's warranties. In addition, the manufacturers provide additional warranties as detailed in the warranty book found in each new car. The warranty that Mazda and Ford provide for all their models is three years or 100,000 km, whichever comes first. In the agreement between DMS and the manufacturers, DMS has committed that only authorized and approved garages will provide the necessary services as determined in the warranty book . DMS is due compensation for the performance of the warranty services. Therefore, since DMS gets back all its warranty related outlays it does not record these services as an expense. The agreements stipulate the means by which DMS gets compensation. DMS is obligated to report on each service call within 90 days and needs to keep the parts for 30 days after payment. Similarly, the manufactures can insist that the faulty parts that were replaced be returned to them. Regarding service by

the authorized garages with accordance to the warranty, see paragraph 8.5.4, below.

8.11.4 Credit Policy

Average credit for suppliers is 90 days. The average effective credit days for import taxes is 45 days. The average credit that DMS extends to customers is 54 days. The total credit to customers in 2004 was NIS 530 million and that from suppliers was NIS 415 million. The difference is due to the tax issue which is included in the customer credit but not in the supplier's.

8.12 Investments

In April, 2002 and August, 2003, DMS bought 2.8% of the capital shares of Mobileye B.V. for $5 million. Mobileye B.V. deals with the development of advanced technology sensing systems for the automotive industry. The company was on a list of "Top 100 Innovators" of the technology magazine "Red Herring".

8.13 Financing

8.13.1 What follows is the average interest rate on loans from bank and non-bank sources that were in effect in 2004 and are not intended for the exclusive use of DMS.

		Average Interest Rate	
		Short Term Loans	Long Term Loans
Bank Sources	Shekel Credit	4.3-5.5	5.2-5.7
	Euro/Swiss Franc Credit	Libor+0.8%	-
	USD Credit	Libor+0.85%	Libor+1.26%

8.13.2 Credit Limitations

The credit framework that DMS receives from the banks commits it to the following financial criteria, as follows:

End of calendar year equity can not drop below 25-30% of total assets for the year.

DMS obligated to one bank that it will not be more than 20% of any one its total credit and the ratio of bank credit to the balance sheet will not exceed 55%.

In addition, DMS committed to Israeli banks not collateralize its property and assets to other people or

groups and not to sell or transfer in any way (except in the regular DMS business), its assets to a third party without prior written consent from the banks.

As of December 31, 2004 DMS stood by these limits except for that relating to the percent of equity to the balance sheet resulting from a dividend distribution of December 29, 2004. In light of the fact that this was a one-time and temporary situation, DMS does not think this will affect the future credit policy of the banks.

8.13.3 From the date of the balance sheet and that of the report, DMS reduced its bank credit and did not take new loans.

8.13.4 DMS Credit Framework and its Conditions

DMS has a credit framework on the date of this report that totaled NIS 1,135,000 thousand. From this, DMS utilized about NIS 800,000 thousand as of the date of the balance sheet (including credit used for dealing in derivatives). The credit framework was given for a term of one year.

8.13.5 Variable Rate Credit

What follows are the details of adjustable rate credit that DMS used as of the date of the balance sheet:

Rate Mechanism	Interest Range	Rate near the Date of Report (28.3.2005)
Bank of Israel Rate	4.3%-5.5%	4.1%
Euro Libor+	0.7%-1.5%	0.7% - 1.5%
Swiss Franc Libor+	0.7%-0.8%	0.7%
USD Libor +	0.6%-2.5%	0.6%-2.5%

8.13.6 Credit Rating

On February 17, 2004, Ma'alot the Israeli securities ratings agency gave DMS's debt a "AA" rating, based partly on DMS's finance policies. To the date of this report there have been no changes to the rating.

8.14 Taxes

For details, see note 31 to the Company's financial statements.

8.15 Liens

For details see note 24(a) of the Company's financial statements. At the date of this report, DMS is acting to eliminate said liens, after receiving agreement in principle from the banks.

8.16 Regulation and oversight on DMS Operations

What follows are the details of the legal restrictions and other legal arrangements regarding the basic operations of DMS:

8.16.1 Legislation Regarding Automotive Import in Israel

By order of supervision of Consumer Services (Vehicle Import and Service) Law, 5738- 1978, it was established that no importer or agent may sell a new car unless he received a proper license from the authorized authority. DMS has licenses that allow it to import the vehicles it now imports until December 31, 2005. The licenses are given for a year and are renewed for periods of one year. The order also stipulates that a holder of a vehicle import license must also provide maintenance services through licensed service garages that operate under the order for supervision of Consumer Services (Vehicle garages and workshops) Law, 5730- 1970. This includes having service garages in the following regions: Tel-Aviv, Jerusalem, Haifa and Be'er Sheva as well as one central garage (which can also be one of the regional garages). DMS has one central garage as mentioned in paragraph 8.2.2, above, that is a Mazda and Ford garage authorized by the Motor Vehicle Department of the Ministry of Transportation. An additional condition for receiving a vehicle import license is that the holder provide a warranty for his maintenance services for not less than two years after purchase, where the first year needs to be under manufacturer warranty and where the warranty terms stay the same throughout the entire period. For DMS's warranty policy see paragraph 8.11.3 above. The order further stipulates that the importer must give his customer a certificate of warranty in the Hebrew language that includes all of the manufacturer warranties. The order commits the importer to more obligations including the marketing of transportation

products and accessories in the four regions of the country in a set period (see paragraph 8.11.2, above).

8.16.2 Price Controls

Motor Vehicles and spare parts are not under supervision deriving from any price control law.

8.16.3 Business Licenses

DMS's activities require a business license under the Business License Law 1968. At the date of the report, some of DMS's activities have yet to attain the proper business licenses and DMS is working on receiving them.

The car and spare parts sales business requires a permit from the Ministry of Transportation in line with the order for supervision of Commodities and Consumer Services (the manufacture of transportation related products and their trade) Law, 1983. DMS has a valid license from the Ministry of Transportation for the trade in transportation related products.

8.16.4 Antitrust

According to an agreed upon order deriving from section 50b of the Restrictive Trade Practices Law 1988, that came into effect on April 24, 2003, car importers are forbidden from, amongst other things, limiting service garages from acquiring transportation related products (as defined by the order) or using them except in events outlined in the order. Similarly, if the importer offers warranties beyond the legal limit or beyond what the manufacturer offers on a global or regional basis, according to the longer term (herein "extra warranty") he must present its worth and offer the consumer the option of buying the car without it. Also, it is forbidden for the importer to restrict the warranty by way of limiting the choice of garages to authorized ones, limiting the repair to specific kinds of transportation related products or to only original products, or for limiting service to a specific garage or specific worker except by the terms indicated by the law. Similarly, the importer is forbidden to request from garages or to cause them to give information about the type or number of transportation products the garage uses in a certain time period or to receive any information regarding the type or amount of parts used – except when the information is needed for the resolution of suits against the importer regarding his

warranty of the car and subject to exceptions detailed by the law. It also forbids the importer to limit the garages as to price of service except for maximum prices for services provided according to the warranty. The importer must also provide clear criteria as to the ways a garage can reach and maintain authorized license status on behalf of the importer. As demanded by the order, DMS has made a list of rules and criterion and delivered it to the general director of the Israel Antitrust Authority. The period of the order is for five years.

8.16.5 Standards

The Standards Department of the Transportation Ministry's vehicle branch sets the changes in mandatory requirements for different vehicles and model years with attention to changes in European Standards and the special requirements of the State of Israel . The Israeli mandatory requirements are based on European standards as well as American federal standards. The main standards deal with air pollution and the safety of the car, passengers and pedestrians.

8.17 Key Agreements

The key agreements DMS signed are as follows:

8.17.1 Mazda Agreement

Since 1992, DMS has imported and sold Mazda automobiles and spare parts according to an agreement from January 21, 2003 between Mazda Motor Corporation (herein: the “Manufacturer”), Delek Motors and the Itochu Corporation (herein: the “Exporter”) (herein: the “Mazda Agreement”) whereby the manufacturer committed to supply to Delek Motors specific models of Mazda vehicles detailed in the appendix to the agreement, for the purpose of sales in Israel. Replacement parts and other accessories were also part of the deal (herein: “vehicle and spare parts manufactured by Mazda”).

What follows is a summary of the main conditions of the agreement:

The supply of vehicles and replacement parts from Mazda to Delek Motors according to the agreement will not prevent Delek Motors from purchasing other vehicles or replacement parts from other suppliers for the purpose of sales in Israel, as long as it will not

have a significantly negative effect on the sale of Mazda vehicles. The Manufacturer has the sole discretion in determining whether the said sale has a significantly negative effect on the sale of Mazda manufactured vehicles. Delek Motors must inform Mazda if its intent to sell other cars or spare parts at least 90 days in advance.

Similarly, the manufacturer is prevented from selling cars or parts manufactured by other manufacturers to any other party in Israel.

In light of the above stated, the Manufacturer is allowed to sell Mazda manufactured vehicles in Israel not via Delek Motors, to a number of parties detailed in the agreement. These parties include governmental bodies, the diplomatic corps, international bodies such as the UN, Japanese companies who purchase more than ten vehicles per year, companies controlled by the manufacturer, their workers and others. Delek Motors cannot sell, directly or indirectly vehicles and spare parts outside of Israel.

The agreement period is three years from April 1, 2002 until March 31, 2005. The agreement was extended for another three year period until March 31, 2008.

Delek Motors is obligated not to use replacement parts for any purposes other than to equip and service cars in Israel.

Delek Motors is obligated to purchase a minimum amount of vehicles each years as detailed in the agreement. Delek Motors has lived up to the minimum purchase commitments stated in the agreement. The Manufacturer and the Exporter are permitted to change the amounts of vehicles in accordance with the agreement in order to live up to the demands of the Israeli market or to act in concert with the strategic plan of the Manufacturer. If Delek Motors does not buy the minimum quantity it committed to buy, the Manufacturer can end the agreement by a written notice to Delek and the Exporter.

The Mazda agreement sets the legal and business conditions relating to the distribution of vehicles and replacement parts of Mazda including amongst other, the establishment of a marketing and distribution system and the execution of marketing and sales activities. Also, the establishment of a service facility for vehicles and of a customer service management

system. It also requires the establishment of a storage facility suitable for vehicle inventory: Providing costumer warranties according to the manufacturer's warranty , the submission of regular reports to the manufacturer and exporter, confidentiality agreements, the safekeeping of intellectual property, an arbitration mechanism for solving problems between the parties, all as set in the agreement.

Each side is authorized to bring the agreement to an end a any time in writing to the other sides if one or the other parties have breached the agreement and have not fixed the breach within two months after notice was given.

Each party to the agreement can terminate the agreement in any given time by a written notice to the other parties in the event where one of the parties to the agreement is in a breach of the agreement and such breach was not corrected during a period of 2 months as of the delivery of a written notice to the breaching party demanding the breach to be corrected.

Each party to the agreement can terminate the agreement by a written notice to the other parties in one of the following events as set in the agreement, which includes amongst other: Foreclosure, bankruptcy, receivership, request to reorganize, insolvency, delay in payment, transfer of the majority or substantial part of the businesses obligations and assets of DMS, the freezing of DMS's business, merger, etc.

The manufacturer is authorized to end the agreement at any time by a written notice to the exporter and to Delek Motors if the manufacturer decides that he cannot continue business with Delek Motors because of the death, incapacity or inability or any change in Delek Motors management or as a result of a change in the legal or organizational structure of Delek Motors or in the case of a significant change in the shareholder base of the company.

In the event where as a result of force majeure (as defined in the agreement) any party to the agreement is prevented from fulfilling its commitments for a period of more then 6 months, any party to the agreement shall then have the right to terminate the agreement immediately by a written notice to the other parties to the agreement.

The exporter and Delek Motors are not authorized to transfer their obligations and rights according to the agreement, in part or in full, to any third party without the prior agreement, in writing of the manufacturer.

8.17.2 Ford Agreement

Delek Motors has been importing and selling cars and spare parts of Ford manufacture since 1999, according to an agreement signed on June 1 of that year between Ford Motor Company (herein: "Ford") and Delek Motors (herein: the "Ford Agreement"). The following are the main provisions of the Ford Agreement:

According to the Ford Agreement, Ford appointed Delek Motors as a non-exclusive authorized dealer in Israel of vehicles and spare parts produced by Ford or for it and other products as determined by Ford from time to time. Delek Motors agreed not to act directly or indirectly for another business enterprise and shall act as a Ford dealer unless Ford gives its agreement in writing. Delek Motors undertook not to sell new cars or spare parts of competitors of Ford unless given prior written consent from Ford . Ford agreed that DMS can be a concessionaire of Mazda products and even set rules for the integration Mazda and Ford concessions in Israel.

Any change in the control of Delek Motors or any change in the management of Delek Motors where Gil Agmon will no longer manage the company will depend upon the prior consent of Ford.

The Ford agreement is in effect from the date of the signing until it is ended by one of the parties in accordance with its provisions.

The agreement stipulates the business and legal principles dealing with the distribution of Ford products by Delek Motors in Israel, including the marketing and distribution operations, the setting up of a service system in line with Ford standards, the employment of suitable work-force and its instruction, the provision of warranties for Ford products, providing service, maintenance and repair, the use of trade names and trademarks and an arbitration mechanism for dispute resolution between the parties. Everything is as set in the Ford agreement.

Delek Motors has the right to end the agreement at any point by 30 day advance written notice.

Ford has the right to end the agreement immediately in one of the events detailed in the agreement that are controlled by Delek Motors including, amongst the others: The transfer by Delek Motors of the rights or obligations under the agreement; the transfer of Delek Motors essential assets necessary for the management of its business; a change in the ownership or management of Delek Motors without Ford's prior written consent; if it is discovered that Delek Motors gave false presentations regarding the agreement; if Delek Motors is insolvent; the failure of Delek Motors to act properly during regular business practices; if Delek fails to stay open during regular business hours as defined in the agreement; a conviction by court of Delek Motors, DMS, Yitzchak Sharon Tshuva or Gil Agmon for breach of law; the disagreement between the parties, that Ford feels can negatively influence on Delek Motors business, the good name of Ford or Delek Motors or any related factors; the breach of certain parts of the agreement by Delek Motors; non-payment or non-timely payment to Ford or a company related to Ford after prior notice was given and the breach was not corrected in 15 days; if the necessary license for the operation of Delek Motors is either suspended or revoked.

Similarly, Ford has the right to end the agreement with 60 days prior notice in cases were Delek Motors did not fulfill its obligations according to the agreement and Delek Motors did not repair the breach after receiving 60 days prior notice.

Ford and Delek Motors both have the right to bring the agreement to an end by 15 day written notice in the case of the death or physical or mental incapacitation of the owners of Delek Motors as stated above. Ford can decide to delay this right for three months to a year if the replacement or inheritor will ask Ford to do so and convinces Ford that he or she has the capabilities to run the company.

Ford has the right to end the agreement at any time, by 120 day prior written notice.

Ford has the right to end the agreement at any time by 30 days prior notice if Ford offers a new agreement or an amended agreement to its authorized dealers.

In the case where there will be a change in the ownership of Delek Motors or the transfer of most of the assets of Delek Motors to any other party, that will cause Ford to need to negotiate a new agreement

with that party, Ford will have the right of first refusal to buy Delek Motors or the sold assets at the same conditions as agreed by the buying party. Ford has the right to give its right of first refusal to a third party. The right of first refusal will be in effect for any transferee of Delek Motors.

8.18 Legal Matters

For a description of essential legal matters of DMS, see note 23(a)(3) of the financial reports.

8.19 Business Strategy and Goals

The main goal of DMS is to increase its operations and profits through a continual improvement of service. The completion of the Logistics Center by DMS that was established with the outlook for future developments of the automotive market in Israel, this will allow it to improve its customer service and make the company more efficient. In 2004 the company integrated a new computerized customer service system into its operations. At the date of this report the company is improving the appearance of its authorized garages and is establishing unified standards for the appearances of its chain of authorized garages.

In the coming year, DMS will launch the new Mazda 5 and the new Ford Focus. DMS expects these models to succeed.[1] The launch of the Mazda 5 will mean the entrance of DMS to a new developing market segment. These days the new Focus is being launched on a global basis and is getting positive reviews in the automotive press.

8.20 Risks

A number of risk factors can be stated that could threaten the operations of DMS as detailed in the table below:

8.20.1 Dependence on Manufacturers –

DMS is dependent upon the manufacturers of the cars it imports. According to agreements contracted

[1] This is to be considered a forward looking statement based by the management of DMS on its past experience in the sale of new models and their penetration into the Israeli market. Future looking statements might not be realized since these are DMS's estimates and are not sure things. The facts can change due to risks and other causes as detailed below.

with them, DMS must operate under certain conditions. Similarly, the said agreements can be cancelled by the parties as described in the agreements. In addition, DMS is dependent upon the models and pricing structure of the manufacturers. If the manufacturers produce expensive models DMS financial results may be influenced.

8.20.2 Changes in Currency rates at importing countries –

Since most of DMS's expenses are in foreign currencies- Yen, Euro and USD, DMS is exposed to fluctuations in the currency rates.

8.20.3 Changes in Currency rates at Competitors importing countries –

About 85-90% of the price of DMS's products are dependent upon the home currency of its manufacturers. If the performance of the home manufacturing currencies of DMS's competitors does not change in the same way as DMS's exchange rates, it could influence the sales of DMS products.

8.20.4 Interest Rate Risks in Israel and Abroad –

A large portion of DMS's bank credit is in variable rate interest that derives from the interest rates in Israel and abroad. DMS therefore is exposed to changes to the global and local bank interest rates.

8.20.5 Recession Risks –

In the last few years there has been a noticeable slowdown in the Israeli economy due to security and economic reasons. With this, DMS has succeeded in firming its stance as the largest car dealer in Israel. Even though this is true, it cannot be sure how the economic slowdown will affect future dealings of DMS.

8.20.6 Customer Credit Risk –

DMS sales to institutional customers are partially accomplished through the use of credit, as is common in the automotive industry. The credit is not secured and is concentrated amongst a few customers that have large purchase volume. Therefore, the non-payment of credit by one or more customers can affect specifically the cash flow and financial results of DMS.

	Risk Factors and their Influence		
	High	Medium	Low
Macro Risks		-Currency Risks from source countries -Global and Local Interest Rate Risks	- Economic Slowdown
Industry Risks	- Currency changes from competitor source countries		- Customer Credit
DMS Specific Risks	- Dependence on Manufacturers		

The above analysis of the risk factors are only estimates. In reality, the factors could be different.

9 Real Estate Sector

9.1 General

9.1.1 The Company's real estate operations are run under its Delek Real Estate, Ltd. ("Delek Real Estate") subsidiary, of which the Company holds 90.9%[1]

9.1.2 Delek Real Estate is the owner of Delek-Belron International, Ltd.[2] Delek Belron and its subsidiaries concentrate on long term real estate investments in western countries. The investments of Delek Belron are done via investments in foreign companies that hold long term rental properties. They act independently in all their purchases, management and sale of assets.

9.1.3 Delek Real Estate operates in Israel as a developer of residential projects and commercial real estate. They also rent out properties it owns.

9.1.4 In May, 2004 Delek Real Estate signed an agreement to purchase 87.5% of Danker Investments Ltd. ("Dankner"). In November, 2004, Delek purchased the remaining traded shares of Dankner and removed it

[1] 7.5% are held by Mivtachim – Workers Social Security Company, Ltd and by Mivtachim Pensions, Ltd.. 1.6% is held by the CEO of Delek Real Estate (plus options for an additional 0.4%). Mivtachim has committed to convert a bond it holds, the remaining debt on December 31, 2004 for NIS 65,866 thousand for shares in the company at a 10% discount from the price of a public offering, when the offering is released.

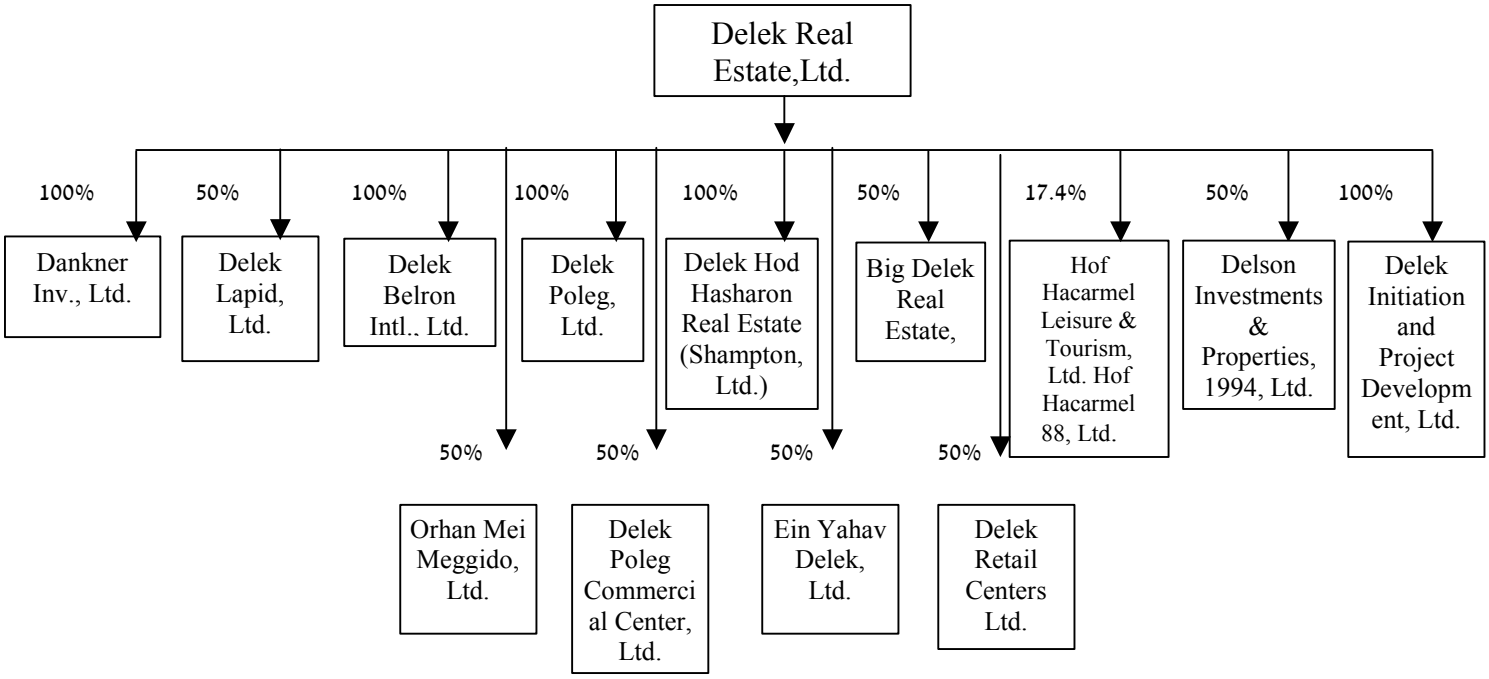
[2] Delek Belron issued (non-convertible) bonds in 2000 and they trade on the TASE.

from the TASE trading list (herein Delek Real Estate shall include Dankner).

9.1.5 For reasons of convenience, the real estate operation will be described geographically. The first description will be of foreign operations followed by the Israeli operations. There are some topics that are covered jointly.

9.1.6 The money amounts in this chapter are in reported NIS (see note 2 of the financial statements) unless otherwise stated.

9.1.7 What follows is a chart outlining the corporations directly held by Delek Real Estate:



9.2 General Information on Real Estate Sector Operations Abroad

9.2.1 Structure of Foreign Operations

England

S&P has given England an international AAA rating reflecting its developed and stable economy and political system.[1]

England's rental property and other real estate markets are one of the central ones in Europe due to its location, size, liquidity and high rental and sales prices. The British real estate market has unique characteristics that differentiate it from other real estate markets: 1) Rental contracts are for significantly longer terms than in other markets; 2) Rental fees are updated in general, once every few (often five) years. The rents are in line with the prevailing rent in the region, or a pre-negotiated amount, yet the "upwards only" method assures that the rents don't go down. 3) Rental agreements are of FRI (Full Repair and Insurance), obligating the renters to maintain the apartments and cover insurance

[1] For comparative purposes, S&P rates Israel A-.

expenses. The owners have almost no maintenance expenses; 4) In some instances purchases are financed via non-recourse loans where the asset is the collateral.

Most real estate purchases can be financed by loans of between 80-95%.

Canada

S&P gave Canada a AAA international rating due to its advanced economy, large volume of exports, fiscal responsibility and political stability. These positive factors are mitigated by a high government debt and high debt levels in the private sector. As opposed to Office rental contracts in England, in Canada most of the maintenance costs fall on the property owner, although some contracts require the payment from the renters. For residential rentals, there is eviction protection at the end of the contract period (see paragraph 9.10, below)

Financing of between 70-75% is available for real estate purchases.

9.2.2 Changes in the Scope and Profitability of the Sector

England

The global economic downturn of 2002-4 caused by a decline in the telecom, technology and finance markets has affected the British real estate market in general and the London market in particular. After a decade of fast growth and high rental and sales prices along with high occupancy rates we have witnessed a market downturn. There has been a rise in sublets as well as free rental time of up to two and a-half years for long term (15 years or longer) rentals and a sharp decline in the price of empty properties and short term rentals. On the other hand, there is a demand for high yielding, type A properties from quality, financially stable long term renters which have increased the value of some of Belron properties.

Because of the structure of the sector, it is heavily invested by institutional and foreign money. The long term institutional investors have created a market that has been almost impervious to the short term market (for example, even with a drop in short term rental prices, foreign money continued to enter the market in 2002-3).

With this, the following should be noted: a) The low interest rates that pulled in leveraged investors, has started to rise in England; b) The German investors who were important players in the market have become interested in other markets, such as the Scandinavian market. c) There has been a revival in the equity market. d) There has been a trend towards shorter rental leases which can harm the investor's hedges against short term volatility in rental prices.

Canada[1]

For Canada we will list the main changes that have an influence on the sector: Interest rates have been in a downward trend and have reached ten year lows; The Canadian government has indicated that it wants to sell offices it owns for around $3 billion. This deal can have a short term effect on the price of office space.

During 2004 the Canadian residential market stood at $3 billion, compared to $2.3 billion in 2003.

9.2.3 Important Sources of Success and their Changes

According to Delek Real Estate estimates, the main sources of its success in the foreign real estate market are: 1) Finding long term rental properties to rent to financially stable renters; 2) the ability to gain good financing sources and conditions to allow rental yields in excess of financing costs; 3) Financial stability allowing the investment required; 4) Geographically diverse investments.

9.2.4 Barriers to Entry and Exit in Foreign Real Estate and the Changes Occurring to it

The barriers to entry are: 1) Financial stability in order to have the equity required to make the investments; 2) The establishment of an autonomous management structure.

Barriers to Exit are: The often long and complicated nature of selling properties.

9.2.5 Competition and the Changes in it

Belron operates in markets where its market share is small. Because of the nature of Belron's operations its

[1] The information regarding Canada is based on the 2004-5 Colliers International Canadian Real Estate Review, a global real estate internet site and the Investment Strategy Annual (regional outlook for 2005).

competitors are not readily identifiable. However, with demand of real estate higher than the supply the competition for specific properties is strong.

9.3 Details Regarding British Real Estate

As of the date of this report, Belron holds shares in foreign companies that hold 12 properties in England. Most of these foreign companies are wholly owned by Belron and are consolidated into Belron's financial statements. In addition, Belron holds shares in various companies which are not consolidated into Belron's financial statements but are reported according to their Balance Sheet value and they hold six properties in England (see paragraph 9.5, below). Similarly, Belron holds 40% of Linchfield Ltd ("Linchfield"), which owns by its British counterpart 138 parking lots leased to National Car Parking (NCP)(see paragraph 9.5.3, below).

Below are the details of Belron's English real estate holdings (only those that are consolidated):

Holding%	Name/Location	Description And Size[1]	Name of Lessee	End of Lease Date	Rental Income in 2004 Financials NIS '000	Depreciated Value of Property NIS '000
100%	NLA Tower in Croydon	23 story office building/15k sqm, parking for 170	Various	One until 12/14, others 10-12/06[2]	33,324[3]	187,175
50%	Mint House, City of London	Office building, ground + 5 floors, 2,900 sqm Underground parking for 7	3 various renters	2 end 6/14, 2 end 3/14	4,917	49,964
100%	Commercial Union in Rumford Hours	Office building, 5 floors, 2,350 sqm, 17 parking spaces	Liberta UK. Ltd.	9/07	3,788	34,026
100%	Torus House in Abingdon	Office Building, 3 top floors, 790 sqm, 12 parking spaces	English Environmental Offices	9/07		
100%	City Center Atrium, Birmingham	Office building, 20 floors, 19,254 sqm, 3 underground parking levels for 220 cars	15 lessees	Various dates from 2005-2014	20,918	221,050
100%	Chaucer & Hexagon Buildings in Rumford	2 attached office buildings, 4 floors, each	JP Morgan. AON Group	12/06	7,492	75,859

[1] Not including parking
[2] Main tenant vacated early in 2004, instead of 2006 for one-time (see, note 3). 70% of building already leased, working on the rest.
[3] Including revenues of NIS 15.5m, received as one-time compensation for early lease release.

Holding%	Name/Location	Description And Size[1]	Name of Lessee	End of Lease Date	Rental Income in 2004 Financials NIS '000	Depreciated Value of Property NIS '000
	House	5,650 sqm, parking for 140 cars				
100%	City Plaza, Pinfold St., Sheffield	Office building, 9 floors, 11,050 sqm	10 various	Various, from 2005-2016	11,408	137,937
100%	Edward & McBeath House, Angel Gate, London	Office building of 2 wings, 4 floors, each 2,243 sqm.	British Welsh & Scottish Railway, Ltd.	9/11 and 4/12	4,760	50,988
70%	1 Buckingham Gate, Central London[1]	4 building office complex near Buckingham Palace. Basement, lobby, 6 floors, 16,544 sqm, 11 parking spaces	British Govt.	9/20	40,659 [2], [3]	503,748
100%	Epson Building, Epson Church Street	Office Building, 3 floors, 1,807 sqm, 65 parking spaces	WS Atkins Services, Ltd	6/15	4,788	55,882
100%	Sim Chem House, Cheshire, Warren Rd, Manchester	2 office buildings, 6, 7 floors, 7.380 sqm, 167 parking spaces	Simon Carves, Ltd.	4/21	5,512 [2]	68,389
75%	Telecom Ctr. Burgess Hill, Sussex	Office Building, Logistics	Ericsson	9/13	15,181[3]	165,192

[1] Company holds the rights until January, 2114 which were purchased for 16% of net quarterly income including from rental income and expected insurance fees for un-rented space.
[2] Rent includes straight line increase over the course of the lease.
[3] Includes full rent (including minority part).

Holding%	Name/Location	Description And Size'	Name of Lessee	End of Lease Date	Rental Income in 2004 Financials NIS '000	Depreciated Value of Property NIS '000
		Ctr., 14.318 sqm, 700 parking spaces				
Total					152,747	1,550,210

As of December 31, 2004 94% of Belron's British properties were rented[1]. The leases are FRI leases which obligate the lessee to pay repairs and improvements throughout the term of the lease. The owner has almost no expenses, including insurance paid by lessee. In addition, some of the leases have clauses that automatically raise rental charges.

The financing for the British real estate properties are in accordance with the financing agreements of the companies that are Belron affiliates and that in turn, hold the properties. These agreements include the demand that at each term in the loan the rental income cannot fall below a specified percent of the interest payments to lender. In addition, the lender has the right to check that the remaining loan is not greater than a certain percentage of the market value of the property. If this does happen, the borrower needs to return a part of the loan, equal to the sum loaned that exceeds the market value of the property.

On December 20, 2002 a number of affiliates of Belron by an SPC contracted a refinancing agreement for nine properties, for a total of 90,886,250 Sterling. Due to the refinancing agreement, the companies that together hold the nine properties have cross-collateralized the loan.

9.4 Details About the Canadian Properties

9.4.1 As of the date of this report a foreign affiliate of Belron is trustee over four Canadian properties whose costs as of December 31, 2004 was NIS 1,199,442.

[1] Not including spaces rented to affiliated companies.

9.4.2 Details of Canadian Holdings:

a. Office Rentals in Canada

Name and Location	Description[1]	Name of Lessee	End of Lease Date	Rental Income in 2004 Financials NIS '000	Depreciated Value of Property NIS '000
Bell Tower, Montreal	Office building in complex of two buildings. 28 floors and storage. Jointly managed commercial space[2] and 708 parking spaces. 104,000 sqm (not incl. parking).[3]	Bell Canada, 21 floors[4], 3 to two lessees. 4 floors vacant	Various dates for Bell Canada. Other floors from 3/06[5] to 3/18.	123,352[6]	735,447
5001 Young Street, Toronto	20 floors and 400 space, 4 level underground parking. 30,411 sqm (not incl. parking)	65% to Canadian Internal Revenue, 15% to Royal Bank of Canada, 15% to others.[7]	Internal Revenue 4/12, Royal Bank, 8/11.[8]	43,776	276,685
Total				167,128	1,012,132

[1] Canadian rental income includes expense reimbursements from lessees.
[2] According to the joint agreement the company has a right to 79.2% of the revenues for the commercial space and 63% for parking. The company is responsible for expense at the same rate. As for other space with only expenses, the rates are detailed in an agreement between the sides.
[3] Of the space, 95,000 sqm are office space.
[4] Bell Canada lease includes 200 parking spaces and storage of 1,250 sqm.
[5] Lease end dates: 9400 sqm (floors 16-18) 3/06; 9,321sqm (floors 12-14) 3/08; 9,321 sqm (floors 9-11) 3/10; 15.536 sqm (floors 4-8) 3/17; 17,500 sqm 3/18. The lessee has an option to extend the lease date for five years if notice is given 365 days in advance of the end of the lease. At the end of the lease, the renter must pay a termination fee of 20 Canadian Dollars for each square foot, linked to the 1998 Canadian CPI.
[6] The rights purchased are ownership rights. A consolidated company of the Company has trust over the Canadian properties.
[7] One of the lessees is under the control of the main shareholder in the Company.
[8] Royal Bank has two options for renewal – every five years, at the prevailing market price.

b. Residential Rental Properties in Canada

Name and Location[1]	Description	#Apts.	Rental Income in 2004 Financials NIS '000	Depreciated Value of Property NIS '000
Place Elgin, Montreal	14 story building, two level 228 space underground parking. 28 parking spaces outside. All apts. Except one for storage.	291	14,285	94,269
The Chattel, Montreal	26 stories. Residential apartments and 23 offices	300	13,614	93,041
Total			27,899	187,310

As of December 31, 2004, 89% of the Belron Canada office space was rented. In the two residential buildings, 97% of Place Elgin and 98% of The Chattel were occupied.

Financing for the purchase of properties in Canada is done through a group of banks and pension funds. Some of the loans have cross-collateralization with the other Belron companies and some are secured by a company belonging to the main shareholder of the Company.

[1] The rights purchased are ownership rights. A consolidated company of the Company holds the trust for the Canadian properties.

9.5 Investments Abroad

9.5.1 What follows are the details of Delek Belron's investments in affiliated companies whose results are not consolidated on the Belron financial statements:

Country	Holding	Name/Location	Description/Size[1]	Investment as of Dec. 31, 2004 NIS '000
England[2]	40%	Parking Lots, Linchfield[3]	Lots throughout England	190,680
	40%	20 Farringdon Rd. London	5 story office building, ground floor, 2 below ground levels, 24 parking spaces. 16,000sqm	37,432
	49%	Eagle House, St. James, London	Office building and corner stores. 3,690 sqm	22,231
	45%	Stonecutter, City of London	Office building and corner stores. 15,000 sqm	48,524
	40%	Kinnaird, St. James, London	Office building and corner stores. 7,000 sqm	31,383
	25%	Mitre House, City of London	Office building and corner stores. 17,436 sqm	33,651
	21.25%[4]	Discovery Center, Foulton Rd. Dundee, Scotland	3 story office building in Dundee, eastern coast of Scotland, ground floor, 400 parking spaces. 12,500 sqm	5,685
Sweden	45%	Repslagaren 31, Stockholm	5 story office building, stores, parking basement. Heart of business section. 4,635 sqm.	8,551
	45%	Jakobsberg Center, Stockhom	Commercial complex with mall, commercial area, 350 apts, 1,250 parking spaces. 54,000 sqm.	34,558
Germany[5]	45%	Celle, Germany	Mall, 40 km north of Hanover. 13 stores, 760 parking spaces. 23,000 sqm.	--

[1] Not including parking.
[2] In December, 2004 7 properties were sold in England that were used as highway service centers and managed by a non-consolidated company.
[3] For more details see paragraph 9.5.3, below.
[4] This is the holding of the non-consolidated company. 10.625% additional shares are owned by another subsidiary, making the holding 31.875%.
[5] Purchase made after date of the balance sheet.

Belron intends to complete, in the coming days, the purchase of 40% of the rights of a foreign company that holds seven rental properties in Germany leased to Deutsche Telekom. For additional details see the company's immediate report of March 30, 2005.

9.5.2 As of the date of this report, besides one property, there are no agreements between shareholders of the affiliated companies as to the dealings between them and Delek. There is an agreement (not yet legally finalized) regarding dividend distribution and the sale of properties. Decisions are made by majority vote.

9.5.3 NCP Parking Lot Deal

In November 2003 Linchfield bought all of the shares in a British company that owns 138 parking lots across England.[1]

The lots are leased until 2037 to National Car Park, Ltd. (NCP), which is one of the largest parking lot companies in England.

The leases with NCP are no-exit leases. The period of the lease started July 1, 2002. Annual rental income for all the properties at the purchase date was 41 million Sterling and is paid quarterly. The leases allow rental fee updates at various levels. As of December 31, 2004 the rental income was 42 million Pounds.[2]

The deal was financed by Royal Bank of Scotland (RBS) in three non-Recourse loans totaling 543.2 million Pounds. The remaining 56 million Pounds were financed by equity. At this sum Delek Real Estate paid 22.4 million Pounds. The company that purchased the property performed an interest rate swap in order to set the rate for the period of the loan at an average of 7.3%. Some of the interest is connected to the principle of the loan and is not paid regularly.

9.5.4 Czech and Hungarian Residential Development

Delek Real Estate, via Danker Investments is involved as developers in Hungary and the Czech Republic. The operations in Czech include the development of residential projects including the construction of 180 units totaling 15,000 sqm while the Hungarian operations include development a residential project

[1] After the date of the Balance Sheet, four parking lots were expropriated by the city for full value. As of the date of the repost, there were 134 parking lots.
[2] Since the four lots were expropriated, rental income will drop by 700,000 Pounds.

with 700 units of 52,000 sqm. As of the date of this report the above deals have various conditions set up by the agreements with Dankner. The total investment of Delek Real Estate in these two projects, as of December 31, 2004 is NIS 1,336 thousand.

9.6 Customers Abroad

The customers of the subsidiaries of Delek Belron are Delek's customers abroad. As is explained below, the policies of these affiliates are to purchase rental properties that have long term leases to quality, financially stable lessees. Therefore, a large number of the customers are large groups such as insurance companies, government offices and large telecoms.

9.7 Expected Revenues from Foreign Properties:

What follows is a description of the expected revenues for signed leases until 2007[1]:

2005 Total NIS 000				2006 Total NIS 000	2007 Total NIS000
Q1	Q2	Q3	Q4		
61,593	61,407	61,127	60,615	210,125	182,266

The data in the table include the minority (owners) portions of the rental revenues totaling NIS 4,661 thousand for each of the first three quarters of 2005, NIS 4,717 thousand for the fourth quarter and NIS 19,044 thousand for each of 2006 and 2007.

9.8 Marketing and Distribution Abroad

As stated above, Belron's real estate holdings are rented for long periods and therefore no large marketing efforts are required. When new renters are required, the foreign companies who manage the properties are responsible.

[1] Delek has projections beyond 2007. The data in the table do not include: 1. revenues from affiliated companies; 2. Return of expenses by lessees.
The data is dependent upon the following assumptions: 1. No new leases will be signed; 2. the occupants will leave at the first opportunity, even with an early departure penalty (the penalty was not taken into account); 3. No sale or purchaseof properties; 4. Currency level stays at end 2004 levels; 5. Since for most residential apartments leases are for one year, that is what was assumed.

9.9 Competition Abroad

Belron operates in large markets where its market share is negligible. Due to Belron's strategy they don't have recognized competitors. With this, the demand for properties in England is greater than the supply. Therefore, although specific competitors are not readily identifiable, the environment is very competitive.

9.10 Regulatory Barriers

Quebec has strict rental rules for residential properties. From September 1, 1996, except in rare circumstances detailed in the law, the resident has eviction protection. The period of rent is decided by the parties according to the lease and is renewed automatically for the same period. The owner cannot prevent the renewal. The resident can opt not to renew so long as proper notice is given.

9.11 Business Strategy and Goals for Foreign Operations

Belron's strategy abroad is to purchase properties strategically located that have long term high yielding leases from high quality, financially stable customers.

Belron's investments in yielding real estate are long term and are done either through companies consolidated on its financials or via companies in which it has minority holdings and whose results are therefore not consolidated in Belron's financials. However, when the market conditions, according to Belron's view, are ripe, they will sell or refinance properties, accordingly.

In order to reduce Belron's exposure to the volatility of the markets in which it operates, the company tries to purchase properties with long term leases already in place.

The professional specialty of Belron is to invest in companies that hold productive real estate in Western Europe and North America. It is the intention of Belron to continue to concentrate in those areas where it is possible to receive financing in large non-recourse loans.

What flows are the details of Belron's goals

9.11.1 Purchase of productive real estate in North America and Europe in general and in England, Canada, USA, Sweden, Germany and Switzerland in particular.

9.11.2 Evaluating the sale of its investments in companies that hold the properties.

9.11.3 Financing activities through non-recourse loans and the issuance of bonds to the institutional market for the purpose of buying properties.

9.11.4 The purchase of shares in foreign real estate companies.

9.11.5 The development of companies/properties, specifically, the parking lot company in England, with the intention of improving their efficiency so as to sell them later for a large capital gain.

9.11.6 Evaluating the investment strategy, of moving from investment in yielding office space and residential buildings to investments in commercial and logistics centers.

This paragraph is to be considered a forward looking statement. Not all the expectations and analysis may work out as planned, often due to external causes not under the control by Belron. Similarly, regarding the more complete list of risks in paragraph 9.13, below, these too, may prevent Belron from executing its strategy.

9.12 Expected Developments in the Coming Year in Foreign Activity

It is the intention of Belron to continue checking additional investment opportunities in Canada, Sweden, and Germany as well as evaluating other Western European and North American countries, according to the business principles laid out in paragraph 9.11, above. Similarly, Belron is evaluating the possibility to make similar investments in additional countries. It is the intention of Belron to consider selling its investments.

It is Belron's intention to check on refinancing opportunities for some of the properties held by its subsidiaries and to create for itself the opportunity to free up funds for additional investments.

This paragraph is to be considered a forward looking statement. Not all the expectations and analysis may work out as planned, often due to external causes not under Belron's control. Similarly, regarding the more complete list of risks in paragraph 9.13, below, these too may prevent Belron from executing its strategy.

9.13 Risk Factors for Foreign Operations

Belron's operations in the productive real estate sector are exposed to the following risks:

9.13.1 Price

Belron is exposed to volatility in real estate prices in England, Canada, Sweden and Germany. In order to reduce this risk Belron's policies are to purchase properties that already have long term leases from high quality, financially stable lessees.

It is Belron's view that this policy of purchasing property in high demand regions and neighborhoods combined with its emphasis on high quality customers and long term leases reduces the price volatility risk.

Belron is highly exposed to price shifts in properties owned by its affiliated companies since these properties are listed on Belron's financials by their current fair value (according to accounting rule 40). Changes in the current fair price of the properties show up on the P&L. In 2004, the value of some of the properties of Delek Real Estate in the affiliated companies rose by a total of NIS 55,323 thousand (after taxes and deductions for reduced property values).

9.13.2 Currency Risks

The affiliates abroad finance their purchases and investments in affiliates abroad by short and long term loans in the home currencies, from banks (against placing charges on the real estate) and interested parties. As of the date of the balance sheet, about 55% of the loans were in Pounds Sterling, 40% in Canadian Dollars. The rental property income in Sterling is 56% vs. 44% for the Canadian Dollar. The loans and the rental income are generally in the home currency, meaning that Belron does not have a currency risk in this area.

9.13.3 Interest Rate Risk

For some of the properties purchased and investments made, Belron is exposed to cash flow changes resulting from changes in interest rates in the local markets. In order to reduce this risk, the management of Delek Real Estates has instituted a policy of long term fixed rate loans.

The affiliated companies whose properties are presented according to their current fair value and changes in interest rates have a substantial effect on the value of the investments. Belron is working to reduce these risks.

9.13.4 Single Lessee

In one of the affiliated companies that Belron holds, they have one customer who rents 138 parking lots at a long term lease. Belron's portion of the profits of this company total NIS 34,000 thousand.

9.13.5 Financial Derivatives

Belron makes use of financial derivatives in order to reduce currency risks and is therefore exposed to changes in the prices of the derivatives.

9.13.6 Accounting Risks

As of January 1, 2004 the accounting rule 12 came into effect ending the practice of linking financial reports to the CPI. Also, rule 13 came into effect denoting changes in accounting for foreign currency. The financial reports of the foreign subsidiaries, which operate autonomously, were not changed to reflect their local CPI before they were converted to NIS. This has caused the 2004 profits of Delek Real Estate to be substantially less than in previous years; however, it has not influenced the cash flow of the company. The level of the influence of this risk will depend on the CPI levels, the structure of the holdings and the financing sources of the investments.

Similarly, the differences in currency as they are quoted on the financial reports of the affiliates have been noted in a separate paragraph in the equity of the company (Changes Resulting from translation of the financial statements). The changes in the currencies can have a significant accounting influence on the equity of Delek Real Estate.

Similarly, since the specific foreign affiliated companies in England are presented in Delek Real Estate's financial statements according to international accounting standards including the presentation of yielding real estate by the fair value and changes in the fair value as indicated on the P&L statement, Delek Real Estate is significantly exposed to changes in the fair value of the real estate.

9.13.7 What follows is a summary of the risk factors that were described above according to influence (macro, industry, specific to Delek Real Estate) and were rated according to the opinions of the management regarding their influence on the operations of the company – large, medium, small:

	Influence of Risk Factors on Company Operations		
	Large	Medium	Small
Macro Risks	- Interest Rate Changes	- Changes in the local economies	- Currency Changes
Industry Risks	- Real Estate Market Changes		
Company Specific Risks		Accounting Exposure Single Lessee for non-consolidated affiliates property	

The above table is an estimate only. The risk factor levels may change.

9.14 Real Estate in Israel

9.14.1 Structure

Israel's real estate sector has undergone a dramatic slowdown over the last few years. The security situation deteriorated in 2000 and, along with a local recession and global economic downturn, contributed to a decline in Israeli real estate. The macro-economic indicators in 2004 point to growth in the economy, however general economic trends are not always characteristic of similar changes in the construction field. The sector indicators point to a continuing decline. The levels of investment relative to the GDP fell; there was an additional increase in late payments by mortgage holders, contractors and construction companies. The sector is still weak. The

ongoing sectoral recession and the problematic security situation influences Delek Real Estate's residential and yielding real estate businesses.

Government policy regarding construction, including the amount of public and private residential building, its policy for selling government lands in the hands of the Israel Lands Authority (ILA), the slow pace of planning and licensing new projects, policies regarding subsidies and grants to home buyers in certain regions may influence the demand for housing and therefore the prospects for Delek Real Estate's Israel operations.

9.14.2 Changes in the Scope and Profitability of Israeli Operations

As stated, Israel's real estate sector has ben undergoing a continuing recession for the last eight years. According to Ministry of Housing statistics, building starts for 2004 were lower than the multi-year needs. The inventory of new apartments is continuing to decline.

The rental property sector in Israel is suffering from a sharp decline in rental prices (mostly in offices in the center of the country), occupancy rates, return on equity and a rise in interest rates on loans taken for the purpose of financing projects. There has also been a credit crunch regarding long term loans. The main reasons for the decline are the general economic depression, the hi-tech crisis and the security situation.

9.14.3 Critical Success Factors and Changes

According to Delek Real Estate the critical success factors for developing residential projects are: 1) Financial stability that allows financing for the projects; 2) Proper geographical distribution of projects; 3) Reducing risk by partnering with other developers and partners; 4) Reputation, capital, experience and professional knowledge; 5) Profits from proper planning; 6) The capital reputation and situation of Delek Real Estate as a financially stable company with a reputable name in building.

According the Delek Real Estate, the critical success factors for the rental property sector are: a) Locating proper lots for the projects; b) Obtaining financing and terms suitable for building based on equity capital; c) Providing long-term leases to financially stable

groups; d) Location – building in high demand regions in order to receive higher rents.

9.14.4 Main Barriers for Entry and Exit and the Changes

According to the estimates of Delek Real Estate, the main barriers to entry in Israeli real estate, both residential and commercial are: 1) Financial stability and capital necessary for investment and financing on good terms; 2) Knowledge and experience in developing projects.

9.14.5 Competition in Israel

The competition in the development of residential real estate is centered on finding proper land and in marketing the project. The developer is usually exposed to competition from nearby projects. The competition is from large companies and small developers who often work in the same region. Similarly, there is competition, in certain circumstances from the sale of second-hand apartments. In general, the competition is great as there are many companies who work in residential development.

The rental property market is characterized by intense competition which has brought a decline in rental fees. There are also a lot of companies in this market and there exists a decline in prices.

9.15 Residential Development

9.15.1 Delek Real Estate operates as a developer of residential real estate. It is done directly and through other developers, partners (partnerships or other corporations) or third parties. As stated, throughout 2004 Delek Real Estate purchased Danker Investments which became the construction arm of Delek Real Estate.

9.15.2 Delek Real Estate contracts with banks for financing on a project by project basis, as is common in the Israeli real estate market. The land rights, assets and prospective income from sales and rentals of the project are charged in the loan agreements.

9.15.3 As of December 31, 2004 the balance of building rights for Delek stood at 1,700[1] residential units , of which 333[2] were in various phases of construction.

9.15.4 During the period of the report, 109 units were sold.[3]

9.15.5 The revenues of Delek Real Estate from sales of residential units totaled NIS 97,610 thousand.[4]

9.15.6 In addition, Delek Real Estate is handling seven projects for the urban renewal program "Clear and Build". These projects are in various stages of development, planning and approval of current residents. Since these plans have yet to be approved and since they need the approval of the residents there is doubt whether they will proceed.

9.15.7 As of December 31, 2004 Delek Real Estate had rights to land whose use needed the approval of the ILA in order to change their status according to decisions 7171 and 77. Similarly, Delek Real Estate is in joint efforts with land owners who are awaiting changes in land status from the local authorities (mostly from agricultural to residential status).

9.16 Rental Property Operations In Israel

9.16.1 Delek Real Estate's rental properties in Israel are made up of: a) Properties that the company has held for many years; b) Contracting with others to plan,

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[1] In projects where Delek is a partner, only its part is included in this figure.
[2] Including 48 units in the Kfar Aharon project being built for the moshav (village).
[3] Including sales of Danker from January 7, 2004 or 49 units.
[4] Including revenues form Dankner from January 7, 2004 totalling NIS 42,257 thousand.

develop and build commercial or office space across the country; c) Rental properties held by Dankner before their purchase by Delek.

9.16.2 Delek has properties that are intended for rental, as detailed below: Six gasoline stations rented to Delek Israel; 6,250 sqm of office space; 20,000 sqm of commercial and leisure areas.[1]

9.17 Customers in Israel

In the residential sector – revenues from Delek Real Estate come from a large number of individual apartment buyers.
Rental Properties – Delek Real Estate rents its Israeli properties to a wide range of businesses. The commercial areas are generally rented for a period of one to 25 years.

9.18 Marketing and Distribution in Israel

Residential units are sold by outside agents who are paid commissions and are given exclusivity for the individual projects. The agents can be changed on a regular basis at almost no cost.

Delek Real Estate sets up sales offices in the areas of the large projects themselves. Advertisements in the local and national media are also taken out.

9.19 Expected Revenues

Balance of revenues from units that have yet to be recorded on the P&L are, as of December 31, 2004, NIS 90,704 thousand.

The expected revenues from rental properties, according to signed contracts for 2005-2007 are as follows (data include only the part of Delek Real Estate in rental fees where there they are jointly owned)[2]:

[1] From Delek Real Estate's part, totaling 43,000 sqm of commercial and leisure space it holds jointly with others.

[2] There exit data for beyond 2007. the information is according to the following assumptions: 1) There will be no monthly leases; 2) the occupants will leave at the first opportunity even if they need to pay an exit fee; 3) Sale of properties not taken into consideration, or of the purchase of new properties 4) the currency rate will stay as it was at the end of 2004.

2005 NIS 000				2006 NIS 000	2007 NIS 000
Q1	Q2	Q3	Q4	9,397	7,531
3,377	3,266	3,085	2,859		

9.20 Competition

Competition in the Israeli real estate market is highly decentralized, although there are a small number of large builders such as Africa-Israel, Azorim and Shikun Ovdim. In addition, there are a large number mid and small sized developers and contractors working in areas where Delek Real Estate has projects under construction. With the high level of competition, Delek has a good reputation in the industry stemming from financial stability and vast experience.

9.21 Raw Materials and Suppliers

Delek Real Estate uses "turn-key project" subcontractors for many of its projects. Since the contractor has responsibility to turnover a building ready for occupancy, they are paid at certain points in the construction process.

9.22 Real Estate Investments in Israel – Hof Carmel Project

9.22.1 Delek real Estate own 17.33% of Hof Carmel Leisure and Tourism 89, Ltd., and Hof Carmel 88, Ltd. ("Hof Carmel Properties"), who own the land in Haifa, on which the Hof Carmel project was built. In the Hof Carmel Project so far, two buildings were built consisting of 474 residential units of various sizes, as well as a commercial area on the main 41,000 sqm lot. The building rights in this area allow the construction of hotel-apartments on a lot of 128,600 sqm (gross) and 95,000 sqm (net), not including parking and storage areas. The continuation of the building (besides the Almog and the northern part of the Pnina buildings that are complete) is dependent on the artificial increase of the shore area near the project. According to the estimates of Delek, the cost of shore work will be between $2.4-2.9 million.

9.22.2 In January, 2001 Delek Real Estate decided to end its operations in the hotel industry since it was no longer part of the Company's strategic plan. This included concentrating on investments abroad, rental

properties in Israel and investments in residential housing in prime locations. Due to this decision, Delek Real Estate sold its hotel holdings which then totaled 34.7% of its operations. In light of this, 17.34% of the Hof Carmel project was sold to third parties.

9.22.3 As a result of the court's decision on January 15, 1998 in the lawsuit filed by the environmental "People and Nature Union" (PNU), the Pnina building was forced to be used as a hotel open to the general public. All apartments, except those purchased before the date of the court's decision have to be used as open hotel rooms for at least six months out of the year.

9.22.4 The Hof Carmel Project was financed from loans by the owner and from banks. Delek's collateral for the debt was 34% of total debt and 78% of the exposure to Hof Carmel's interest rate and currency transactions that it is involved in from time to time. The total guarantee is $30 million. The balance of the credit that the banks have with the company as of December 31, 2004 is NIS 310,000 thousand. In addition, the banks have guarantees for the purchase of apartments for NIS 5,000 thousand.

9.23 Legal and Regulatory Limits to Operations

9.23.1 Construction and Planning Law

The Construction and Planning Law of 1965 forbids building without a permit from the authorities. Non-compliance is a criminal offence according to paragraphs 203-255 of the law.

9.23.2 Apartment Sale Law

All residential housing construction falls under the Apartment Sales Law of 1973 and includes various instructions regarding the details of the sales contract, responsibilities regarding correction of defects as well as certain buyer's rights, until the period of occupancy. It also covers the registration with the ILA or the land registry.

9.23.3 Contractor Licensing Law

All work done in residential housing units must be done by licensed contractors, as defined by the law.

9.23.4 Standards Institute

Buildings and materials must be up to the standards that are published by the Israeli Standards Institute.

9.23.5 Real Estate Taxes

The dealings of Delek Real Estate in the purchase and sale of real estate, falls under the Real Estate Tax Law of 1963.

9.24 Goals and Strategy for Israeli Operations

The strategies of Delek Real Estate for its Israeli operations are as follows:

Identifying the right lots and projects in the high demand areas for residential projects; 2) Geographical diversification in the various high-demand regions; 3) Working with partners and taking part in combination transactions in order to reduce risk; 4) "Early marketing" – selling a certain amount of apartments before construction has commenced; 5) Branding of Delek Real Estate – turning Delek into a well known and respected brand and by using the "Dankner" brand to expand activities in Israel; 6) Using "key contractors" in construction; 7) Professional expertise in building gasoline stations and malls rented to well known brands.

The strategic information given above is forward looking information. Not all the assumptions are under the control of Delek Real Estate and the realization of the goals and the strategy are dependent on outside forces. Similarly, the risk factors detailed in 9.26 below could negatively influence the actualization of the management's strategy.

9.25 Expected Developments in the Coming Year

In the rental property market Delek Real Estate will complete construction of office buildings and malls started with its "early marketing" strategy. In addition, Delek Real Estate is examining the purchase of other rental properties in Israel. Delek Real Estate through DMK, Ltd (a joint company with Delek Israel) intends to develop and build convenience stores attached to the gasoline stations through the early marketing strategy.

The information given above is forward looking information. Not all the assumptions are under the control of Delek Real Estate and the realization of the goals is dependent upon outside forces. Similarly, the risk factors detailed in 9.26 below could negatively influence the actualization of the management's strategy.

9.26 Risk Factors in Israel

The following are the risk factors for Delek Real Estate's operations in Israel:

9.26.1 The demand for residential housing and rental space are influenced by the growth rate of the economy in Israel which is influenced by the security situation. The continuing recession in the last years has had a negative influence on the Israeli real estate market, including a decline in building starts, demand for apartments, purchase prices of residential units, a fall in the demand for rentals and in rental prices.

9.26.2 The residential housing construction market can be influenced by government building policy, including the amount of public and private building for residence, the policy of selling lands from the ILA, the pace of planning and licensing new projects and from changes in government policy regarding grants and subsidies to home buyers in certain regions of the country.

9.26.3 The mortgage rate for home buyers and the change of the stance of the banks regarding the amount of equity and security demanded from the purchaser may influence demand.

9.26.4 Changes in the security situation in Israel and policies leading to the decrease of foreign construction workers allowed into the country. This will influence the ability of Delek and its subcontractors to have enough manpower to complete projects on time.

9.26.5 Changes in the prices of the raw materials necessary for building, such as concrete, cement and steel, can lead to higher construction costs and influence the future profits of the company.

9.26.6 The movements in the Bank of Israel's (BOI) monetary policy as well as the currency rates that influence the level of inflation in Israel affect the sector. These factors have a large influence on the demand for apartments. It is not possible to estimate the long term monetary policy and its influence on the economy in general and the building sector in particular.

9.26.7 Delek Real Estate finances some of its activities via bank financing. It is not possible to guarantee that the

company will find the necessary financing at the proper conditions to carry out the projects it wants to.

9.26.8 What follows is a summary of the risk factors that were described above according to type and were rated, according to the views of the Company's management of their possible influence on the company – large, medium, small.

	Influence of Risk Factors on Company Operations		
	Large	Medium	Small
Macro Risks		- Government Building Policy	
Industry Risks		-Economic slowdown - Bank interest rate changes	Changes in Mortgage Rates Security Situation Govt. policy regarding foreign workers - Raw Materials prices
Company Specific Risks		- Bank Credit	

The level of risk to the company's activities is based on estimates. It is not possible to be certain as to the influence of each.

Joint Issues for Israeli and Foreign Operations:

9.27 Human resources

As of the date of the report, Delek Real Estate employs 26 people, as follows: CEO, Assistant CEO, 5 Executive VP's, Legal Counsel, Engineer, four managers of different departments, CEO's assistant and head of Human Resources and logistics. There are also employees in administration, and accounting.

9.28 Working Capital

In the rental properties sector credit is rarely given to customers since they usually pay rent in advance. When the lessees do not pay in advance the amounts of credit given are usually negligible.

In the residential housing market the monies received for apartments usually matches the pace of building.

Regarding credit to/from suppliers, Delek Real Estate receives 30-90 days of credit.

9.29 Financing

9.29.1 What follows are the average interest rates on loans from bank and non-bank sources that were in effect for 2004 and are not intended to be used exclusively by Delek Real Estate:

Average Interest Rate		
	Short Term	Long Term
Bank Credit	4.5%	5.68%
Non-Bank Credit	-	5.64%

9.29.2 Credit Limits

In the January, 2004, framework agreement for the flotation of bonds to institutional investors, Delek Real Estate obligated itself to keep its credit under certain financial criteria. It must maintain a specific ratio between independent cash sources of Delek Real Estate and the "recourse" loans (allowing the lender to use any asset for payment, if necessary) it has and to keep a specific ratio between the operational cash flow of Delek Real Estate and its recourse loans.

For bank loans the company committed to maintain certain financial criteria regarding the equity it maintains and the rate of equity to the balance sheet.

9.29.3 Credit Frameworks and their Conditions

As of the end of 2004 Delek Real Estate had a credit framework equal to NIS 1,450 million. From this, the company utilized NIS 1,060 million as of the end of the year and NIS 1,050 million as of the date of the report.

9.29.4 Credit Rating

The bonds floated by Delek Real Estate were given a AA- rating by Ma'alot for their secured A series and an A+ for their series B debt.

9.30 Delek Real Estate's Charged Assets

9.30.1 In conjunction with the flotation of Delek Real Estate bonds in January, 2004, subsidiaries of the company collateralized certain assets to secure some of the debt, as follows: a) Permanent charge on the shares of the company that holds the Erickson building; b) Secondary charge on the account to which the nine properties involved in the new financing pay; c) First charge on the account that the same amounts are paid in conjunction with the financing agreement – the same account into which rental income is paid. The bond flotation committed Delek Real Estate not to create additional mortgages of any type on any of their properties in Israel. However, Delek Real Estate can collateralize properties in order to gain financing to develop those properties. The company also committed not to transfer real estate assets to companies it controls except in cases where the transfer is done in order to gain financing or if there is a trustee who, to his satisfaction assurances from Delek Real Estate not to create additional charges on the transferred asset except for the purpose of attaining additional financing. The trustees must receive copies of any financing agreements in which the said property is collateralized.

9.30.2 All of the rights of the affiliate companies abroad to received rental income, proceeds from sales in the future or from insurance policies are collateralized for the sake of those financial institutions that financed the properties. The affiliate companies that purchased the land pledged their rights to the property in a first charge to the financial institutions. The only cross-collateralized properties are those mentioned above in England.

9.30.3 Delek Real Estate and Delek Belron committed to an Israeli bank not to create additional charges on their assets (a negative pledge). This pledge does not pertain to specific projects and/or properties that were promised only for a specific loan.

9.30.4 For the purpose of financing the Israeli projects of Delek Real Estate, the company mortgages the project and all future earnings.

9.31 Taxes

9.31.1 Delek Real Estate had final tax assessments for all years up to and including 2001. Belron and its subsidiaries in Israel had final tax assessments until and including the year 2002. Dankner had final tax assessments until and including the year 2001.

The companies and the trustees and subsidiaries in Canada have yet to have a tax assessment since their founding.

Most of the subsidiaries in England have had tax assessments until and including the tax year 2002.

9.31.2 Delek Real Estate and its consolidated companies had looses for the purposes of taxes of NIS 90 million

9.31.3 Taxation of Belron's English Properties

The real estate holdings in England are under the ownership of foreign companies that are incorporated in Gibraltar, Guernsey, Jersey and Luxembourg. These companies need to pay income taxes in England of 22% on their rental income. Taxes in England are on rental income with deduction allowances for all direct expenses, including interest paid on loans for properties, the cost of raising capital to purchase properties, maintenance expenses and depreciation.

There are no capital gains taxes for the sale of real estate that is owned by foreign registered companies in England, so long as the purchase was a long term investment. On these matters the Israeli tax authorities ruling regarding foreign controlled companies shall apply.

9.31.4 Canadian Taxes on Belron's Holdings

Belron follows the Canadian practice to purchase a property in the name of a company that is registered for that purpose. The rights to the property are held by this company for the shareholders who are the Canadian trustees that were appointed for the purpose of the purchase. A company under the complete control of Belron is the beneficiary of that trust.

The main taxes in Canada are as follows:

The profit from rental income after deductions for expenses which include interest and depreciation is

taxed at a rate of between 39-46%, depending upon the location and property of the trust.

Expenses paid by the trustees to Canadian residents do not require withholding in Canada. Capital gains from the sale of real estate in Canada requires effective capital gains tax an the portion of the property not depreciated, at a rate of 22-23% according to the location of the property.

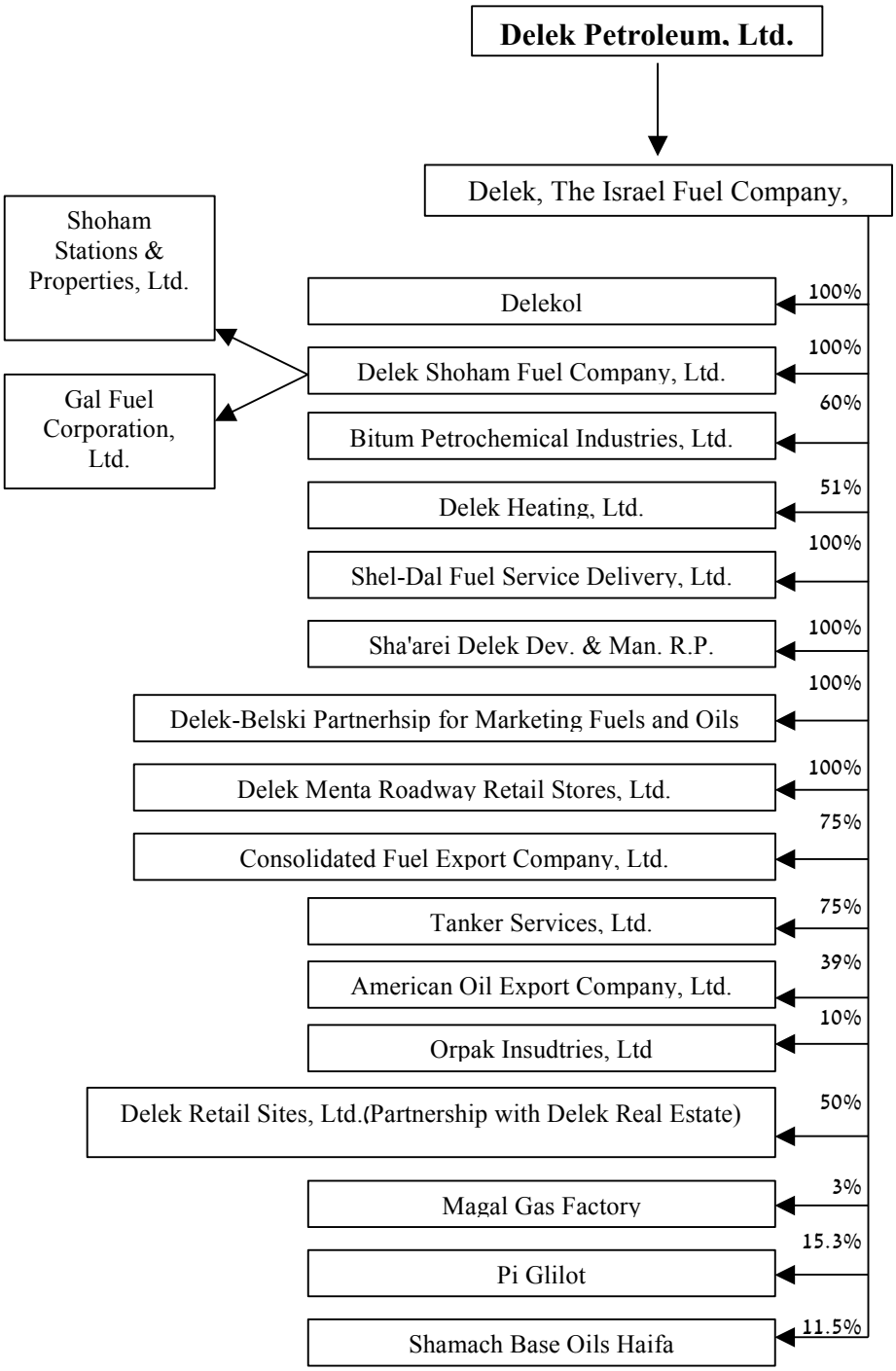
The Canadian trustee is taxed at a rate that is discussed below and the profits of the beneficiaries that are a foreign company are not taxed in Israel, in accordance with the Israeli tax authorities.

In dividing the profits of the trusteeship from a beneficiary that is not a resident of Israel as distributed in a dividend to the company in Israel, taxes will be 25% or the corporate rate minus the taxes paid in Canada.

10 Fuel Products Sector in Israel

The Company's operations in the fuel products sector in Israel are run through Delek, the Israeli Fuel Company, Ltd. (Delek Israel) which is a wholly owned subsidiary of the Company. Delek Israel is active in the fuel products sector in Israel including the marketing and distribution of fuels and oils and is a developer of gasoline stations and convenience stores (located in the gasoline stations).

What follows are the details of Delek Belron's investments in affiliated companies whose results are not consolidated on the Belron financial statements:



10.1 General Information on the Sector

10.1.1 General Environment and External Influences

As a fuel company Delek Israel is exposed to trends and developments in the Israeli fuel market that influence the company's and its competitor's performance. These include:

a. Regulatory Developments – Delek Israel is influenced by regulatory changes that occur from time to time in the Israeli fuel market regarding wholesale and retail prices that are under government price controls (95 octane lead free and 96 octane with lead substitute), the country's policy regarding emergency reserves of fuels, the new laws mandating self-service gasoline pumps and vast changes in the law regarding environmental matters and the possibility of providing new restrictions.

b. Economic Slowdown – Delek Israel was influenced by past economic slowdowns in the Israeli economy resulting in reduced gasoline sales and growing risks. This slowdown continues to impact today by an increase of the customer credit risks.

c. Volatility in Global Fuel Prices – The price that Delek Israel pays for fuels is determined by the price for the fuels in the regional Mediterranean market, exposing the company to its volatility. The price of oil has a direct influence on the amount of credit given to customers. The past year's sharp rise in oil prices was translated into a sharp rise in credit to customers and to increased open credit amount by banks. Similarly, the volatility in global fuel prices has a direct influence on the profitability of Delek Israel due to its fuel inventory policy – during price increases, Delek Israel profits, during declines it registers a loss.

d. Currency and Interest Rate Volatility – Delek Israel has NIS and FX denominated loans, some of which are at variable rates. As a result the company is exposed to changes in the NIS/FX rates (especially vs. USD) and to bank interest rates. An additional reason the company is

exposed to currency rates is that credit from suppliers is linked to the USD.

e. Excise Taxes – The excise tax (see paragraph 10.14, below) component of the price of fuels is very significant. Delek Israel needs to pay the tax within ten days even though the credit it gives to customers is significantly longer that that.

f. Profit Margin – The profit margin for gasoline is fixed (due to government price controls) and is not affected by the volatility in gasoline prices and excise taxes. So too, with products that are not price controlled the added financing costs and credit risks due to rises in prices of oil and excise taxes are not able to be built into the profit margin.

g. Competition – There is intense competition in the fuel market resulting in declining profitability and increased credit to customers.

h. Regulatory Interference and Self Service – According to regulations, each gas station must put in self service pumps. This requires a large monetary outlay in order to change equipment and to install the necessary computer infrastructure.

10.1.2 Structure of the Sector and the Changes in it

a. There are four main fuel companies in Israel: Paz, Delek Israel, Sonol Israel, Ltd ("Sonol") and Dor-Alon Energy Israel, Ltd ("Dor Alon"). Together they hold about 840 public gasoline stations in Israel and most of the "out of station" activity (as explained below). In addition, there are other fuel companies that hold together about 50 gasoline stations and the rest of the out of station activity.

b. Fuel company operations include the marketing of fuel and oil products to gasoline stations; operating gasoline stations; the marketing of fuel and oil products directly to consumers ("out of station") and the operation of shops within the gas station premises ("convenience stores").

c. The trend today in Israel is to expand the convenience store businesses both regarding the sale of fuels and oil products and to promote other items to retail customers.

d. As of the date of this report, Delek Israel markets its products to 232 gasoline stations (including the stations of its wholly owned subsidiary, Gal-Shoham) and operates 29 convenience stores throughout the country, within the premises of its gasoline stations.

e. Of all the stations to which Delek Israel markets its products 31 are owned by Delek Israel, 159 are leased in secondary leases or are rented by it and 42 stations are independently operated but have distribution agreements with Delek Israel.

f. 112 stations are directly operated by Delek Israel, 55 gasoline stations by others for Delek Israel and 65 are independently operated.

g. Delek Israel markets its products to consumers at the gasoline stations and has operated (since 1988) an automatic service called "Dalkan", geared towards companies with large fleets of cars and which charges gasoline and other purchases directly to the company.

h. In addition to the sales of fuel and oil products at gasoline stations, Delek Israel is also active in the "out of station" market where it sells to various customers.

10.1.3 Main Barriers to Entry

The main barriers to entry into the fuel products market inIsrael are the high costs, the long period of time (3-5 years) it takes to get a license to open and operate a gas station, the difficulty in finding a location to situate a new station, regulatory barriers and the competition with the established companies.

10.2 Products and Services

The products that are marketed by Delek Israel include mainly fuel products as well as other items (food, etc) sold in the convenience stores located on the premises of the gasoline stations:

10.2.1 Fuel Products

a. **Refined Products ("white products")**
Gasoline – Fuel that operates most vehicles and sold via the gasoline stations

Diesel – Fuel that operates trucks and some automobiles as well as for heating and industry.

Oil – Used as a raw material for the petrochemical industry.

Kerosene – Used for commercial and residential heating.

Liquefied Petroleum Gas – Material used for the petrochemical industry and for industrial and residential use.

b. **Residues** ("Black Products")
Crude Oil – Used as a fuel for industry and the generation of electricity.

Bitumen (tar) – Used mainly as the raw material for asphalt and as a sealant. Sold mainly to road contractors.

c. **Oils and Byproducts** – Delek Israel sells oils and byproducts for automobiles and industry from its own production and from imports. These products are sold to factories, gasoline stations, garages and other outlets.

10.2.2 Retail Products

In addition to oils and fuels, Delek Israel markets food, beverages, cigarettes and other products at its convenience stores. Similarly, at most of its regular gasoline stations its sells soft drinks and snacks from machines as well as automobile accessories.

10.3 Revenue Segmentation

What follows is the approximate amount and rate of the revenues of Delek Israel, divided by product group or services whose revenues are at least 10% of the revenues of the Delek Group over the last two years (without excise taxes):

	2004		2003		2002	
	NIS millions	% of Group's Revenues	NIS millions (approx.)	% of Group's Revenues	NIS millions	% of Group's Revenues
Gasoline	1,217	10.7%	966	10.7%	904.5	12.4%
Diesel	1,411	12.4%	1,521	16.8%	610	8.4%

In addition, see note 33 of the financial reports of the Group.

10.4 Customers

10.4.1 Delek Israel Customer Categories:

a. Consumers at the gasoline stations operated by Delek Israel can be divided into two groups:
   1. Private consumers who purchase fuel, oils or retail products at the gasoline stations and convenience stores.
   2. Car fleets that have the Dalkan automated "fill and bill" service.

b. The "out of station" customers: These customers include institutional clients like the IEC, transportation companies and government offices as well as smaller customers like kibbutzim, construction companies, quarries and factories.

c. Gasoline stations connected to Delek Israel by supply contracts to purchase fuel and oil products.

10.4.2 What follows are the sales of Delek Israel by customer type in 2003-4 (including excise taxes) in NIS millions.

	2004	2003
Private Customers (at Delek operated stations)	1,184	906
Car Fleets (at operated stations)	459	354
Out of Station Sales	2,102	2,403
Gasoline stations with Supply Agreements*	1,974	1,799

*Including sales to fleets at these stations totaling NIS 463 million for 2004 and NIS 426 million for 2003.

10.5 Marketing and Distribution

What follows is a description of the marketing methods of Delek Israel.

10.5.1 Marketing at Gasoline stations

To the Public – Delek Israel promotes its products and services in a number of ways: Discounts, national or station specific sales or with giveaways (for example, giving away or discounting a newspaper or car wash with specific levels of purchases). Delek also advertises with various media outlets.

Marketing of the Automated Service ("Dalkan") – Delek Israel employs marketing staff to place the Dalkan automated fill and bill unit on cars of large corporate and other fleets of cars. In addition, Delek participates in tenders from companies with large fleets who want the automated service.

In addition, Delek Israel operates a regional automatic service which enables small businesses to obtain credit and discounts on the purchase of products at stations near the business.

10.5.2 Marketing at New Gasoline stations

Delek Israel employs a developer whose job it is to identify potential locations for building new gasoline stations.

10.5.3 Out of Station Marketing

Delek Israel employs direct sales and marketing staff to market directly to consumers and to other sellers of fuel products.

10.5.4 Exclusivity Agreements

Delek Israel is the exclusive representative of Esso International for the marketing of their oil products in Israel.

In addition, Delek Israel's supply agreements to independent gasoline stations are exclusive agreements (during the contract period).

10.6 Competition

10.6.1 Delek Israel is the second largest fuel seller in Israel and has 26% of the market share (including the gasoline stations of its subsidiary, Gal-Shoham) for the sale of fuel products at gasoline stations in Israel (not including the territory of the Palestinian Authority). Its main competitors are Paz, Sonol and Dor-Alon.

10.6.2 The Israeli fuel sector is characterized by a high level of competition in all areas of Delek Israel's activities, as follows.

a. The location and placement of gasoline stations is highly competitive. This is especially so with finding new locations and in reaching agreements with existent independent gasoline stations where there supply agreements have expired.

b. Increasing same station sales is highly competitive. There is a continuous deterioration of profitability due to marketing expenses which include the giving of discounts and gifts as well as other promotions.

c. The competition in the out of station market includes the extending of relatively long credit, lending of equipment and providing discounts to customers. It should also be mentioned that the high degree of competitiveness in the out of station market derives also among other things from the low transfer costs from one supplier to the next and from the contracting method with the customers which is done through tenders or short term agreements.

d. The entry of gasoline stations into the retail market, via the convenience stores is at its

beginning. It is not yet clear how successful they will be and how the competition will act.

10.6.3 The following is a description of the main ways Delek Israel faces the competition and a description of the main factors which effect its competitive position:

a. Delek Israel is working to further its deployment of gasoline stations and estimates that its wide national deployment increases the accessibility of its stations and gives it an advantage regarding the competition for private customers and Dalkan customers to whom wide availability is an important factor.

b. Delek Israel promotes its unique products (e.g. "Dragon" gasoline which includes additives for more efficient engine use) and works to establish the Delek brand as a symbol of high quality products.

c. Delek Israel expands the marketing of additional products and services at existing gasoline stations with the existing infrastructure.

d. Improvement of the "appearance" of the gasoline stations, their atmosphere and service.

e. Improvement of the operation of the gasoline stations.

10.7 Fixed Assets and Facilities

10.7.1 Delek Israel owns 31 gasoline stations and has long term rents or leases on an additional 159 nationally placed stations. It has a fuel distribution facility in Haifa, crude oil distribution facility in Ashdod, a factory for Bitumen and mixing oil in Lod.

10.7.2 Delek Israel also has equipment and facilities at its gasoline stations or loaned to out of station market customers, as well as trucks and other vehicles for the delivery of oil and fuel.

10.8 Non-Tangible Assets

Delek Israel operates via a number of known and trademarked brands:

10.8.1 "Delek" - 207 gasoline stations operate in Israel under this brand.

10.8.2 "Gal" – 25 gasoline stations operate under this brand.

10.8.3 "Menta" – Delek Israel operates 29 convenience stores under this brand.

10.8.4 "Delekol" – This brand of oil that is produced and mixed at the Delekol factory, owned by Delek Israel.

10.8.5 "Dalkan Delek" – The name of the automated fill and bill service that identifies a car and bills electronically.

In addition, Delek Israel markets products with other brands such as Delek Dragon (a type of petrol), Mapco, Desko and is the exclusive distributor in Israel of the oil products of Esso. It also markets tar and sealant brands BTI, Multigag and Mastigam.

10.9 Human Resources

10.9.1 Delek Israel employs 1,436 people divided as follows:

Department	Number of Workers
Management	164
Production	76
Operations	143
Gasoline stations	978
Sales & Marketing	75
Total	**1,436**

10.9.2 Most of the Delek Israel workers are under personal contracts and are not under collective bargaining agreements. The exceptions are the workers of two subsidiaries in which about 100 workers have union agreements.

10.9.3 There has not been a substantial change in the employment situation in Delek Israel over the last three years.

10.9.4 Delek Israel employs drivers for fuel deliveries who have licenses for the transport of dangerous

materials. In addition, the workers who are employed at the gasoline stations or who come into contact with fuel and gasoline products undergo training for fire control, hazardous material handling and environmental controls.

10.10 Raw Materials and Suppliers of Fuels and Oil

10.10.1 In 2004 Delek Israel purchased approximately 75% of the gasoline and diesel products from the Oil Refineries Haifa, Ltd ("Bazan"). This was a one year purchase agreement. The rest of the products Delek bought from the free market.

10.10.2 Delek produces oil products through its wholly owned Delkol subsidiary. The base oil is purchased by Delkol from Base Oils of Haifa Ltd.(a subsidiary of Bazan in which Delek holds 11.5%) and from foreign suppliers. In addition , Delkol competes in a range of oil products by importing them from suppliers from abroad.

10.11 Working Capital

10.11.1 Raw Material Inventory Policy –

Delek Israel inventory policy is to hold base oils for an average of pup to 60 days.

10.11.2 Finished Product and Emergency Inventory Policy-

Delek Israel is obligated by the Emergency Regulation to hold for the country an emergency supply of gasoline and diesel fuels. Most of the costs are covered by the State.

10.11.3 Operations Inventory –

It is the policy of Delek Israel to hold in inventory fuel supplies for an average 30 days and oil and retail products for an average of 60-90 days.

10.11.4 Credit Policy

a. Customer Credit: Delek Israel provides credit to its customers for a period of the date of the purchase until the end of the month plus 5 days or the end of the month plus 90 days – depending on the product and customer. The average period of credit to customers in 2004 was 60 days. The average annual credit to customers. in 2004 was NIS 1,150 thousand.

b. Supplier Credit: Delek Israel receives credit from its suppliers abroad for 30 days. Delek Israel pays Bazan in the middle of the months for products purchased and receives advanced payment interest of 30 days. Payment of excise taxes (which is a significant amount of the cost of fuel) is done ten days after it has received it, according to the law.

c. Working Capital Deficit: The differences between the amount of credit given to customers and received from suppliers and tax authorities (Delek pays the government before it receives the money from the customer) forces Delek to take short term loans. As of the date of this report Delek Israel had a working capital deficit of NIS 150 million. It is Delek Israel's policy to reduce the deficit by cutting the period of credit given to customers.

10.12 Investments

Delek Israel holds an effective minority 39% share of American-Israel Gas Company, Ltd. ("Amisragas"), which markets gas to industry, trade, agriculture, hotels and private homes.

10.13 Financing

10.13.1 What follows is the average interest rate on loans from bank and non-bank sources that were in effect in 2004 and are not intended for an exclusive purpose by Delek Israel:

		Average Interest Rate	
		Short Term	Long Term
Bank Sources	Shekel (non-linked)	6.8%	---
	CPI Linked	4.9%	5.6%
	FX Linked	2.9%	3.1%
Non-Bank Sources	CPI Linked Bonds	---	5.6%
	USD Linked Bonds	---	6.3%
	Non-linked Shekel Traded Securities	4.3%	---
	USD Linked Traded Securities	2.5%	---

10.13.2 Credit Limitations – Delek Israel has provided binding obligations to a number of banks:

a. The equity on the consolidated balance sheet (of Delek Group) cannot fall below NIS 680 million.

b. The profit from operations has to be greater than financing expenses for all non-recourse loans that were given to the Delek Group with the addition of finance expenses for the purchase of emergency inventory of fuels plus 140% of the other financing expenses of the company.

c. If these terms and conditions are not fulfilled the banks can sue to receive other guarantees or to reduce the amount of credit given to Delek Israel. The obligations to each bank are in effect for each period where the debt to that bank is not less than $50 million (and for some banks, $50 million or 60% of the open credit approved by the bank – the lower of the two).

10.13.3 As of the date of this report, the Company is upholding its obligations.

10.13.4 Liens –

In order to secure the debt to the banks, Delek Israel issued bonds to the banks collateralizing without limit, all of the inventory, proceeds and rights as defined in the bond agreement.

Delek Israel is obligated to a number of banks not to collateralize its fixed assets in any form without getting prior, written approval from the banks (with the exception which can be used as collateral in favor of the entities who have financed the assets' purchase).

In January, 2004, through the flotation of bonds by the parent company (Delek Petroleum), Delek Israel collateralized in a permanent primary collateralization, without limit to amount, all of its rights in the loans of Delek Israel, to the Company (Delek Group, Ltd).

10.13.5 Credit Framework –

Delek Israel's credit framework from the banks at the date of this report is NIS 2,200 million, of which NIS 1,200 million is utilized.

10.13.6 Credit Rating –

Delek Israel does not have a rating. However, the unsecured bonds that Delek Petroleum (which also holds Delek USA) floated were given an A+ rating by the Israeli Ma'alot ratings agency.

10.13.7 Variable Rate Credit -

What follows is a description of the variable rate credit that Delek Israel received in 2004:

Change Mechanism	Interest Rate Range (2004)	Rate at Date of Report
Prime minus	4.9-6.2%	---
USD Libor plus	1.9-3.1%	2.2-3.1%
FX Libor plus	1.7-4.3%	---
BOI Interest plus	4.1-4.6%	4.0-4.1%

10.14 Taxation

Aside form the regular corporate taxes (see additional details in note 31 of the financial reports) there is the Fuel Excise Law of 1958 and the Fuel Excise Law of 1980 both of which have a set tax on the fuel products detailed in the law which is updated every three months according to the CPI. In January, 2005 the authorities issued an order that they were raising the excise tax on gasoline and kerosene and will equalize the excise taxes of diesel fuel to gasoline over a period from 2005 until 2009. Delek Israel and its subsidiaries have losses for tax purposes of NIS 77 million.

10.15 Environment

Delek Israel's activities are regulated under various laws, regulations and orders regarding environmental controls, as follows:

10.15.1 Gasoline Stations

Gasoline stations can be a source of ground, air and water pollution through leaks of poisonous materials to the ground.

In 1997 the Water Regulations (to prevent pollution of water) went into effect. The Water Regulations obliged service station owners to install various protection methods and equipment for new and existing stations. A sealed floor surrounded with a drainage system must be installed in new stations to prevent gasoline and oils from seeping into the ground, a water fuel separation system and to have a system for detecting leaks.

Similarly, the regulations oblige the operator of the stations to maintain regular inspections assuring the sealants are intact and to give the results of the tests to the authorities.

In addition, the operator must immediately deal with all environmental problems as they are detected and reported to the authorities.

Delek Israel must perform ground surveys in order to identify potential pollution problems in the ground and water.

The costs of dealing with actual pollution – leaks – can range from tens to hundreds of thousands of dollars, depending on the gravity of the leak.

Most of Delek's gasoline stations are located in areas that are at high risk from water pollution. In spite of this, in recent years Delek Israel has not had to invest large sums of money in dealing with leaks.

A large part of the gasoline stations operated by Delek Israel were built according to guidelines, regulations and laws that were in effect at the time they were built and which were updated over the last few years. Therefore, Delek Israel needed to effect improvements in many of the existing stations in order to bring them up to standard. Delek Israel completed the necessary work in most of its gasoline stations and they are presently up to standard.

Delek Israel has been notified by the Ministry of Environment that they are considering the possibility of obligating operating gasoline stations to install equipment. Nevertheless, Delek Israel makes additional investments in connection with the remaining gasoline stations that need to be upgraded.

In parallel, there is a proposal to install similar equipment in the vehicles. If the gasoline stations will have to install the equipment the costs will be high.

10.15.2 Fuel Distribution Facility

The Ministry of Environment has demanded of Delek that it install by December 2005 in its distribution facility in Haifa, equipment that will prevent the escape of gasses into the air while the tanks are being filled. The cost of the installation will cost about NIS 4 million and Delek estimates that subject to receiving the approval of the planning commission, it will stand by the timetable.

10.15.3 Bottom Filling System

According to regulations of the Ministry of Transportation Delek Israel will need to install a bottom filling facility in its Haifa facility in order to prevent pollution from the tanks. Delek has finished the installation at the facility in all the tanks effected by the regulations.

10.15.4 Crude Oil Distribution Facility in Ashdod

Delek Israel operates a crude oil distribution facility in the port of Ashdod. The concession to operate it expires in June 2006.

The Ministry of Environment established a list of works that need to be executed at the Ashdod facility. The cost estimates for these works are about $2.6 million. Delek Israel has appealed the demands essentially claiming that since the facility is owned by the (government owned) Ports Authority, it should bear the costs especially and since it is not sure that Delek Israel will continue to operate it after June, 2006 since there is no economic justification in performing the works. In February 20, 2005 , Delek Israel submitted an administrative petition to the regional court in Beer Sheva. A date for pre-trial hearings was set on May 9, 2005. At this point it is not possible to estimate how the courts will rule.

10.15.5 Expenses and Investments

Delek Israel has invested in the last years an average of NIS 3-4 million per year in environmental activities. Delek Israel estimates that in 2005-6 it will need to spend between NIS 10-12 million assuming that there will be no more demands by the authorities.

This information comparing the estimated expenses and investments is to be considered forward looking information that might not be realized in the future if Delek Israel is found to be in breach of regulations or if new regulations issued by the Ministry of Environment will come into force obliging Delek Israel to allocate additional funds.

It should also be noted that the Association of Oil Companies, of which Delek Israel is a member is in talks with the proper government offices in order to set up a fund that will cover the costs of locating and repairing environmental damage that is a result of past dealings of the oil companies or their gasoline stations regarding leaks, or other pollution.

Each company will pay into the fund an amount for each liter of gas or diesel fuel that is sold by it. This will require the price control authorities to raise the price of the fuels. As of the date of this report, these are only talks and it is not sure if the proposal will be realized.

10.16 Limitations and Supervision of Delek Israel's Operations

10.16.1 Legislation Specific to the Fuel Industry

a. **Fuel Industry Law (encourage interest in competition) 1994-** The law stipulates limitations on the opening of new gasoline stations near stations of the same brand or operated by the same operator. The law will be in effect from July 29, 2005.

b. **Fuel Industry Law (forbidding the sale of fuel to specific gasoline stations) of 2005 –** This law, which went into effect in April, 2005 forbids the sale and supply of fuel to gasoline stations unless they are on the list that the authorities approve. This list can include any station that had a building permit or that had a business permit in the last five years. The sale or supply of fuel not in accordance with the law will be considered a criminal offense. The law does not refer to internal stations (which are stations not located on main roads and which according to their planning or business permit can only supply fuel products for personal use).

c. Infrastructure services - given to fuel companies, including storage, distribution, unloading of fuel

products and others are given, as of the date of his report to all the companies that were recognized as fuel companies on the date that was set by the price control authority. This order is to ensure that the same prices will be charged for the various products and services.

d. **Excise Taxes –** See paragraph 10.14, above.

e. **Water Regulation (prevention of water pollution from gasoline stations), 1997,** which was instituted under the force of the Water Law of 1959, see paragraph 10.15.1, above.

10.16.2 Price Controls:

a. **Supply of Fuel Products by Bazan to the Fuel Companies-** To Delek Israel's best knowledge, Bazan was declared a monopoly in the refinement of crude oil in Israel. The prices of fuels sold by Bazan are set by the Commodities and Services Control (maximum prices for fuel products sold by Baazn) Order, 1992. The order sets the prices for various fuel products according to the Bazan price (with the exception of 98 Octane and low carbon crude oil).

b. **Price to the Consumer – Commodity and Services Control Order (Maximum Prices at Gasoline stations) 2002 –** According to this regulation the maximum price for 95 and 96 octane gasoline sold in a self service pump is fixed, as are the date and methods of its update. Fuel Companies can charge an additional fee for full service and for nighttime and weekend service on the condition that during these times self-service pumps are made available, at a certain percentage of the gasoline stations. The percentage of stations and pumps that need to be self-service, as a pre-condition for the nighttime, weekend and full service surcharge for Delek Israel is 40% as of April 4, 2006; the percentage of pumps at each station that needs to be self service is 33% and at least one pump out of four, if there are only four at the station. In addition, the order stipulates that from April 2, 2006 a gasoline station whose percentage of self service is less than 1/3 or has less than two pumps, or the higher of the two: And in a station that has four pumps or less and has less than

one self service pump – these stations cannot add a surcharge for full service.

In order to assure that Delek Israel abides by the order it had to deposit at the Ministry of National Infrastructure a bank guarantee of NIS 100,000, an amount that rose to NIS 15,700,000 on April 1, 2004 – amounts that are linked to the CPI. The guarantee is in order until June 1, 2006.

As of the date of this report, Delek Israel is upholding the instructions of the order and can charge the surcharge.

10.16.3 Weights and Measures Ordinance of 1947-

The Weights and Measures Ordinance stipulates standards for weights and states that the liter is the way to measure volumes. The ordinance appoints the Minister of Industry to oversee this by appointing official overseers whose job is to test the trustworthiness of the pumps.
The Weights and Measures Ordinance stipulates a number of offenses amongst them the refusal to cooperate with the overseer, the owning for the purpose of use, of faulty or non-checked equipment.

Regulations issued under the Weights and Measures Ordinance specifies certain specifications for equipment that measures fuel in tankers, including a calibration seal.

10.16.4 Operational Licenses:

The licensing process for new gasoline stations is a long and complicated one that requires large financial investments and obtaining many approvals and licenses from multiple authorities. This process is regulated under various laws with authority given to various governmental bodies. These are the main uses:

a. **Planning and Building Law 1965 and the Regulations issued hereunder** – This law the National Planning Council approved a "National Plan for Gasoline stations" stipulating the criterion and conditions for the building of a service station. According the Building Law and the regulations hereunder any use of land for the building of any structure, or use of any structure – needs approval. Sometimes, the construction

of a service station requires a change in the permitted use the land.

b. **Licensing of Business Law 1968 and its regulations hereunder –**

1. **Licensing of Business Law (Businesses that**
require Licensing) 1995 – according to this rule, gasoline stations are businesses that need a license from the local authorities.

2. **Licensing and Business (the Storage of Fuel) 1976 Order –** stipulates detailed instructions regarding the issuance of a business license for a service station. The order states that the licensing authority will not give a license unless the Chief Work Supervisor approves the facility from a security point of view.

3. **Licensing of Business (sanitation conditions at gasoline stations) Regulations of 1969 –** has instructions regarding the sanitary conditions and facilities of gasoline stations.

c. **Commodities and Services (garages and vehicle**
related factories) Order 1970 – The order which was issued under Commodities and Services Law 1957, forbids the opening of a gasoline station or operating one without a proper license from the Ministry of Transportation.

d. In addition to the permissions and licenses described above there are others that are necessary to open and operate a service station, for example from the Ministry of Health, the Fire fighting department, Ma'atz (government road building company) and the Committee for The Protection of Agricultural Land, etc.

10.16.5 <u>Antitrust Matters</u>

a. Exclusive Supply Agreements with Gasoline stations:

1. On June 28, 1993 the Restrictive Trade Practices commissioner, under paragraph 43 of the Restrictive Trade Practices Law 1988, stipulated that the agreements

between the established fuel companies (Delek, Sonol and Paz) regarding the supply of fuel to gasoline stations that are not owned or leased from the Israel Lands Administration are restrictive arrangements. The Commissioner suspended his decision giving the fuel companies the opportunity to submit an objection to the Antitrust tribunal

2. On October 27, 1997 the Restrictive Trade Practices Commissioner and Delek Israel reached an agreement that was presented to the Antitrust tribunal where the commissioner reduced the scope of his decision such that it will only hold for gasoline stations in which Delek Israel does not have an "accepted lease agreement" (in other words, a lease agreement where the rental fees paid are above a certain amount, as detailed in the agreement with the commissioner).

   Also decided in the agreement were the conditions for future dealings of Delek Israel with gasoline stations, regarding exclusive agreements where Delek Israel can request a longer period from the antitrust tribunal. The agreement commits Delek Israel to issue a request for any agreement to the tribunal. The commissioner indicated that he would recommend to the court that exclusive supply agreements be limited to a period of between 1-14 years, depending on the circumstances.

3. Delek Israel also agreed that there will be no agreement or partnership regarding land rights for gasoline stations or regarding marketing agreements with gasoline station operators.

4. Delek Israel agreed to release 35 of the 65 gasoline stations in which it didn't have a "proper lease agreement" and the commissioner agreed to recommend proper agreements with the remaining 30 stations.

5. On March 29, 1998 the agreement was approved by the antitrust tribunal. As of the date of this report, 20 of the 35 gasoline stations were released from their

agreements to market Delek Israel fuel continue to market its fuel products.

6. After approval of the agreement, Delek Israel requested the antitrust tribunal approval for supply agreements with 22 gasoline stations. After the request was submitted, Delek Israel came to an agreement with 15 of the 22 stations.

   On March 25 2001 the antitrust tribunal ruled regarding the seven gasoline stations. The tribunal approved exclusive supply agreements with some of them for a periods of between 3-6 years.

   As of today, most of the stations were released from their exclusive supply agreements with Delek Israel. However, most of them continue to purchase fuel from Delek Israel.

7. On July 1, 2002 Delek Israel came to an agreement with the Commissioner regarding a consensual order according to paragraph 50b of the Restrictive Trade Practices Law of 1988. The order was approved by the Antitrust Tribunal.

   The main points of the consensual order was that the rental of gasoline stations by Delek Israel for a period of greater than seven years which falls under the circumstances stated in paragraph 17 of the law, will be considered as a merger. This means that such a lease needs the approval of the commissioner.

8. **The Separation of Ownership in Companies Jointly Owned with other Fuel Companies –** Within the framework of the agreement, Delek Israel agreed to separate the ownership of five companies that Delek Israel own in common with Paz and Sonol. The separation was completed five years ago. As for two of the companies "Sha'al" and "Podesco Oil", which were not active companies any more, it was agreed to disband them. The three other companies: Airline Services, Tanker Services, and Consolidated Oil Export Company were sold to the highest bidder of

the three fuel companies (Delek, Sonol and Paz). On May 2, 2000 the auction was conducted and Delek Israel sold its 22.5% share in Airline Services to Paz for NIS 47 million and purchased Paz and Sonol's stake (50%) in Tanker Services and Consolidated Oil Export for a total of NIS 23 million. These then became Delek Israel subsidiaries.

9. The above agreement did not include the separation of the joint ownership of the vast storage facility Pi Glilot. Two years ago after a petition that was submitted to the Supreme Court providing as the High Court of Justice against Pi Glilot and others in order to cancel an agreement signed between Pi Glilot and the Israel Lands Administration regarding the Pi Glilot Land on the northern border of Tel-Aviv (at Glilot Junction). The Commissioner decided that this partnership should also be dismantled. In addition, the State, which owns 50% of the facility, expressed its will to privatize it. Therefore, the shareholders came to an agreement in principle that the current partnership (50% state and 50% fuel companies) needs to be disbanded according to the following principles:

a. Pi Glilot will sell the operations in its Ashdod, Jerusalem and Beer Sheva facilities.

b. After the sale of the operations, Pi Glilot will retain the lands in its northern Tel-Aviv site as well as certain obligations, after the company is disbanded, the rights to the land will pass to the Pi Glilot shareholders in conjunction with a consensual order of the commissioner.

The agreement in principle above is dependent upon the signing of a detailed agreement and obtaining all necessary approvals including the Minister's Committee for Privatization and the Commissioner. All of the parties are in an advanced state of negotiations regarding the deal.

10.16.6 Supplier to the Ministry of Defense

Delek Israel is a qualified participant in tenders from the Ministry of Defense.

10.16.7 Standards

Israel has standards for the fuels that are marketed in Israel. Delek Israel markets only those products that meet these standards.

10.17 Legal Issues

A description of the legal issues, obligations and lawsuits appear in note 23A of the financial reports.

10.18 Strategy and Business Goals

10.18.1 Delek Israel reviews it's strategic and business plans from time to time and updates them according to developments in the fuel market, the competitive environment and the economic situation.

10.18.2 The operations of Delek Israel in the coming years are expected to focus on the following areas:

a. The establishment of gasoline stations and convenience stores at strategic locations and increasing the geographical reach of the company.

b. Further penetration of Delek Israel's unique products, like "Dragon".

c. Attempt to reduce the credit given to customers and receiving more security for the open credit.

d. Improve problematic leases.

e. Entry of more profitable products and services at gasoline stations and convenience stores.

f. Reducing costs of fuel purchases.

The above estimates are to be considered forward looking information. Not all of the estimates are under Delek Israel's control and may not be realized as the environment may change due to outside influences. Also, the risk factors are detailed below in paragraph 10.19 may influence the ability of Delek Israel to actualize these goals.

10.19 Risk Factors

10.19.1 Delek Israel estimates the following as the main risk factors facing the company:

a. Regulatory Interventions - A continued regulatory intervention in the industry.

b. Environmental Regulation – Laws, regulations and orders dealing with various environmental issues

that apply to the fuel companies and the possibility that in the future more stringent laws will require Delek Israel to invest more money.

c. Competition – Tough competition in the sales of fuel products and a deterioration it the profitability and prices of the products including for large car fleets.

d. Fuel Taxes – High excise tax levels and further expected tax hikes.

e. Credit Risk – Credit risks can manifest themselves in a number of ways:

1. For the out of station market Delek Israel sells fuel products to institutional customers on credit. Some of the credit is unsecured and therefore Delek Israel is exposed to credit risk. Delek Israel estimates that the high diversification of its customer base reduces the risk a little. In addition, the company has as policy of trying to reduce the credit it gives to problematic customers.

2 .Some of the credit given to the retail customers in the gasoline stations is unsecured, putting Delek at risk.

3. Delek Israel is exposed to credit risk since the credit it receives from the authorities for the payment of excise taxes is ten days is shorter than the credit given to customers (30-90 days). As a result, the increase in the percentage of the excise taxes increases this risk.

4. In addition, the sector in Israel is characterized by a high number of automated Dalkan services, increasing the credit risk to the company.

5. When oil prices rise, the amount of credit to customers rises along with it.

f. Ownership Structure of Gasoline stations – Since some of Delek Israel's gasoline stations are rented and others are supplied through exclusive agreements, there is a risk that they will turn to the competition when the supply agreement or rental lease comes to an end. In addition, in the stations in which Delek Israel is not the owner or are not operated by it, Delek Israel is exposed to

pressures from the owner/operators producing a downward push on profitability.

g. Short Term "out of station" Contracts – In the "out of station" market the contracts are for short terms. This increases the opportunity for the customer to go to the competition.

h. Exchange Rate Volatility – As said in paragraph 10.1.1(d), above, fuel products are bought from suppliers in USD, exposing it to FX volatility.

i. Volatility in Oil Prices – As stated in paragraph 10.1.1(c) above, the prices that Delek Israel pays for fuels is taken from the global and regional (Mediterranean) free market prices which are often influenced by the political and security situations of the oil producing states.

j. Class Actions – See note 23 to the financial statements

k. Privatization and Breakup of the Oil Refineries (Bazan) – This can change the whole makeup of the fuel market in Israel and influence the sector by allowing the refineries to market these products directly to consumers.

10.19.2 What follows is a summary of the risk factors described above according to their type and which were rated according to the estimates of the Delek Israel management:

	Influence of Risk Factors on Delek Israel's Operations		
	Large	Medium	Small
Macro Risks	- Price Volatility for Fuel Products		- FX Volatility
Industry Risks	Regulatory Intervention -Environmental Regulation -Taxes	Competition Class Actions - Privatization and breakup of the fuel market	
Company Specific Risks		Credit Risks - Ownership structure of Gasoline stations	- Short term nature of "out of station" supply contracts

11 Fuel Sector in the United States

The Company started operations in the US fuel sector in 2001 via Delek US Holdings, Inc. (Delek USA). Delek USA markets and distributes fuels and oils and establishes and operates gasoline stations and convenience stores. The operations in the US are concentrated in eight states in the southeastern part of the USA (specifically Tennessee, Alabama and Virginia).

In addition, on March 13, 2005 Delek USA , through three subsidiaries signed an agreement to purchase an oil refinery in Texas with a capacity of 54,000 barrels of oil a day and a 104 km pipeline to transport the oil. The completion of the deal is dependent upon further due diligence as well as the approval of the authorities. (see also two immediate reports of March 14, 2005).

11.1 General Information on the Sector

11.1.1 General Environment and External Influences

Delek is exposed to trends and developments in the fuel market and economy in the region of the US in which it is active, including:

a. Libor Interest Rate Volatility – Delek USA has USD loans some of which are variable rate and linked to the Libor. Delek USA uses hedging instruments in order to protect itself from volatility.

b. Volatility in Global Oil Prices – The price that Delek USA pays for its fuel products is derived from the world oil market, exposing it to the price changes in this market. The price is influenced by political and economic instability, amongst other things. In general, a rise in the price of refined oil brings a lower profit margin and a drop in price brings an increase, due to the time lag between the price change in the global market and when the retail price is updated.

11.1.2 Structure of the Sector and the Changes in it

a. Delek USA operations includes the marketing of its products through 332 gasoline stations operated by Delek USA in eight southeastern states. Main activities are in Tennessee (179 stations), Alabama (93 stations) and Virginia (36 stations).

b. In addition, in Alabama, Delek USA markets fuel products as an exclusive supplier to 83 stations operated by a third party.

c. Delek USA operates in the same markets as the large oil companies and the large department store chains, which also sell oils and other products, making Delek USA's market share insignificant.

However, in the areas in which it is active its market share is significant (see paragraph 11.6.2, below).

d. About 55% of the stations operated by Delek USA are owned by it and the rest are leased to it, for the most part through long term leases.

e. Delek USA markets its products to customers at its gasoline stations. Similarly, it has started selling gasoline through magnetic cards which at the date of this report is not significant. In addition, in Alabama, Delek USA is active in the out of station market (direct marketing to consumers out of the gasoline stations).

f. Delek USA also operates convenience stores at its gasoline stations integrating the sale of fuel products and the operation of the convenience stores.. Delek USA's strategy is to view its fuel products as just one more item marketed to its customers. The combination of gasoline stations and convenience stores in the US is a long standing practice that is more common than in Israel. It contributes significantly to the income and profits from gasoline stations.

11.1.3 Key Barriers to Entry

The main barriers to entry in the US fuel market are similar to that described above in paragraph 10.1.3 regarding the fuel products sector in Israel.

11.2 Products and Services

The products marketed by Delek USA include mostly oil and gas products, retail products sold through convenience stores, (state) lottery tickets and money orders.

11.2.1 Fuel Products

Delek USA sells mostly "white products" (refined) including gasoline, diesel and kerosene - mostly from its gasoline stations.

a. **Gasoline** – for automobile use and sold mainly at gasoline stations.

b. **Diesel** – For large trucks and other diesel powered motor vehicles, as well as for heating and industry.

c. **Kerosene** – for heating

11.2.2 Retail Products

At the convenience stores various retail products are sold: The main ones being tobacco products, beer, soft drinks, food, snacks, candies and other items.

11.2.3 Lottery Tickets

Delek USA has a license to sell lottery tickets at its convenience stores in Tennessee, Virginia, Kentucky and Georgia.

11.2.4 Money Orders

Delek USA has a license to sell money orders which are checks bought in cash and function as a substitute for personal checks.

11.3 Segmentation of Revenues by Products and Services

What follows is the approximate amount and percentage of revenues from the sale of various products and services whose amount is 10% or more of the total revenues of Delek Group over the last three years:

	2004		2003		2002	
	NIS millions	As % of Revenues	NIS millions	As % of Revenues	NIS millions	As % of Revenues
Gasoline	2,287.6	15.3%	1,475.4	12.1%	1,382.4	14%

11.4 Customers

11.4.1 Delek USA's main customers are the retail customers who buy gasoline and other products at gasoline stations and convenience stores.

In addition, in Alabama, Delek USA markets fuel products to 83 gasoline stations operated by third parties (via supply agreements). Most of these agreements are exclusive however the stations bear the different brand names.

11.4.2 What follows are the approximate sales segments of Delek USA by groups of customers, for 2003-4:

	2004 NIS millions	2003 NIS millions

Retail Consumers	3,859	2,722
Gasoline stations with Supply Agreements	162	0
Car Fleets	5.4	0

11.5 Marketing and Distribution

What follows is a short description of the marketing methods of Delek USA.

11.5.1 Marketing in Gasoline stations – Delek USA promotes its products and services in a number of ways: Regional specials and discounts in specific gasoline stations and the use of promotional sales. Delek USA also advertises in the various media outlets.

11.5.2 Expansion of Gasoline stations and Convenience Stores – Delek USA's senior management looks to find new opportunities to develop or purchase additional gasoline stations and convenience stores, including the opportunity to by chains.

11.5.3 Out of Station Marketing – Delek USA employs a professional who is responsible for operating this business which includes finding new opportunities.

11.5.4 Exclusivity Agreements – For the 61 stations that Delek USA operates in Alabama it has exclusive agreements with Exxon Mobil, Chevron and Shell for the purchase of fuel products. These agreements are for a period of 10 years and are at various stages of the life of the agreement.

11.6 Competition

11.6.1 Delek USA operates in eight states in the southeastern US, mostly in Tennessee, Alabama and Virginia.

11.6.2 To the best knowledge of Delek USA it is one of three companies with the largest market share in the areas of Memphis and Nashville in the state of Tennessee and has a market share of 23% and 38%, respectively.[1]

11.6.3 Delek USA has many competitors, mostly local gasoline stations and the large chains. In the main

[1] Market share is based in on the number of branded gasoline stations in the region.

regions of operations mentioned above, the key competitors are Shell and Exxon Mobil, with market shares of 18% and 23%, respectively.

11.6.4 The competition between the Delek USA stations and the others is mainly on service levels and on the prices of products sold to the consumers. Location and the choice of products at the gasoline stations and convenience stores is also a factor of competition.

11.6.5 In addition to the competition in the fuel product area, Delek USA is also exposed to competition from various stores that sell similar products or services sold in the Delek USA's convenience stores. There is also competition from the large department store chains whose sale of oil and other fuel products is on the rise.

11.6.6 What follows, is a description of the main methods in which Delek USA deals with the competition and a description of the main factors influencing its competitive position:

a. Delek USA is working to broaden its geographical presence in the placement of gasoline stations and convenience stores in its areas of operations and the areas near it. The high concentration of Delek USA's gasoline stations allows it to be an influencing factor in the local market and to have a relatively small and efficient headquarters (Delek USA has one headquarters for all of its activities, located in Tennessee).

b. Except for the 61 stations Delek USA operates in Alabama where it has commitments to sell products of other brands as stated in paragraphs 11.10(a) and 11.15, below, Delek USA independently purchases unbranded fuel products at lower prices than operators of branded fuels can obtain. This allows the stations to be more competitive, price wise.

b. Most of Delek USA's gasoline stations are in central locations which increase the accessibility of the stations.

11.7 Fixed Assets and Facilities

Delek USA owns 189 gasoline stations and convenience stores (179 are operated by Delek USA and the rest by a third party).

Similarly, Delek USA has a main storage facility in Alabama, equipment and facilities at the gasoline stations and trucks and vehicles for the transport of fuel products.

11.8 Non-Tangible Assets

Delek USA's gasoline stations and convenience stores operate under three chains with different names:

About 205 stations in Tennessee, Alabama, Arkansas, Kentucky, Mississippi and Louisiana operate under the brand name Mapco Express.

36 stations in Virginia operate under the brand name East Coast.

88 Convenience stores in northern Alabama operate under the brand name Discount Food Mart. 28 of the attached gasoline stations operate under the name Exxon-Mobil, 17 Chevron and 16 operate as Shell stations.

To the best of the knowledge of Delek USA's management none of the brands are trademarked. When Delek USA purchased Mapco Express in 2001 it received permission from the selling company to use the Mapco Express name only at the gasoline stations and convenience stores.

11.9 Human Resources

11.9.1 What follows are the details of the employee situation for Delek USA for 2003-4, by department:

	# Workers as of:	
Department	Dec. 31, 2004	Dec. 31, 2003
Company Staff	84	70
Regional Staff	67	41
Distribution	26	27
Central Warehouse	12	-
Stations/Stores	2,193	1,608
Totals	2,382	1,746

Delek USA gasoline stations are divided into regional clusters where each cluster has between 9-11 stations each. Each cluster has a manager who is responsible for operating the region's stations.

The growth in the number of workers in 2004 is due for the most part to the purchase of 89 gasoline stations and convenience stores in 2004.

Delek USA workers work under "at will" contracts and are not unionized.

There are a number of training programs for hourly workers, store/station managers and regional managers. In addition, Delek USA has training programs in customer service, marketing, work safety and other areas.

Most of the Delek USA workers are permitted to participate in a number of programs including social benefits, medial insurance, life insurance and disability insurance.

Delek USA has a number of compensatory packages, commensurate with the worker's position, as follows:

1. Store and regional managers get monthly and quarterly bonuses for keeping within budget.
2. All workers of Delek USA (except store workers) have reward packages based on achieving goals that are set at the start of the year.

11.10 Raw Materials and Suppliers

11.10.1 Fuel and Oil Products – Delek USA's main fuel supplier is Premcor Refining ("Premcor") which supplied half of the 2004 fuel needs. A supply agreement with Premcor is in effect until May, 2008.

In addition to Premcor, Delek USA purchases fuel products from other suppliers, mainly, Exxon Mobil, Chevron and Shell.

11.10.2 Retail Product Suppliers – Delek USA purchases half of the retail products it markets from McLane Company, Inc. In addition, it purchases from Coca Cola, Pepsi Cola, Anheuser Busch, Miller and others.

11.11 Working Capital

11.11.1 Finished Product Inventory Policy

Delek USA's inventory policy for fuel, oil and retail products is to keep a 12 day supply. The value of the inventory as of the date of this report was $25 million.

11.11.2 Credit Policy

a. Credit to Customers: It is the policy of Delek USA not to give credit to retail customers. Under certain circumstances Delek USA has given credit to car fleet or out of station customers for relatively small amounts and only for seven days. The average credit days in 2004 were four.

b. Credit from Suppliers: Delek USA receives 30 days credit from suppliers. The average credit from suppliers in 2004 was 14 days however Delek USA does not receive any credit from certain suppliers (notably beer).

c. The credit that Delek USA receives from its suppliers is nearly enough to finance inventory and credit to customers.

11.12 Financing

11.12.1 Credit Limits

In order to receive and maintain a certain credit framework, Delek USA committed to maintain certain financial criteria, as follows:

a .Regarding the Mapco express subsidiary:

1. The ratio of bank debt to operating profit plus depreciation (EBITDA) cannot fall below 6.00 in 2004 and 5.50 as of September 2005.
2. Operating profit plus depreciation will not drop below $23 million in 2004 and $24 million in 2005.
3. Current Ratio will not fall below 0.9.
4. Total investments for 2004 will not be more than $7 million and $5 million for 2005.

5. Equity of Delek USA after goodwill will be larger than -$8 million in 2004 and $6 million in 2005.

6. Total bank debt to equity will be less than 2.75.

7. The ratio of operating profit plus depreciation in the last four quarters to expected interest and principle expenses for the coming four quarters cannot drop below 1.25.

8. Other limitations regarding dividend distribution.

b. Regarding the Mapco Family subsidiary:

1. The ratio of bank debt to operating profit plus depreciation cannot exceed 4.25 in 2004 and 3.75 in 2005.

2. Operating profit plus depreciation and cannot drop below $9.5 million, annually.

3. The ratio of operating profit after taxes and investments plus rental expenses and depreciation to financing costs, principle payments and rental payments will not fall below 1.15.

4. Total investments will be less than $4 million in any consecutive 12 months.

5. Equity of Delek USA after goodwill will be goodwill on the day the loan was taken, plus 50% of the cumulative net income plus any received equity.

6. In addition, there are limitations regarding dividend distribution.

11.12.2 Collateral – Delek USA is obligated not to collateralize its assets and property to any other person or party and not to sell (cumulatively, assets greater than $1 million from each of its subsidiaries, annually) its assets to a third party and not to commit itself to additional financial obligations without the prior written agreement of the banks.

As of the date of this report, Delek USA stands by all of its obligations.

11.12.3 Credit Frameworks - Delek USA has a short term credit framework that totaled around the time of the report (February 28, 2005) at $26 million. From this,

Delek USA utilized $15.5 million (including accrued interest and Letter of Credit - LC of $12 million).

11.12.4 Variable Rate Credit – What follows are the details of the variable rate loans that Delek USA received in 2004:

Change Mechanism	Rate Range; 2004	Actual Rate at time of Report
L+1.5% L+1.25% L+3.0%	2.69-3.56% 2.44-3.31% 5.20%	4.06% 3.81% 5.77%

11.12.5 Credit Rating – Delek USA does not have a credit rating. For the rating of the bonds of its parent company, Delek Petroleum see paragraph 10.13.13, above.

11.13 Taxes

Delek USA and its subsidiaries are Delaware corporations and are under the tax laws of the United States.

Delek USA has not yet had final tax assessments since, according to federal law, tax assessments are only finalized three years after the assessment. It should be noted that Delek USA incurred a loss for tax purposes of $17.7 million and has yet to pay corporate income taxes. In addition, Delek USA operates under the tax laws of the states in which it operates (state income taxes and franchise taxes) which is based on the value of the assets, the turnover and equity. Delek USA has state tax losses totaling $29.4 million. For the tax rate for Delek USA in the US see note 31.2b of the financial reports of the Group.

Tax rates on capital gains, interest and dividends are dependent upon the tax treaties between Israel and Hungary and the USA and Hungary.

11.14 Environment

11.14.1 Delek USA operates under various laws, regulations and orders regarding environmental protection. These laws can be federal, state or regional and change from area to area. The various states issue permits for above and/or underground storage tanks on a yearly basis.

11.14.2 Delek USA is a member of the Underground Storage Tank Reimbursement Fund that deals on its behalf with environmental matters. In addition, Delek USA purchased an insurance policy covering environmental damage.

11.14.3 Since environmental issues change quickly there could be new and more restrictive rules that Delek USA might have to follow, causing added expenses. However, according to currently available information as to Delek USA's fulfillment of existing environmental demands, Delek USA does not expect substantial added environmental related expenses in 2005-6.

This information is to be considered forward looking information. It is possible that this will change due to previously undiscovered problems with Delek USA operations or that new regulations might take effect that will cause a rise in expenses.

11.15 Regulations and Limitations on the Fuel Sector in the United States

11.15.1 Gasoline Station Licenses and Fuel and Oil Sales – The permit for the sale of fuels and oils is given by the various states in which Delek USA operates (a Regulatory Services Permit). The permits are annual. In addition, states also give permits for the above and underground storage of fuel as mentioned above in paragraph 11.14.1.

11.15.2 Lottery Permit – Delek USA is permitted to sell automated lottery tickets as well as "scratch off" tickets in Tennessee, Virginia, Kentucky and Georgia. The permit to sell automated lottery tickets and "scratch off" tickets in Tennessee was obtained in 2004.

11.15.3 Money Order Permits – Delek USA has annual permits in six states (Tennessee, Virginia, Alabama, Mississippi, Kentucky and Arkansas) to sell money orders (a Money Transmitter License and a Sale of

Checks License). Delek USA also has a license to hold the cash until it is charged by a money order for third party. In the federal level Delek USA needs to comply with the Treasury Federal Money Services Business Regulations.

11.15.4 Permit to Sell Beer – The permit to sell beer is given by three separate authorities: The state, county and city. There are counties in which Delek USA does not have a beer permit (some counties in Alabama). The permit to sell beer is annual and some counties include in it the sale of other alcoholic beverages, like wine.

11.15.5 Cigarette Sale Permit – The permit to sell cigarettes is also given by three authorities: State, county and city. This permit is annual. Delek USA needs to obtain additional permits for the sale of other tobacco products.

11.16 Key Agreements

11.16.1 Premcor is the major fuel supplier for Delek USA, supplying half of its needs. Delek USA is tied to Premcor via a supply agreement that runs until May, 2008. According to the contract, Premcor will supply a certain amount of refined fuels to its stations in Nashville and Memphis. The price is determined by a fixed formula which is better than the current market price in the area. According to the contract, if Premcor does not supply the amounts stipulated in the contract, Premcor will pay Delek USA the difference between the contract price and the actual price which Delek paid to other suppliers.

11.16.2 In addition, as stated in paragraph 11, above, on March 13, 2005 Delek USA signed an agreement, through three of its subsidiaries for the purchase of a refinery and pipeline in Texas. The investment for the purchase was $78 million (including inventory). The exact price will be determined on the day of the closing, according to the price of oil at that time. Delek USA estimates that within the next five years it will need to invest an additional $70-90 million in order to upgrade the refinery, especially in order to bring it up to the standards regarding environmental regulations. Finalization of the deal is dependent upon due diligence and the receipt of the necessary permits and licenses from the proper authorities in the US.

11.17 Business Goals and Strategy

Delek USA examines its goals and strategies and updates them from time to time according to developments in the fuel market, the competition and the economic environment.

Delek USA operations in the coming years are expected to focus on the following activities:

11.17.1 The purchase of new gasoline stations and convenience stores in the areas in which Delek USA is active, as well as in surrounding areas.

11.17.2 Increasing its retail activity in the convenience stores, specifically in the area of prepared foods.

This information regarding business goals and strategy is to be considered forward looking information. Not all of the estimates are under Delek USA's control and the realization of the goals and strategies is dependent upon external forces. Similarly, see paragraph 11.19 below regarding risk factors that could have an influence on Delek USA's ability to analyze goals and strategies.

11.18 Expected Developments

Delek USA will look to expand its operations in refining and transport of fuels, subject to the closing of the refinery and the pipeline deal.

11.19 Risk Factors

11.19.1 Delek USA estimates that the main risk factors associated with its operations are as follows:

a. Competition – The high level of competition, specifically with fuels, pushes profitability margins downward.

b. Volatility in Oil Prices – The influence of oil price volatility on the prices and on profitability margins.

c. Deteriorating Profitability – The risk to declining profitability due to low growth in fuel supply from the refineries in the US and due to rising global oil prices and difficulty of fully adjusting the retail price.

d. Competition from Department Store Chains – Specifically regarding the sale of fuel and oil products by department stores.

e. Declining Cigarette Demand – A decline in the demand for cigarettes (the biggest selling retail item for Delek USA) and the difficulties of the tobacco companies in the US that have an impact on the marketing and prices of cigarettes.

f. Recession – Delek USA can be influenced by an economic downturn in the US which expresses itself by a decrease in the volume of fuel and retail products sold by it.

g. Exposure to the rise in Libor Rates – The risk is from a sharp rise in USD Libor due to the long term variable rate Libor linked loans that Delek USA has. It should be mentioned that Delek USA uses hedging instruments in order to protect itself from volatility

h. Environment – The addition of more environmental regulations could significantly add to the outlays of Delek USA.

What follows is a summary of the risk factors by type that were rated according to the estimates of the management of Delek USA.

	Risk Factors and Company Operations		
	Large	Medium	Small
Macro		- Recession	- Libor Rate changes
Industry	- Oil Price Volatility	Competition - Decreasing Profitability margins	Chain store competition Lower Cigarette demand - Environment

12 Biochemical Sector

The Delek Group's activities in the biochemical sector are operated by Gadot Biochemical Industries Ltd (herein "Gadot").

Gadot produces products using biochemical processes under the following two main categories:

Crystalline Fructose, which is manufactured, marketed and sold only to the food industry in Europe; (b) Citric Acid, salts and other products, mainly for the food, pharmaceutical and detergent industries in the US and Europe.

12.1 General Description of the Sector

12.1.1 Limitations, Legislation, Regulations and Special Constraints

All of the fructose sales by Gadot are to Europe. Europe has a "Sugar Regime" which sets quotas for the production of sugar and sugar substitutes (including fructose), high taxes on sugar and sugar substitute imports and minimum prices for sugar. This is done in order to protect produce of the European Union agricultural sector (see details in paragraph 12.2.1 below).

12.1.2 Changes in the Range of Operations in the Sector and in its Profitability

The fructose market in Europe grew in 2004 by 10%.Due to the structure of the market and the Sugar Regime in its current form it seems that there will be no change in the profitability of Gadot from this product until the second half of 2006. From that date there are supposed to be changes in the Sugar Regime and of the price levels in the market (see paragraph 12.2.1. below).

The citric acid and salts market grew over the last two years after previous years of small growth. It seems that the production capacity of the companies in this market will grow. In addition, there is an expected improvement in price levels in this market.

12.1.3 Main Barriers to Entry into the Sector and Changes

In the opinion of Gadot, the main barriers to entry into the niche that Gadot is in, in the biochemical industry are, as follows:

a. Knowledge - Unique knowledge and long term experience in basic biotechnology and chemical processes and the ability to produce specific products for industry.

b. Resources- Large capital investments with high technology risk.

c. Standards – For the purchase and maintenance of high standards necessary in the food industry there is a need for high quality manpower as well as to wide investments in infrastructure.

12.1.4 Structure of Competition in the Sector and the Changes

The competition in Europe for the manufacture of Crystalline Fructose is influenced by the Sugar Regime of the EU as described in paragraph 12.2.1, below. The citric acid market is influenced by the growing world population, global economic development and the fact that citric acid is a product for an advanced lifestyle. On the other hand, we are witnessing the competition amongst western manufacturers and Chinese manufacturers who are the largest source for this product today (see paragraph12.6, below).

12.2 Products

12.2.1 Crystallized Fructose

Fructose is a one-sugar. Gadot manufactures Crystalline Fructose ("Fructose" or "Crystalline Fructose") for two purposes: As a premium sweetener and as the raw material in the manufacture of sugar substitutes.

Fructose as a "Premium Sweetener"

Fructose has properties that make it preferred over the other sugars (sucrose) for the following reasons: It has a more concentrated sweetness than sugar; it breaks down in the digestive system at a slower rate and is reminiscent of the taste of fruit. Due to the unique characteristics of fructose it is used as a premium sweetener ("premium sweetener") in the food industry, especially for candies, jams, baked goods, ice cream and other products. Food products based on fructose have fewer calories than those based on sugars with the same level of sweetness. In certain countries like Germany due to local regulation they are deemed good products for use by diabetics because of the slow pace at which it breaks down.

Fructose as a Raw Material in the Production of Sugar Substitutes

White sugar is made from two ingredients: Fructose and glucose. Therefore, by combining glucose and fructose it is possible to create a glucose/fructose blend with a sweetness level that is identical to sugar or is different than it, by regulating the amount of fructose in the blend ("sugar substitute"). Due to the high price of sugar and the excess supply of glucose in the world there is an economic justification to use

the excess glucose to produce sugar substitutes. The main method to produce sugar substitutes out of glucose is through a chemical process called isomerization which switches part of the glucose to fructose to create the sugar substitute (main process). Another method which is done only in Europe, because of the Sugar Regime that will be explained below, is to mix glucose with Crystalline Fructose (blending process).

EU Sugar Regime

As part of the policy of protecting the agricultural sector, the EU maintains quotas for the production of sugar and sugar substitutes by the "main process" described above. Therefore there are high quotas on the import of sugar and sugar substitutes that are made by the main method. In addition, there are minimum prices for sugar that are significantly higher than the global free market price. However, according to the Sugar Regime there are no quotas for the manufacture of sugar substitutes by the "blend method" and the import of Crystalline Fructose for the manufacture of a sugar substitute by that method from countries with trade agreements with the EU, like Israel[1] are not under quota.

In actuality, from all that was stated above Israel can export to Europe the fructose it manufactures from the blend method without quotas or taxes. Therefore, it is economically worthwhile for Gadot to produce Crystalline Fructose as a raw material for the production of a sugar substitute.[2]

The Sugar Regime of Europe in its current form will expire on June 30, 2006. To the best of the knowledge of Gadot there have been talks in the EU's institutions regarding the future of the Sugar Regime. Amongst others, there are talks regarding lowering the price of sugar by 36% by 2008 (amongst others, by changing the price support mechanism for the price of sugar from the blend method to ascription pricing) , the lowering of quotas for the manufacture of sugar in Europe by 13%, cancellation of the ban of trading quotas amongst countries of the EU, support for factories that will not be profitable after the changes and establishing a partial compensation

[1] The only two countries that produce crystallized fructose and can export to Europe without quotas and taxes are Turkey and Israel.

[2] The trade agreement between the EU and Israel is not time limited, yet each side can end it with six months notice.

mechanism to support for farmers who will be negatively effected by the changes. Similarly, the changes in the Sugar Regime may also significantly reduce the export quotas on sugar form Europe to those countries with subsidies.

The nature of the changes in the Sugar Regime, their timing and their content will significantly affect the price of sugar in Europe and therefore the price of fructose. A reduction in the price of sugar will almost certainly bring a parallel reduction in the price of fructose to the fructose intense blends market since the blends are the main ingredient in sugar substitutes. In light of this, since sugar is not a substitute for fructose as a "premium sweetener" it is not possible to predict at this time the influence on the price of fructose for the premium sweetener market, but it is possible to say that it will have less of an effect.

Similarly, it is safe to assume that a significant reduction in sugar export quotas from Europe to countries who receive subsidies will bring a reduction in the availability of sugar in Europe. That is: The availability of sugar as a raw material to produce its products. The importation of sugar from countries that are further away (such has Brazil, Thailand, South Africa or Australia), will lead to an increase in transportation costs of sugar for Gadot.

In summary, cancellation of the EU's Sugar Regime or a significant change it, or the reduction of the minimum price of sugar will have a significantly negative effect on the businesses of Gadot.

According to a notice to the press from the Council of the European Union deliberations of July 19, 2004 regarding a meeting of the EU's agricultural ministers there were strong objections to the timing ,content and scope of the changes to the Sugar Regime.

In addition to the Sugar Regime, the EU's policy to open up its markets to 49 developing countries, including the policy of opening the sugar market to these counties, by 2009 is expected to bring a reduction in the price of sugar and concomitantly of fructose.

12.2.2 Citric Acid

Pure citric acid is the most available acid in the food industry (specifically for the production of soft drinks)

and is used as a raw material in the detergent and pharmaceuticals markets and for other applications.

Gadot produces pure crystalline citric acid in a biochemical process that ferments a white sugar solution enriched with glucose (which comes from the fructose production facility which produces synergies for Gadot). Gadot sells most of its citric acid produced, in the free market while the rest is used as a raw material in the production of citric acid minerals as is described below.

12.2.3 Salts

Gadot produces citric acid salts and phosphoric acid salts, as follows:

a. Citric Acid Salts

Gadot produces various salts from citric acid in a chemical reaction of citric acid with various bases (mostly potassium hydroxide and caustic soda). The citric acid salts can be divided into two main categories:

1. Simple citric acid salts – salts that are not differentiated by their quality or chemical or physical makeup from parallel products of other producers and are therefore considered almost a commodity. In this category are found Tri-Sodium Citrate (TSC) that is the main product in this category and Tri-Potassium Citrate (TPC) which are designated mostly to the food and detergent industries.
2. Enriched Minerals– salts used for food enrichment and are also used in the production of food additive essences which are sold over the counter in vitamin and health stores.

b. Phosphoric Acid Salts

Gadot produces three different types of phosphoric acid salts that are used mainly for the food industry (for soft drinks, calcium enrichment and for other uses).

12.2.4 Other Products

Gadot produces fumaric acid soluble in cold water and invert sugar in small amounts. The fumaric acid is

produced by Gadot is sold to one main customer in the US who produces powdered soft drinks.

12.3 Customers

12.3.1 Most fructose manufactured by Gadot is sold as a raw material for the production of a sugar substitute to the EU and mainly to Roquette Feres Group ("Roquette Feres"). Some of the fructose is sold as premium sweetener to Galam Ltd (as described in paragraph12.4.1, below) and the rest is sold directly by Gadot to customers in Europe.

Those who purchase fructose from Gadot are regular customers who have supply agreements with Gadot.

Citric acid is sold by Gadot by annual supply contracts.

12.3.2 Gadot feels that it is not dependent on its customers. If however there is a drastic change in the Sugar Regime it is possible that the fructose prices in the contract with Roquette Group will be higher than the sugar prices which may cause dependence on the Roquette Group. In this context it should be mentioned that the contract with the Roquette Group is binding for the whole term.

12.4 Marketing and Distribution

12.4.1 Fructose

Most of the fructose as a premium sweetener is jointly marketed by Gadot with Galam, Ltd. ("Galam") where Gadot supplies crystalline fructose to Galam for its sale by Galam to customers in Europe.

The agreement made for three year terms and commencing on December 3, 2002 stipulated the amounts that Galam will purchase from Gadot for European customers. The price by Galam to Gadot is determined as the average price that Galam gets for it in Europe (as premium sweetener), minus the costs associated with the export and care of the fructose and an agreed upon profit margin.

The agreement with Galam is not an exclusive one and does not prevent Gadot from selling fructose directly to customers (even customers of Galam) in any region.

In light of the fact that Gadot and Galam are significant producers and sellers of fructose to the solids market in Europe the two companies entered

Negative Clearance and Notification for Exemption[1] where both companies applied with the antitrust authorities to inform them of the agreement between them.

Marketing the fructose for the blends market is done mainly by the Roquette Group (according to the agreement described in paragraphs 12.18, below and according to an additional agreement for the supply of fructose for about 4.5 years)

The marketing of the rest of the fructose (after sales for Galam and Roquette) is done directly by Gadot marketing staff in the premium and blends market.

12.4.2 Citric Acid

Gadot markets citric acid and its derivatives to the United States directly to all its customers via a main selling agent who promotes sales of Gadot by himself and through distributors. Between Gadot and its agents in every country there is an understanding that Gadot market its products either by itself or through them – not through other agents.

The marketing, sales and distribution activities of citric acid and its derivatives in Europe are done through a Dutch subsidiary Gadot Bio-Chem Europe, NV (the "subsidiary"). The sales are executed through the sales staff of the subsidiary, while the rest of the sales are executed through a group of distributors spread out through the various European countries. Some of them have exclusivity in their region.

The marketing in Israel, Asia and South America of citric acid products is done primarily through Gadot sales.

12.5 Order Backlog

In light of the agreements with Roquette Group and Galam expected revenues for the sale of Fructose in the years 2005-7 are as follows:

2005 NIS thousands	2006 NIS thousands	2007 NIS thousands

[1] Negative Clearance stipulates that the antitrust commissioner is in the opinion that the agreement will cause competitive problems in Europe. The Notification for Exemption means a request for an announcement by the antitrust commissioner that antitrust matters are not relevant in this case.

Q1	Q2	Q3	Q4		
25,002	25,002	25,516	26,543	79,466	41,107

12.6 Competition

12.6.1 Crystalline Fructose

Global Fructose Market[1]: To the best of the knowledge of the management of Gadot the annual global fructose market is approximately 280,000 tons while 260,000 tons is consumed worldwide. The geographical distribution of fructose production is as follows:

The USA produces 170,000 tons a year, Israel 45,000 tons (by Gadot and Galam). Europe and Turkey produce 30,000 tons each and Japan 5,000 tons. The use of fructose for sugar substitutes is different in the rest of the world than in Europe.

In the US and east Asia markets, crystalline Fructose is used mainly as a premium sweetener for the food industry because of the unique characteristics that were described above. In the US for example, high fructose corn syrup as a sugar substitute is produced by the main method (described above).

In the EU on the other hand, less than half of the manufactured and imported fructose for the food industry is used as a premium sweeter while the rest is used as sugar substitutes and is produced by the mixing method. The total EU fructose market for both uses is estimated at 100,000 tons. The premium sweetener market is about 40-45,000 tons and grows at a 5% annual pace. The price of crystalline fructose as a premium sweetener is higher than its price as a food additive.

In Gadot's estimation, its share of the global market in the year 2005 is 10% and 25% of the EU market while its main competitors abroad are ADM and Tate & Lyle of the US, Danisco Sweeteners of Western Europe and Amylum of Turkey. The competition between the other producers and Gadot is influenced by the EU sugar policy such that Amylum competes directly with Gadot (in light of the trade agreement between the EU and Turkey and the EU and Israel). Danisco

[1] To clarify, all the data for the global fructose market are to the best knowledge of Gadot and are taken from various information sources including: Official import/export data from Israel Europe and the USA and publications from Customs and VAT, Japanese import/export data published by the Japanese Ministry of Finance, other publications form the EU and from the USDA.

Sweeteners (as a European producer) is dependent upon the production quotas as set up by the EU, limiting their ability to take market share away from Gadot. US producers are not in real competition with Gadot because of high costums deriving from the sugar policy and since the fructose they manufacture is often base on genetic engineering.

12.6.2 Citric Acid and its Derivatives[1]

a. To the best of Gadot's knowledge, citric acid is produced in the western world by five large producers with 12 plants capable of manufacturing 700,000 tons.

   Besides those, there are over 45 smaller plants (most in China) who can produce an additional 700,000 tons a year (Chinese citric acid is cheaper than that produced in western countries because of problematic manufacturing processes and problems with supply and delivery).

   In Gadot's best knowledge, the world demand for citric acid is 1,191,000 tons a year. The maximum production capacity for citric acid of Gadot is between 16-18,000 tons a year while the global capacity is 1,400,000 tons annually.

   The difference in the production methods of citric acid between the US and Europe can cause changes in the prices of one of the raw materials can effect the competitive position of Gadot vs. its competitors who use other raw materials.

   Gadot estimates that its share in the global citric acid market is 1% as a final product (with regard to actual manufacturing), notwithstanding, in the citric acid salts market, Gadot's market share is more significant and reaches up to 12-13%. Gadot estimates that in 2004 it held the second place in the world for the production and marketing of citric acid salts. Gadot estimates that its part in the Israeli market is 35-40%. The remaining citric acid used in Israel is imported from China.

b. Gadot is the only citric acid manufacturer in Israel and competes with imports from the Chinese, such as the Chinese corporation BBCA and other

1 The information regarding the market for citric acid and its derivatives are to the best knowledge of Gadot and are taken from various sources, including the European organization of citric acid producers of the European Chemical Industry Org., official Chinese import/export statistics (China Chemical Reporter), the USDA Foreign Agricultural Services unit, International Trade, OTEA of the US Dept. of Commerce, EC Eurostat and other professional journals and publications.

Chinese manufacturers. In Israel, like the rest of the world, there has been an increase in the amount of citric acid imported from China due to its low prices.

c. In Israel, Gadot's advantages in competition with the importers are its availability of Kosher for Passover citric acid for its costumers, and its ability to store the citric acid it manufactures. Abroad, Gadot's competitive advantages are due to the flexibility of its production process, its ability to produce small amounts and other logistical advantages.

12.7 Production Capacity

Gadot's annual production capacity potential for fructose is between 28-30,000 tons. In 2004, Gadot produced 26,000 tons of fructose and in 2005 Gadot is expected to reach 28-29,000 tons.[1]

The maximum production capacity of crude citric acid at Gadot's factory is 30,000 tons per year. The amount of annual production stands at between 29-29,500 tons per year of citric acid. From the above yearly amount, about 10,000 tons is sold on the free market as pure granulized citric acid, the remainder is used as a raw material for the production of citric acid salts and mineral citric acid.

The potential production capacity of mineral and citric acid salts is between 30-35,000 tons a year while it actuality produces 32,000 tons of these products, annually.

Today, Gadot factories run in full capacity for most of it's products. Gadot has the ability to increase its capacity of special minerals, but it is dependent upon an increase in the volume of orders. Gadot has production flexibilities , which enables it to switch from the production of citric acid to salts and from fructose to citric acid in line with the changing market. Gadot establishes its production levels according to orders it receives for the purchase of products, according to financial profitability and in accordance, using its production facilities to maximum efficiency.

1 This is forward looking information and is calculated according to estimates of the management of Gadot based on, amongst other, signed contracts and the capacity that Gadot expects to maintain on a permanent basis. Forward looking information may not be realized due to external causes or the various risk factors as noted in paragraph 12.22 below and due to the fact that we work with complicated chemical processes.

12.8 Fixed Assets and Facilities

Gadot owns the 54,548 sqm of land, which hold its production factory and other facilities and is located at the Haifa port near the Kishon stream. All of the production facilities are in the above location including the facilities for the production of fructose, citric acid, salts and other products.

According to a decision dated December 14, 2000 of the court of local affairs in Haifa an order to dismantle Gadot's container for sewage treatment build by Gadot. In December 12, 2000 a cautionary note regarding the above order was registered with the Land Register concerning Gadot's property. In September 2003 the Haifa municipality approved the construction of a sewage treatment facility, stage B, that includes the containers which were due for dismantlement according to the set Court order. As of the date of this report, Gadot is working to cancel the cautionary note registered at the Land Register. These containers were built according to environmental standards regarding sewage.

The fructose plant is relatively new. Its construction was completed in June, 2002 and was expanded in 2004. Some of Gadot's other production facilities are more than 40 years old. Notwithstanding, all facilities are maintained properly, are active and used for production.

12.9 Product Development

Gadot's product development is combined with quality control by employees with degrees and advanced degrees in chemistry and chemical engineering (BA/MA) as well as by outside advisors.

The main development activities are in two main channels:

New product development in salts and specifically specialty salts.

Development of applications for special salt products according to the demands of the market.

Similarly, Gadot is operating to improve its production process in order to bring more efficiency so as to lower costs of production and increase capacity.

The costs of development are not substantial.

12.10 Non-Tangible Assets

Gadot's knowledge in the production of fructose and citric acid is not patented and is therefore not protected as a patent. The non-tangible assets of Gadot are its knowledge, which is not quantifiable.

Gadot has its senior employees and contractors, who have access to the know-how, sign confidentiality agreements. The special collective bargaining agreement of Gadot includes confidentiality and fidelity clauses.

12.11 Human Resources

Gadot and Gadot Bio-Chem BV (a wholly owned subsidiary) employ, as of the date of this report, 156 employees, as follows:

Department	# Workers
Management	4
Production Management	11
Production	53
Maintenance	28
Laboratory	19
Warehouse	4
Shipping and Packing	6
Purchasing	6
Human Resources	3
Technical Office	2
R&D and Quality Control	4
Accounting/Bookkeeping	5
Marketing	4
Finance	3
Information Systems	2
Sales and Logistics	2
Total	156

An additional 20-30 workers are employed in the factory by contractors, mostly for packing, shipping , production and maintenance.

In the last two years their have not been major changes in the manpower needs and the employment terms of Gadot.

66% of the workers of Gadot are employed under a special collective bargaining agreement between the Histadrut Trade Union (Haifa branch) and Gadot's employees committee on one side and Gadot on the other. The agreement is valid for the factory and all other workers expect senior employees, employed under special contracts (personal contracts), temporary employees, interns and students (that are employed in the summer months in student employment programs). The agreement includes, amongst other, the provision regarding receipt to work, work hours, readiness, shift work, annual leave, recuperation fees pension fund, sick days, confidentiality and fidelity to Gadot, resignation and termination of employment, compensation for termination, grants and arbitration. The agreement has been registered according to the Collective employment agreements Law, 1957, and was last signed on May 18, 2003. The remaining employees are employed according to personal employment agreements.

12.12 Raw Materials and Suppliers

The main raw material used in the Sector is white sugar, which is purchased mainly in England and the rest of Europe. White sugar is a commodity and its price is determined according to the commodities market in London. Changes in the sugar policy and a decrease in the export quotas of sugar from the EU to countries entitled to subsidy shall mean a decrease in the export of EU sugar and bring an availability problem for Gadot which uses the sugar for producing its products. If this happens, Gadot will need to purchase sugar form other places that are further away which will increase Gadot's shipping costs.

Gadot's policy is to engage in long term contracts for the supply of sugar: Gadot has contracted to purchase the sugar it needs, according to estimates, for the years 2005-6. The price of sugar is determined on the day of the contract signing.

Contracting with sugar suppliers are done on yearly contracts while the deliveries are made over the course of the year.

Citric acid is used as a raw material for the production of citric acid salts. In order to complete the quantity of citric acid as a raw material in the production of salts,

Gadot imports citric acid from other manufacturers, (mainly from China) who produce it at the necessary quality.

The rest of the raw materials needed for production of Gadot's products are purchased on the local market in periodic agreements with local suppliers.

Gadot has an agreement with Israel Oil Refineries Ltd. (herein "IOR") (which holds an interest in Gadot) for the supply of steam for a period of 15 years commencing October, 2001. As of January 1, 2003 each side had the right to inform the other of the cessation of the agreement. The agreement will end 30 months after receipt of the said written notice. There is no free market for the production of steam except for steam produced by IOR. The only alternative to IOR will be self-production, which will be more expensive than its contract with IOR. Gadot, therefore, is dependent on IOR for the supply of steam.

12.13 Working Capital

12.13.1 Raw Material Inventory Policy

Gadot holds almost no inventory of sugar at its factory while the sugar suppliers are contractually obligated to keep at least one month supply for Gadot.

12.13.2 Finished Product Inventory Policy

It is the policy of Gadot to hold between 1-1.5 months inventory of most of its finished products (fructose is less than one month). This policy is based on the fact that Gadot has many customers in the US and Europe and that the supply days to them is equal to inventory days. For some customers, at their request, Gadot keeps a longer inventory of products.

Gadot stores its products within its production facility and in storage facilities in Europe (Holland) and the US (seven warehouses spread throughout the country in which Gadot leases storage space).

12.13.3 Policy regarding Return of products

It is Gadot's policy to accept the return of defective products if Gadot is responsible for the defect. If it is damaged during delivery, the cost is covered by insurance.

Products are rarely returned to Gadot and most of the problems come from delivery and are covered by insurance.

12.13.4 Warranty Policy

Gadot guarantees its products (mostly for purity and damage caused to a customer's product as a result of a defect) and it insured by product liability insurance.

12.13.5 Credit Policy

Gadot gives customers credit for 30-90 days and receives credit from its suppliers (except sugar) for 60-90 days.

12.13.6 Working Capital Deficit

Gadot had a working capital deficit as of December 31, 2004 of NIS 20,940 thousand. The deficit has been reduced over the last few years and Gadot management estimate that this trend will continue in 2005.[1]

12.14 Financing

12.14.1 Interest

What follows is a list of the average interest rate paid on bank loans that were in effect in 2004 and which are not expected to be used by Gadot:

Average Interest Rate		
	Short Term	Long Term
USD Linked Bank Credit	Libor +0.9-1.75%	Libor +0.9%

12.14.2 Credit Limitations

In framework of receiving loans and credit from banks Gadot has committed to the following terms:

a. Not to charge its assets or any part of them as long as Gadot has obligations to the banks, without the agreement of the banks, except for charging new assets that were purchased for Gadot - as long as it was given to the financer of the purchase.

[1] This is to be considered forward looking information according to the estimates of Gadot management. They are based upon signed contracts and the expected production capacity of Gadot. Forward looking information may not be realized since Gadot cannot be sure that the situation will not change due to risk factors such as those detailed in paragraphs 12.22, below.

b. Not to sell fixed assets for a price greater than $1 million during any 12 consecutive months, without the prior written approval of the banks.

c. Not to provide guarantees to a third party except in order to maintain debts or obligations to subsidiaries, without the prior written consent of the banks.

d. Not to perform a change in the ownership or control of Gadot without prior written consent of the banks. This means that Delek Investments' share in Gadot shall not fall below 51%. Notwithstanding, if there is a change in control as aforesaid, then, Gadot is obligated to create permanent first-degree charges for the benefit of the banks, on the fixed assets of Gadot to ensure it stands by all its obligations and debts. In addition, an agreement will be signed between the banks, for which charges were made and in wording to their satisfaction, under the agreement, monies obtained from the realization of the charges shall be split between the banks who own the charges according to their relative portion in Gadot's debt to them.

e. No changes shall be made to the ABR agreement or the incorporation documents of Gadot without the prior written consent of the banks.

As of December 31, 2004 Gadot has held up its obligations.

12.14.3 Credit Framework

At the date of this report Gadot had a credit framework (as of 31.12.2004) of NIS 130 million. From this amount, Gadot has utilized, up to the said date, NIS 77 million. The credit is for three months at adjustable rates. What follows is a summary of the rates at which Gadot used the credit.

Change Mechanism	Rate Range	Interest Rate near the date of the report (March 29, 2005)
USD Libor+	2-4%	4%

12.15 Taxation

Effective Tax – The difference between the tax for the years 2002-2003 calculated according to regular corporate tax rate (36%) and is the sum included on the financial statements is due to the use of losses in previous years that did not produce tax benefits until then. The amount of tax in 2004, calculated on the regular rate of 35% results from the creation of a tax credit for losses carried over from the past – which did not create the tax credit until now.

For further detail see item 31 to the Company's financial reports.

12.16 Environment

12.16.1 There are laws, regulations and orders relating to Gadot's activities. The main laws dealing with hazardous materials and industrial sewage are Hazardous Materials Law, 1993 (herein: "Hazardous Materials Law"), Prevention Of Nuisance Law - 1961, Water Law, 1959 and the regulations enacted under these laws in the above matters.

Gadot has a sewage treatment system that purifies the sewage from the factory according to applicable laws, regulations and orders. As of today the quality of treated sewage is up to standards set by the Environment Ministry. The treated sewage is then sent to the Haifa purification plant and then to the sea via the Kishon stream in accordance with a permit for the dumping of industrial salts to the ocean given to Gadot by the Environment Ministry and is valid up to 31.12.2005 . Gadot has an additional sewage flow facility for concentrated industrial salts sent directly to the sea via a specialized sea vessel, by a license of the Environmental Ministry that expires July, 14, 2005. Gadot is unable to estimate the demands of the Environment Ministry for extending the permits.

During the two years prior to the report the Environment Ministry conducted inspections of Gadot's factory and no major disagreements between Gadot and the Ministry arose.

As of the date of this report, Gadot is in full compliance with all the demands of responsible bodies for environmental issues. However, since the

issues of environmental safety are constantly developing, new, more serious problems could surface that may result in expenditures by Gadot. Gadot, like all the factories in the Haifa Bay have approached the Environment Ministry regarding any future regulations and standards.

12.16.2 Gadot estimates that its investment in environmental issues in 2005 will cost $500,000. The main investment will be in improving sewage drainage.[1]

12.17 Restrictions and Regulations on the Company's activities

12.17.1 Business Licenses

a. Gadot's operations require a business license under the Business Licensing Law, - 1969. As of the date of this report, Gadot is in talks with the Haifa Municipality after they claimed that the license had expired. In the estimation of Gadot, this issue will be resolved soon and the business license for the factory will be approved as required (for more details, see paragraph 20, below).

b. In addition to the additional demands of the Haifa municipality for the granting of a business license, Gadot needs to uphold various standards for example regarding the operation of facility for the collection and disposal of sewage, operating a purification system for sewage in accordance to the Environment Ministry standards, storage of hazardous materials and the upholding of various other standards as demanded by the law.

12.17.2 Regulations

The countries to which Gadot exports its products have certain standards regarding the chemical makeup of the products. In the EU there are standards of EU common market regarding food related products marketed in EU countries. In the US, after the 9/11 terrorist attacks, there are new food safety standards. Gadot upholds these standards that are demanded for exportation to such countries. The said standards include the BP, FCC, USP and JP. Gadot also upholds the HACCP that define checkpoints in the manufacturing procedure in the

[1] This should be considered forward looking information and is provided according to the estimates of Gadot management based on signed contracts, regulations of the Environment Ministry. Regulations may change. Forward looking information may not be realized due to external causes or the risk factors detailed in paragraph 12.22, below.

matter of security in the production process of the products.

Israeli law doesn't apply any of these standards to Gadot. With this, Gadot upholds the demands of the Health Ministry for its products. Some of Gadot's competitors have products that do not uphold the Health Ministry's and other standards. All of Gadot's standards are of its own choice and are not the result of regulation by any authority. There are certain customers that require specific standards as a prerequisite for purchase from Gadot (different customers have different requirements). Therefore, the assumption may be put forth that without the ability to maintain and uphold the different and differing standards, Gadot's market share would be substantially less than it is now.

The Gadot strict standards policy requires a staff of qualified Quality Control personnel. The checking of the finished product is done by Gadot's QC staff in any case, so the extra standards demands are not at greater cost to the company, but the inspection of final products is done with accordance to mandatory standards applied according to Gadot's policy.

Gadot products are produced according to international food industry standards like the USP (United States Pharmacopoeia) the EP (European Pharmacopoeia) the BP (British Pharmacopoeia) and the FCC (Food Chemical Codex). Gadot has also received the ISO 9001:2000 approval regarding quality of the management process that support production; ISO 14001 regarding environmental standards during production and HACCP (Hazard Analysis and Critical Control Point) regarding the safety of the food production process, which is receives from the Israeli Standards Institute. It also has the GMP (Good Manufacture Practice) seal from the Health Ministry regarding food industry production safety. These are all international standards for the food industry.

12.18 Cooperation Agreements

Gadot established the fructose production facility according to a cooperation agreement signed in 7.12.99 with ABR Foods Ltd. (herein: "ABR[1]"), which

1 In September, 2000 ABR was purchased by Roruette Freres and changed the name to Roquette UK.

is a large producer of starches in Europe. The agreement stipulates the return of most of ABR's investment in the facility. ABR, which produces glucose, produces sugar substitutes according to the main process up to the amount it is permitted by its quotas. What follows are the main provisions in the cooperation agreement:

12.18.1 Gadot will build a crystalline fructose production facility and ABR will build the fructose treatment facility and a manufacture facility for the sugar substitutes in England.

12.18.2 Gadot undertook to supply ABR and ABR undertook to buy from Gadot, crystalline fructose at amounts and at prices that will guarantee Gadot to recover the costs of production and 70% of the costs of the basic investment (not including the expansion and the isometric facility) in the crystalline fructose production facility, in 5 years commencing 1.9.02. (the official contract date was changed to 2003 after Gadot proved it could satisfy the needed fructose producing amounts). In addition, Gadot is entitled to receive part of the profits (according to formulas set in the agreement) that ABR will make on the sale of thesugar substitute.

12.18.3 ABR's commitment to purchase crystalline fructose in the first 5 years at the conditions mentioned above is total and is non-dependent upon the EU's sugar policy or in any other changes, including economic profitability in the purchase of crystalline fructose.

12.18.4 After the 5 years abovementioned, ABR has the option to extend the agreement for an additional 5 years. The price of fructose will be calculated by the Gadot's production costs (without accounting the return on investment as these costs are supposed to be covered in the first 5 years) plus Gadot's portion of the profits resulting from ABR's sales of sugar substitute.

12.19 Legal Issues

For details regarding the legal issues, see note 23(4) of the financial reports.

12.20 Goals and Business Strategy

12.20.1 Gadot's ambition is to maximize its production flexibility in order to increase its share of high-end profitable products in comparison with low margin products, in its total percentage of production.

12.20.2 An additional strategic goal of Gadot is to increase its scope of operations abroad.

Since most of Gadot's sales are destined for foreign markets, Gadot sees added importance in development and production expansion capabilities abroad. Gadot is interested in increasing its production capacity and its operations abroad and is considering respectively the buying of similar activities in Europe or in the US.

Gadot has recently started procedures for the finding of an international investment bank that will help it identify a potential target for a strategic purchase as aforementioned. Gadot is concentrating its efforts in the mineral products area with the goal of finding a company that produces products based on organic acids such as Gadot currently produces and with similar production techniques.

The scope of the planned investment in this project is tens of millions of dollars.

12.20.3 Due to the possible changes in the EU sugar policy, which might have a negative influence on Gadot's fructose sales in the EU countries, Gadot is considering a transition to other geographical markets and the adjustment of its products to such markets, as well as the developing of new products which derive from fructose. Accordingly, Gadot is planning procedures for the developing of its operations in the Far East and in Japan and South Korea especially. Gadot will focus its efforts in these markets on producing non-genetic engineered products (GMO free) which are ranked higher in comparison with competitive products in the market that don't have the same uniqueness. To Gadot's best

knowledge the fructose demand in Japan stands at 40,000 tons a year and its main suppliers are US producers who use GMO raw materials.

12.20.4 The present contract with Galam regarding the distribution of Gadot's products in Europe will expire at the end of 2005. Gadot is examining the possibility of extending the agreement.

12.21 Expected Developments in the Coming Year

As a plan deviating from the company's regular business plan, it is noted that Gadot is looking into a possible investment in a designated company which produces products that are combined in its activity as aforesaid in paragraph 12.20.2, above.

12.22 Risk Factors

The following are the risk factors that could have a substantial influence on Gadot's operations:

12.22.1 EU Sugar Policy – Crystalline fructose, which is Gadot's leading product, is sold in European markets by taking advantage of local sugar prices that are significantly higher than the international market price, due to import restrictions, quotas, customs duties and minimum prices. The cancellation of the sugar policy, major change to it, or a lowering the minimum prices may have a significant negative influence on Gadot's businesses.

12.22.2 Global Sugar Price – The main raw material for Gadot's production is sugar (about 20% of its turnover). Sugar is traded on the various commodities markets around the world. Since the prices of Gadot's products are not directly related to the change in international market sugar prices, a sudden and significant rise in the price of sugar could significantly affect Gadot's businesses.

12.22.3 Price Volatility in the Citric Acid and Salts Markets – The citric acid and trisodium citrate markets have seen volatile price swings over the last six years. From the mid 90's and until 2002 there was a sharp drop in prices. In 2003, since some factories closed and demand for citric acid increased, the prices started stabilizing and in 2004, began a process of rising prices. Since a significant part of Gadot's

operations is in the production of critic acid and citric acid salts, a sudden decline in prices could have a substantial effect on Gadot's businesses.

12.22.4 Gadot is party (whether directly or as third party called by the actual defendant) to lawsuits regarding the pollution of the Kishon Stream in volume of hundreds of millions NIS. (see note 23(4) of the financial reports). Gadot may also be liable for suits served against Gadiv Petrochemical Industries Ltd. (herein: "Gadiv"), a subsidiary of IOR, In accordance with the agreement for the sale of Gadot's petrochemical unit to IOR, Gadot undertook to compensate Gadiv for any third party suits for damages caused prior to January 31, 1994, in which Gadiv is found liable. If Gadot is required to pay the plaintiffs substantial amounts it could have a drastically negative effect on Gadot's operations, and can possibly cause the company to cease its operations in the current framework.

12.22.5 The long term credit that Gadot received from the banks is in USD and has a dollar based variable interest rate as described in 12.14.1, above. Therefore, changes in the USD Libor could increase the financing expenses of Gadot and decrease its profits. With the above stated, it should be remarked that Gadot also uses interest rate hedges to manage the risk. In December, 2001 Gadot bought an option to change the three month Libor to a fixed rate (in order to protect its cash flow from the variable rate loan) for a period from January 2004 to October, 2007. The $112,000 price of the option is being depreciated over the life of the option.

12.22.6 Most of the purchases and sales of Gadot are done in foreign currency or foreign currency linked instruments. Most of Gadot's obligations are denominated in USD and NIS. A large part of customer debt is in Euro (40%) and USD (55%) and the rest are in NIS. As a result, changes in the USD and Euro exchange rates can influence Gadot's business results. Therefore, Gadot has contracted for hedging transactions and uses derivatives, forward transactions, options and strategic options in order to insure the USD value of the customer obligations that are in other currencies. Gadot's financial reports are denominated in NIS (they used to be in USD linked NIS). Since Gadot exports over 90% of its production

and most of its obligations are in USD, Gadot uses USD financing. Therefore there is a difference between its current assets if calculated according to the USD that are lower compared to liabilities linked to the USD, therefore any change in the NIS-USD exchange rate may affect Gadot's results.

12.22.7 Gadot's activities are subordinate to laws, regulations and orders regarding environmental conservation, as detailed in section 12.16 above. Since the issue of environmental conservation is evolving, there is a risk that in the future, harsher environmental requirements are issued and Gadot may be demanded to perform further investments in sums yet to be known. .

12.22.8 According to the provision of the agreement between Gadot and ABR, ABR has the right to extend the agreement period after 5 years. In the extended period the price of fructose will not include the factor for reimbursement for investments in the fructose facility (section 12.18 above) and Gadot's profit will be diminished to its share of the profits that are created from the selling of mixtures by ABR. Since the level of profitability from such mixtures is uncertain, Gadot's income from the sale of fructose to ABR may decline substantially.

	Risk Factors influence on the Company's Operations		
	Large	Medium	Small
Macro risks			changes in the Libor intrest Rate - changes to USD/Euro exchange Rate
Industry risks		EU Sugar Policy - Global Sugar Price Changes	-price Volatility in Citric Acid and Citric Acid Salts
risks Specific to the company		-Lawsuit regarding the pollution of the Kishon stream -Increased environmental regulation	-Changes in mixtures profitability - Price of fructose in case of ABR/Roquette contract extension.

Risk factor levels are based on estimates only and in reality their influence may change.

13 Telecommunications Sector

The telecom sector of the Company is run through Matav - Cable Media Systems Ltd., by itself and through companies and other entities that it owns, including Hot Telecom, Limited Partnership, (which is 26.5% owned by Matav)(Matav – Cable Media Systems Ltd. and the other entities owned by it shall be collectively referred to hereinafter as "Matav").

Matav holds 40% of the equity of Matav. The investment in Matav is represented in the books of Matav (which are attached hereto) according to its balance sheet value, which is NIS 406 million as of December 31, 2004.

Matav is a public company that was incorporated in Israel on June 28, 1987. Its shares trade on the Tel-Aviv Stock Exchange ("TASE") as well as the Nasdaq National Market of Nasdaq National Market Inc ("Nasdaq"). On February, 24, 2005 Matav announced that it intends to delist its shares from Nasdaq in the coming months.

Matav, by itself and through Hot Telecom supplies multi-channel television programming, [high-speed] internet access, telephony service and data transfer services (the extent of its activities are not substantial in this area).

13.1 General Information on the Area of Operations

13.1.1 Structure and Changes

Matav provides services in the telecommunications market in Israel.

The telecom market includes cellular communication services, international telecommunication services, internal land-line services (including telephone and data transfer), multi-channel television and internet services. The Israeli telecom sector has undergone rapid changes over the last few years from technological as well as structural and regulatory perspectives.

The manner in which the telecommunication market is regulated has a substantial impact on Matav's activities in this market. There is great uncertainty in the market regarding the granting of licenses and the opening of the market to competition. The market is characterized by a high degree of competitiveness, which focuses the investment of significant efforts and resources on the recruitment of new customers and the maintenance of existing customers, bringing about

a downward pressure on prices and increasing sales and marketing costs.

In addition, the sector is characterized by rapid and significant changes in technology which may have a substantial impact on the results of the Companies that operate in this area, and may require significant investments by them.

Multi-Channel Television

The multi-channel TV market currently has two players: The three groups that provide multi-channel television broadcast services by means of cable infrastructure, which include Matav, Tevel International Broadcasting To Israel Ltd. ("Tevel") and Golden Channels and Partners ("Golden Channels")(each of Matav, Tevel, and Golden Channels shall be referred to as the "Cable Companies"), and DBS Satellite Services (1999) Ltd., known by the commercial name "Yes", which provides multi-channel satellite TV broadcasts.

From 1990, Matav has supplied multi-channel cable TV service to subscribers through exclusive concessions that were granted to Matav in various concession regions throughout Israel. Its regional concessions include the areas of Bat Yam-Holon , Haifa, Netanya-Hadera and the Galilee region. As of April, 2002 (as a result of an amendment to the Telecommunications (Telephony and Broadcasts) Law – 1982 (the "Telecommunications Law"), Matav was granted general, non-exclusive, long-term licenses for the same geographic areas referred to above, replacing the concessions in accordance with which Matav had operated until that date..

In November, 1999 the Anti-Trust Commissioner (the "Commissioner") designated the Cable Companies (including Matav) a monopoly in the multi-channel television sector.

On January 5, an amendment to the Telecommunications Law was passed which authorized the Communications Ministry to grant licenses to direct broadcast of TV through satellite. On January 21, 1999 the Ministry granted Yes a license for satellite TV broadcast. Satellite TV broadcast services commenced in July, 2000.

On February 1, 2003, Matav and the other cable companies on the wording of an agreement for combining their cable operations in order, amongst

other reasons, to reduce costs (herein: the “Merger Agreement”) for additional information see section 13.17.1 below.

In the end of 2003, the cable companies launched the "Hot" brand by which they cooperate in a variety of subjects including: marketing, purchasing and investments. The said corporation was not fixed in a binding agreement. The new operations in telephony and broadband internet access and business data services for businesses the cable companies operate through Hot Telecom that was established by them (see paragraph 13.12.1. below). As of February 28, 2005, there were 1.43 million subscribers for multi-channel TV – 960,000 of these are cable subscribers and about 470,000 are satellite (Yes) subscribers.

13.1.2 Legislative, Regulatory and Statutory Limitations and special restraints on Matav’s activities.

Matav's operations are subject to legislation regarding the Israeli Telecommunication market including communications Law , regulation and orders issued there under. In addition Matav is restricted by the terms of the licenses issued to it according to communications Law (see paragraph 13.8.1, below) to the terms of the commissioner's approval to the merger agreement between the cable companies (see paragraph 13.17.1, below) and to the regulation by The Ministry of Communications and the Cable and Satellite TV Commission (herein: the “Commission”).

In light of the declaration of the commissioner on the cable companies as a monopoly in the supply of multi-channel television services to customers in areas were it is active, Matav is subject to regulation and restrictions applying to monopolies according to the Restrictive Trade Practices Law– 1988.

For more details on regulatory oversight and restrictions on the Matav’s activities, see paragraph 13.16, below.

13.1.3 Developments in the Sector’s markets

Due to the economic recession in recent years, the number of subscribers has stabilized or even dropped slightly, despite the growth in numbers of households. In spite of this, the industry has grown by an average of 13% from 2000-3 mostly as a result of a higher average revenue from customers (digital services, internet) and less as a result of the number of subscribers.

The Israeli broadband internet market has expanded rapidly and is one of the largest in the world. Until 2003, most of the internet subscribers in Israel were dial-up customers and today most internet subscribers are broadband customers.

Until the beginning of 2005, Bezeq the Israeli Telecommunication Corporation Ltd. (herein: "Bezeq"), was the exclusive supplier of land-line telephone service in Israel. From 1Q05 the cable companies have started to commercially market telephone services using their cable network, in various areas of the country and on a gradual basis. As of the date of this report, telephone service is provided by Hot Telecom in the Tel-Aviv, Sharon and Be'er Sheva regions.

13.1.4 Technological Changes that may materially Influence the Sector

a. The technological developments and the changes in multi-channel television have caused the cable companies to upgrade their infrastructure and to provide two way digital service to customers. This allows the cable Companies to offer customers tens of new channels and a variety of new services to subscribers such as broadband internet services and telephony. VoIP technology allows a sharp reduction of the investment necessary to build and maintain the telephone network and its maintenance.

b. The introduction of Broadband internet and the availability of new IP based technologies allow a wide range of applications on IP based infrastructure, such as: Voice services, video transfer services and organization oriented applications on internet infrastructure etc.

c. The technological developments may allow other operators to build networks that provide similar services to those provided by Matav in a reduced price.

13.1.5 Critical Success Factors for the Sector and Changes to them

Matav sees the following as critical success factors in the communication field:

(a) Financial stability in order to make the infrastructure investments necessary for the upgrade to a level enabling the supply of diverse high quality services; (b) a varied and competitive product offering to potential customers in relation to services proposed by its competition; (c) The ability to provide services while using advanced technology that coincide with the customers needs; (d) providing high quality and reliable services at an attractive cost to the customer; (e) attractive broadcasting content to subscribers in relation to the broadcasting content of the competition in the multi-channel television market.

13.1.6 Main Barriers to Entry and Exit of the Sector and Changes in them

Matav believes that the main barriers for entry to the communication Sector in the services Matav supplies are as follows:

The need to receive licenses for the providing of communication services, multi-channel TV license and Bezeq Services (as defined in the Communication Law); (b) the need for Financial stability and vast the technical knowledge necessary to make the proper investments in new technological infrastructure; (c) High marketing and sales costs needed in order to confront the competition in the market; (d) dealing with the Bezeq monopoly. Bezeq is financially very stable and is dominant in broadband internet and telephony service and is able to invest large sums of money in multi-channel TV. Over the last few years, the barriers to entry have dropped significantly due to the regulatory changes that have made it easier for new competitors to enter the market by the possibility of using existing infrastructure belonging to other operators for the providing of communication services and the abolishment of the "universal access" rule as a prerequisite for entering the market.

Matav believes the following exit barriers in the communication field in the services provided by Matav are as follows: (a) large investments that have long time to recoup investments; (b) Obligations to banks for long term loans; (c) The licenses require regulatory approval to stop providing services.

13.1.7 Alternative for Products in the Sector and Changes in them

In The multi channel television market, the alternative products are considered to be the three free broadcast channels that can be receipt via air using antenna (1, 2 and 10).

In the telephony market we can define as alternate products the cellular communications services. On November 30, 2004, the Ministry of Communications published a policy statement regarding telephone service via the broadband infrastructure of the land-lines operators (that are Bezeq and the cable companies) (VOB service1). VOB services will be supplied by the framework of special general licenses in the course of 2005. If such permits are given, VOB operators can use the operator's land-line networks for the payment of only connectivity charges and not for the use of the network. Therefore, VOB service may be an alternative to telephone services as provided by Bezeq and the cable companies. Bezeq and the cable companies have given their objection of this policy to the Ministry.

13.1.8 The structure of Competition in the Sector and Changes in it.

Competition in the communication market is influenced mainly by changes in legislation and new technological developments and rise in investments needed for the sector. See paragraph 13.6.1, below.

13.2 Products and Services

13.2.1 Multi-Channel TV

Since 1990, Matav has supplied multi-channel television service on analog cable. From February, 2001 it has also provided digital broadcasts which allows a tiered service.

Matav supplies its multi channel services in the areas stated in section 13.1.1 above.

Matav supplies the analog subscribers a single 50 channel package that differ in content according to geographical location and population sectors.

Digital subscribes receive the following services: (1) A base package of 80 video and audio channels; (2) Premium channels – sold individually, or as a

1 Voice Over Broadcast.

package, such as movies, sport, recreation etc. These are sold to the consumer according to his choice at an additional cost; (3) Pay per View - content chosen by the viewer on one time charges for programs or specials; (4) Interactive and multimedia products. As of 31.12.2004 Matav licensed regions include 525,000 households of which 500,000 are in areas or in regions that have an infrastructure than can be connected to Matav's cable network and of which 257,000 are subscribers of Matav. About 56% of Matav subscribers have digital service and the rest analog.

13.2.2 Broadband Internet Access

As of April, 2002, Matav and Hot Telecom have supplied to the private sector broadband internet services through cable lines , cable modem and a PC without the need for dial up. Matav's technology is similar to that of the other cable companies.

As of February 28, 2005 the cable TV companies have 346,000 broadband subscribers of which 91,500 are Matav customers. On the other hand, Bezeq has 650,000 broadband customers via ADSL technology.

13.3 New Products

13.3.1 Telephony Services

From 1Q05, Matav started, via Hot Telecom to provide land-line telephony service via VoIP technology in its areas of operations. This technology permits the transmission of voice over a data communication network with great savings on infrastructure and operating costs. In 2005, the cable TV companies will provide the service gradually on a region by region basis. Hot Telecom is required today and in following years to invest substantial sums for the supply of telephony services and its adjacent services to its customers.

13.3.2 Video on Demand (VOD) and Personal Video Recorder (PVR)

In the field of multi channel broadcasting Matav will provide its customers gradually during 2005 VOD enabling the subscriber a variety of content at any time according to his choice. . Further more, Matav will give its costumers in the following year PVR services that will allow the recording of tens of hours of broadcast according to various parameters, control of the broadcast etc.

PVR will require the purchase of an additional converter, while VOD does not require the replacement of a converter.

13.4 Customers

13.4.1 Matav's cable TV customers are of two types: Analog and Digital, each with different services types and revenues from subscriber.

13.4.2 About 25% of the Matav cable TV subscribers are also broadband internet customers. Nevertheless, Hot Telecom broadband customers are not necessarily cable TV customers.

13.5 Marketing and Distribution

Matav markets and sells its products in cooperation with the other cable companies via sales and marketing staff, technical support and customer service and phone centers receiving phone addresses from new subscribers. As part of the cooperation between the cable companies the marketing and distribution services are preformed by Matav employees and employees of the other cable companies. Further, Matav markets its services via advertising and publicity in the various media outlets.

13.6 Competition

The competition in the telecom sector in Israel Is mainly affected by development in regulations in the telecommunication market and new technology development and higher investments.

Multi-Channel TV – The competition in this sector is between the cable TV companies and Yes. The entry of Yes into the market brought a sharp rise in the expenses of the multi channel television suppliers (especially in the content and marketing fields). Yes provides a digital only service while the cable companies also provide analog service. Since the entrance of yes to the multi channel television market there has been a shift of subscribers from the cable companies to Yes. This trend has slowed over the past two years. Today, the main competition is fierce and it concentrates over content packages and their price as well as the quality of service to subscribers.

Cable TV had, as of the end of 31.12.2004, about two-thirds of the multi-channel subscribers.

Broadband Internet Access – The cable companies compete with Bezeq in this market. The competition focuses on the supply of higher throughput and on the offer of service packages to customers that includes the above mentioned services. The cable companies have, as of the end of 31.12.2004 about one-third of the broadband internet subscribers. Bezeq supplies the rest via ADSL.

13.6.1 Internal Land-line Telephony Service – The competition in this market also is between Bezeq and the cable companies. Until the start of 2005, Bezeq was the only supplier in this market when the cable companies started to provide VoIP service. As of the date of this report the service has yet to be offered in Matav's regions (although Hot Telecom is marketing it gradually mainly in Tel-Aviv, the Sharon region and Be'er Sheva), by the end of 2005 it is expected to be offered in all parts of country. In light of changes in legislation, land-line telephone service operator licenses, unique for in-country communications providers, without the need to provide the service in the entire country – as is demanded of Bezeq and the cable companies, as a result the competition in the Land-line Telephony market.

13.6.2 Main methods for Dealing with the Competition

a. In order to provide to its subscribers digital transmission, broadband internet, telecom and data services and telephony services, Matav has upgraded its infrastructure to a high throughput network that can provide interactive service with bandwidth that can allow network interactive capabilities. In addition, Matav built a telecom platform based on internet technology (IP) that allows subscribers to receive broadband internet service via the cable modem. On the other hand, The Yes satellite infrastructure is only one way, limiting the services that they can provide. Matav is investing in developing new services (see paragraph 13.3) and in expanding the optic network cable and digital broadcast system.

b. Matav is working to improve its subscriber service.

c. Matav and the other cable companies launched the "Hot" brand in order to improve their image in the minds of the subscribers.

d. In 2005, Matav will offer its customers a "Triple Play" package of services that will include cable TV, broadband internet and telephone via cable which will give it an edge over its competitors in the variety of services it gives. As of the time of this report, Matav (as the other cable companies) has an advantage over Bezeq in that they are not subject to legal restraints that Bezeq is subject to since it is considered a monopoly in the broadband internet market and land line telephony market According to Bezeq's licenses it is restricted by the following: it has structural restrictions according to which it is not allowed to market services in packages as the cable companies can, until its internal land-line phone service (in a certain class of clients (business\private)) falls below 85% (of revenues) or if it has a substantial downfall in its competitive status of its subsidiary as a result of marketing packages of services by the cable companies. In such a case, Bezeq's license will be changed to allow it or to offer a package of services that includes those offered by Bezeq or its subsidiary including broadcasting.

13.7 Fixed Assets and Equipment

Matav's main fixed assets are its network communication infrastructure and end to end communications equipment including modems and converters. As of 31.12.2004 the Matav's communication network covers about 500,000 households with approximately 6.325 km of cables. In order to provide commercial phone service, Matav will need to make further upgrades to this networks.

13.8 Non-Tangible Assets

13.8.1 Licenses

a. Matav holds the following licenses:

(1) From March to May, 2002 Matav received two general, non-exclusive licenses by the Commission to provide multi-channel TV. The licenses are valid for 15 years and can be extended for additional periods of 10 years (herein: "Broadcast Licenses").

(2) A special license to operate a broadcast center was given to Haifa-Hadera Cables, Ltd (Matav Haifa), a wholly owned subsidiary of Matav. The license was given by the Minister of Communication on May 2, 2002 and is in effect as long as the other broadcast licenses are in effect – but not later than May 30, 2017. This license can be extended with the approval of the Communications Minister. According to the agreement between Matav and Matav Haifa, Matav Haifa gives Matav broadcast center services for the distribution of Matav's cable services at its license area.

(3) In August, 2002, the Ministry of Communications gave Matav special licenses to provide additional SMS services to its subscribers, on its network in a digital format (including SMS messaging and email service via the cable network between subscribers from television to television and subscribers of license holders that give internet services).

(4) In November, 2003, the Ministry of Communications provided a general license for internal land-line telecom and teledata services (Telecommunication

Infrastructure License - TIL) to Hot Telecom. The TIL license cancels the previous licenses issued in 2002 to the partnership of the cable companies including the providing of TIL services - broadband internet license etc. According to this license Hot Telecom can provide telecom services to homes over the cable network beginning on, no later then 25.11.2004. The TIL license was given for a period of 20 years and can be extended for further periods of ten years. As of the period of this report, broadband internet service to the business sector was transferred to Hot Telecom and the broadband internet service for households is still done via the cable companies. In March, 2005 the license was amended such that Hot Telecom can contract with customers who came in under the previous and the new license, for providing access services to broadband internet by the previous license owners. This service will be considered as provided by hot telecom as of the granting of the license to Hot Telecom and until the completion of the entire merger between the cable licenses.

b. Other Details Regarding Licenses

(1) According to the Communication Law, a prerequisite for holding a TIL license is ownership of a cable network. In spite of this, the cable companies (rather than Hot Telecom the actual TIL license holder) can continue to hold the cable infrastructure for an additional intermediary period of two years from the receipt of the TIL license or when the cable company merger is completed – whichever is first. At the end of the intermediary period the ownership of the cable network will pass to Hot Telecom. As of the date of this report, there has yet to be an established method of charging Hot Telecom for the use of the cable network.

(2) Licenses are non-transferable without prior written consent of the authorized authority. In addition, broadcast licenses and TIL

licenses determine that the license assets cannot be transferred or collateralized without prior written permission form the authorized authority. In spite of this, the assets of the license can be charged to an Israeli bank that operates with accordance to Israeli law in order to get bank credit such that the Charge agreement will include a term according to which the realization of the charge will not adversely affect the service to the customers. The charge agreements regarding Matav's assets include such terms.

(3) According to the Broadcast and TIL licenses, the approval of the authorized authorities is required for change in control or means of control of the license owner or if a person ceased to hold such means of control, as stated in the licenses. A change in control in contrast to the stipulations of the license will be void.

(4) According to the broadcast center license it is non-transferable, directly or indirectly, without the prior written consent of the director General of the Communications ministry. "Transfer" in this sense also means transfer of the controlling means in the corporation that owns the license, even if the actual control of the corporation does not change.

(5) The licenses include, inter alia, instructions regarding duties of customer service, communications with subscribers, non-discrimination between subscribers (except as determined) and non-interference with competition. Regarding this, the TIL license determines that it will provide infrastructure to other license holders (including general license, general special license, special license (as defined in the Communication Law) for the purpose of providing Bezeq Services and actions as defined in the TIL license) in a way that will enable the other license owner to provide his services to his subscribers in line with the terns of the TIL license owner and the other licenses owners. Supply of infrastructure services will be given reasonably equally to all license owners except in special

circumstances as detailed by the Communications Minister in advance and in writing. A TIL license owner will not grant preferential treatment to parties providing infrastructure services for companies linked to him.

13.8.2 Copyrights

Matav has Copyrights to some of the production produced by Hot Vision Ltd. – (in which Matav owns 26.6% (see paragraph 13.17.4, below)), for the family channel (channel 3) and the movie channel (channel 4). As for the rest of the channels, Matav pays royalties to the creative rights organizations for the use of copyrights in the other channels. Matav is involved in legal proceedings with some of the creative rights organizations, regarding the amount due to be paid to them, as detailed in note 15(b) of Matav's financial reports.

13.9 Human Resources

13.9.1 In the framework of the cooperation agreement between the cable companies, all Matav workers except for management and staff, provide services for the joint operations of the cable companies. In reality the cable companies settle accounts between themselves on the basis of the number of subscribers of each company.

13.9.2 Benefits and Nature of Employment Agreements

Most of the Matav workers are employed under employment agreements that may be terminated by both parties. There are no Matav workers employed under collective bargaining agreements. However, Matav operates under the various Labor Laws and Regulations as well as orders pertaining to all Israeli employees.

Usually Matav gives employees manager's insurance from the beginning of their employment or after an initial employment period.

13.10 Raw Materials and Suppliers

The main "raw materials" for Matav for providing its services are as follows:

13.10.1 Hardware and Software– Cable infrastructure, amplifiers, switches, pipes, TV adapters, internet

modems, transmission equipment, data communication equipment, etc. as well as computer programs used for the providing of services such telephony support, TV and internet programs.

13.10.2 TV content – TV content, broadcast rights and broadcast channels are purchased by Matav and the other cable companies for their airing. These broadcast rights include movies, series and original programming from Israel and abroad. In addition, the cable companies produce and distribute their own programs via Hot Vision.

13.11 Working Capital

13.11.1 Credit Policy

Matav grants its customers a credit of the end of the month + 16 days and receives credit from its suppliers of end of the month + 60-90 days.

13.11.2 For details regarding the working capital deficit see note 1 (d)(10) of the Matav's financial reports.

13.12 Investments

The most significant of Matav's investments are as follows:

13.12.1 Hot Telecom

Matav holds 26.5% of the rights in Hot Telecom, Limited Partnership, which was established by the cable companies in November, 2003. The goal of the partnership was to work for the establishment, operating of a public land-line network, by which land-line services will be given including internet access, infrastructure, transmission and landline data communication services. Matav's holding in Hot Telecom is based on the number of its subscribers in relation to the other cable companies (meaning subscribers for multi channel TV and broad band internet services), as of October 31, 2003.

A condition of the merger of the cable companies by the commissioner was that Hot Telecom invest a minimum of NIS 350 million in telephony infrastructure. Of this sum, Matav will invest a sum of NIS 93 million (see paragraph 13.16.4a, below).

In November, 2003, the Ministry of Communications provided Hot Telecom a Land-line Telephone Service

Provider's license on the cable TV infrastructure (see paragraph 13.8.1(a)4, above).

13.12.2 International Calling Services

Matav holds 10% of the issued and fully paid share capital of Barak ITC (1995) International Communication Services Ltd. (herein: "Barak"), a private company dealing in the supply of international communication services and internet services. In September, 2004, Matav erased the value of its holdings in Barak from its books.

13.12.3 Cellular Phone Services

Matav holds 5.3% of the issued and fully paid share capital of Partner Communications Ltd. (herein: "Partner"), that provides cellular phone services under the "Orange" brand in Israel and is part of a global concession network operating under that brand in various countries. Partner is one of four companies that have a general license for wireless radiotelephone services in the cellular method (RTN) in Israel (the license) and one of two companies that uses global system for mobile communications technology (GSM) network. On February 7, 2005, certain Partner shareholders (the Sellers) gave an irrevocable offer to sell to Partner their entire stake in Partner (about 17% of Partners outstanding ordinary shares) for a total sum of up to NIS 1.0214 billion. Matav was given an option by the Sellers to participate in the sale, directly or indirectly. If Matav decides to join the sale it will be able to sell to Partner about 4% of Partner's issued share capital for about NIS 237.5 million, and the number of shares that will be sold by the sellers to Partner will be reduced according to their relative holdings in Partner in comparison to the other sellers. Should Matav decide not to participate in the said sale, Matav will have a 90-day put option (from the date of closing of the sale transaction) to sell to the Sellers 3.1% at a price equal to the price that was originally offered to Partner. The seller's offer to Partner was dependent upon releasing the charges registered on the shares owned by the sellers. Partner's acceptance of the deal is dependent upon its receiving all the necessary approvals according to the terms of the license and according to law.

The closing of the transaction was set for no later then 80 days from the date of the offer and subject to

the completion of the conditioned precedent. There is no guarantee that the sale of Partner's shares to partner is executed.
In addition, the Sellers have an alternate plan to sell their shares in Partner where, under certain circumstances, if Partner decides not to purchase the Seller's shares, they will sell the shares in a coordinated manor in the market. According to the said alternate plan Matav received a 90 day option for the sale of 4% of the issued share capital of partner held by Matav in a manor in which Matav is in the same position as it would have been if this was part of the alternative plan from the beginning. There is no assurance that the alternative plan will be realized.

13.13 Financing

13.13.1 The following is a list of interest rates as of 31.12.2004 on loans from banks as well as from non-bank credit sources which were in force in 2004 and are not intended for a specific use by Matav:

		Interest Rate as of Dec. 31, 2004	
		Short Term	Long Term
Bank Loans	USD Linked	Libor +1.5%	None
	CPI Linked	---	---
	Non-Linked	6-6.2%	5.5-6.2%
Non-Bank Loans	USD Linked	---	Libor+1.75%
	CPI-Linked	---	Bonds: CPI +3.7%

13.13.2 Credit Limits for Matav

In the framework of receiving loans and credit from banks, Matav undertook in its agreement with one of the banks to maintain certain financial criteria and undertook towards all the Israeli banks not to charge the assets charged for the banks to a person or entity without the prior written consent of the banks.

As of 31.12.2004 Matav has kept to its commitments.

13.13.3 Credit Received after the Date of the Balance Sheet

After the date of the balance sheet, Matav received NIS 20 million in credit from the banks.

13.13.4 Credit Framework and Conditions

Matav had a short term credit line that totaled on February, 28, 2005 NIS 680 million . From this amount, Matav used NIS 590 million.

13.14 Charges

For details see note 15(c) of Matav's financial reports.

13.15 Taxes

See note 17 of Matav's financial reports.

13.16 Restrictions And Regulations on Matav's Activities

Matav's operations are subject to various laws (from Laws to council decision) as well as the authority of the Minister of Communications, the Ministry of Communications, the council and the antitrust authority.

13.16.1 Legislation

Matav operates under the Communication Law and regulation issued thereunder. The Communication Law covers, inter alia, the following topics: Licensing for Bezeq activities, cable and satellite broadcast; establishment of the council; the council's authority to give cable broadcast licenses and to make the licensees commit certain acts; the Minister of Communications authority to decide conditions for licensing and for broadcast of cable broadcasting; conditions as to qualifications for receiving a license; impermissibility of cross ownership between the owner of a general license for cable broadcasting and another owner of a general license for cable broadcasting or the owner of satellite transmission license or newspaper owner amongst them selves [1]; impermissibility of transferring, charging or seizing of the licenses for the supply of telephony services and cable broadcasting; obligations to produce collaterals to assure that the conditions of the license are kept; conditions for canceling the licenses; obligation for structural separation between the license holder for TIL and for cable broadcast subject to certain exceptions; obligation of the license holders to pay royalties and fees to the government; content, type

[1] However, it was determined that regarding the cable companies, their owners may keep their current ownership structure for a periods of up to 8 years beginning as of the entering into affect amendment 25.

and amount of programming; collection of fees from subscribers; the conditioning of services upon further purchase is not allowed unless approved by the council or the Minister of Communications; the owner of a general license for cable broadcasting must invest a sum being a percentage of annual revenues for the productions or acquisition of local production, with accordance to the council's decision etc..

In July, 2001, the communication Law was amended (amendment number 25) , according to which the licensing of cable TV broadcast was regulated by a regime of general non-exclusive long term licenses instead of a regime of exclusive regional licenses for limited period. further more, it was determined that the operation of a cable network as a Bezeq public network will be regulated by a general license (herein : "TIL") there will also be a structural separation such that the cable infrastructure will pass to the ownership of the TIL license owner and will be used for the purpose of telephony services (including telephony and internet access services) as well as for the transmission of cable TV. It was further determined that The Minister of Communications is authorized to instruct the license owner to allow another license owner to make use of the network he owns, including the broadcast center for the purpose of transmitting programming and to instruct on the use, including the joint use by the infrastructure located on the subscribers premises.

On August 1, 2004 a temporary provision went into effect, according to which for a period of two years from the start of the commercial operations of Hot Telecom or until the creation of a difference of 1.05 billion minutes between the calls ending at the Bezeq network and calls ending at the Hot Telecom network , whichever is sooner, there will be no connectivity charges between the networks for ending a call. Bezeq has appealed against this temporary provision.

In light of the adaptation of the recommendations of the Kroll Committee which was appointed to set up rules for competition in the land-line communication market and the changes in legislation that accompanied it, as of September, 2004 the Minister of Communications is authorized to grant general exclusive licenses to provide internal land-line communications including telephony, without obligation to provide the services to every one or a duty of minimal geographical deployment.

In November, 2004 the Ministry of Communications issued a policy paper regarding VOB services, subject to hearing, and gave licenses for a marketing experiment to provide paid VoIP services to a number of entities, amongst them “Golden Lines”, “Barak 013” and “Bezeq International”. The experimental marketing, as of the date of this report is in discussions between the Ministry of Communications, Bezeq and the parties that received the said licenses.
The cable companies have given their opinions, in the hearing held at the ministry, regarding the said policy paper.

13.16.2 Price Controls

The Bezeq regulations (concessions)– 1987 (herein: “concessions regulations”) and the licenses, set instructions regarding charging subscribers, as follows:
Broadcast License holders cannot charge his analog subscribers for providing programming and broadcasting services except at prices as set in the license, including inter alia: A one time connection charge; a monthly payment for broadcast; payment maintenance and repairs not under warranty; payment for service and installation of equipment.
At the choice of the subscriber in one of the following alternatives of: Borrowing, purchasing or renting of edge equipment, the license holder shall be allowed to charge the subscriber with the fee stipulated in the licenses, which in the case of borrowing or purchasing cannot be more than the cost of the end user equipment and in the case of rental by a monthly payment asset in the license.
The broadcasting licenses indicate the permissible maximum charges for analog subscribers to the broadcast services.
The licenses do not deal with maximum charges to digital subscribers. However, the concessions regulations apply to these services, according to which the license owner may determine "reasonable" fees for broadcasting services that were not set in the license. According to the concession regulations, the Minister of communications can intervene in the setting of prices and to order changes in them for reason of discrimination, misleading behavior, harming competition or unfair competitive practices.
TIL license owner is authorized to collect from his subscribers payments as detailed in the license. According to the TIL license. The TIL license owner

will set fees for each subscriber service. Any change to such fees will be sent, in advance, to the Director General of the Ministry of Communications . The Minister of Communications is authorized to change the charges if he finds they are against the instruction of the license or the law or if it may harm competition or the consumers. In the event of collecting payments from a subscriber for another service provider, the TIL license owner can not take an extra charge on the charge for the other supplier services.

13.16.3 Royalties

According to the Communications Law and the terms of the licenses Matav pays royalties, as follows:

a. As owner of a broadcast license, Matav pays a single fee, according to the concession regulations, a license fee in a set annual sum as determined by the said regulations for each year in the license period. It also pays yearly royalties in the sum of 3.5% of gross revenues (without VAT) from the providing of broadcasting services.

b. As a TIL license owner, Hot Telecom pays royalties according to the Bezeq regulation (Royalties) – 2001 (herein: the "Royalties Regulations"), at a rate of 3.5% of the total revenues from providing Bezeq services and that derive from the payments received from the subscribers, except for revenues that are detailed in the Royalties Regulations.

c. As the owner of a license for the operation of a broadcasting center, Matav pays for the license a fee at levels and at times that the Ministry of Communications decides, according to the Communication Law and Wireless Telegraph ordinance, 1972.

d. In addition, in July, 2001 the cable companies (including Matav) entered into an agreement with the State of Israel (herein: the "State"), according to which the cable companies will waive any claim or action against the State, regarding the granting of operations licenses to Yes and for the fulfillment of every cable company's obligation to pay to the State the fees as determined in the agreement, the State waived its claims and rights regarding the cable

networks such that, each cable company will have all rights regarding the network it owns in its concession area, for every issue, and will have the right to operate it, subject to the law, even after its concession ends. The agreement determines that each cable company and Hot Telecom will pay the State during a 12 year period, beginning on 1.1.2003, payments that are a percentage of its incomes from certain activities as detailed in the agreement.

13.16.4 Antitrust

a. Approval of the Merger of the Cable Companies and proceeding with the antitrust authority:

In April, 2002, the antitrust commissioner approved the merger of the cable companies under conditions that are described below (herein: the "Terms Of The Commissioner To The Merger"). The approval of the commissioner for the merger was extended to January 29, 2006.

The commissioners conditions, included, inter alia, the following conditions: (1) Structural separation between the cable infrastructure and the broadcast activity of the merged companies; (2) permitting access to the infrastructure for cable broadcasting for owners of special cable broadcasting licenses; (3) ownership structure in the merged company; (4) limitations regarding the purchase of content and the ownership of channels; (5) prohibition on the prevention of developing rival infrastructure; (6) setting limitations on the parties related to the merged company, including in relation to the tenure of company officers the transfer of business information; (7) the obligation to provide land-line telephony services to the Israeli public in competition with Bezeq over the cable network at date and volume that are not lower then the terms stated in the antitrust commissioner agreement to the merger; (8) The investment of at least NIS 350 million to develop a telephone network that will be invested in dated detailed in the commissioners approval and not later then June 30, 2006; (9) Irrevocable and unconditional bank guarantees totaling $15 million to the commissioner's satisfaction, for the guarantee of

the commissioners terms for the merger. Matav's portion in this guarantee is $3.75 million.

b. Exemption from receiving approval for a restrictive arrangement from the Antitrust Tribunal:

In November 19, 2003, the cable companies applied for an exemption from an authorization for a restrictive arrangement according to paragraph 14 of the Restrictive Trade Practices Law– 1988 as of 16 November 2003 and until the completion of the merger procedure and in order to enable the completion of the merger. The request for an exemption was made in light of the cooperation between the companies before the merger is finalized. The exemption was given and is in effect until January 30, 2006. In accordance with this, the cable companies can continue cooperating, inter alia, regarding multi-channel TV, marketing, purchases production of programs, building an land line infrastructure including internet service and telephony.

13.17 Key Agreements

13.17.1 Merger Agreement (when and if it is signed and comes into effect)

In February 2003, Matav and the other cable companies agreed on the terms of a merger agreement. According to the merger agreement, all of the cable TV operations of the cable companies will be transferred into one merged company and all the rights of the cable companies in their networks will be transferred to an infrastructure company that will be owned by the merged broadcasting company. In the framework of transferring the broadcasting operations of the cable companies to the merged broadcasting company, the shares of the new broadcasting company will be allocated to the companies transferring their broadcasting operations, according to their relative holdings in the said companies , and according to a conversion key that was calculated according to the number of cable TV subscribers and internet subscribers of the companies taking part in the merger. The said companies will cease to exist as separate legal entities and will be terminated without dissolution. The merged broadcast company will continue to operate as a legal entity after the merger

is completed. According to the agreement, each side can cancel his participation in the agreement until the merger is complete. If a party cancels its participation in the merger, the other parties will be able to continue the merger, mutates mutandis. As part of the merger agreement there is a shareholder agreement, between the future shareholders of the merged broadcast company, that organizes their relationship as shareholders, as of the completion of the merger (herein: the "Shareholders Agreement"). The validity of the merger agreement and the shareholders agreement is dependant upon all relevant parties signing them. The merger agreement will cancel the merger arrangement of May and December, 2001.[1] According to The Supervisor of the Banks, the merger of the cable companies and the creation of the merged cable company does not comply with the directives of the Bank of Israel and the Proper Conduct Of Banking Business Regulations, inter alia, concerning the limitation regarding a "group of borrowers" as defined in the above regulation The said position has consequences as to the providing of credit by banking corporations and in the matter of attributing the debts of the merged Matav. In light of the Supervisor of the Banks stance, there is no certainty as to the completion of the merger, its timing and its formulation.

13.17.2 Hot Telecom Establishment Agreement

In October, 2003 (as amended in December, 2003), three corporations (including a subsidiary of Matav) controlled by the cable companies contracted to join as limited partners and Hot Telecom Ltd., a company jointly owned by the above entities as general partner, In an agreement for the establishment of Hot Telecom that will deal with the granting of services according to the general licenses for providing in country, in land telephony services and in additional matters as decided by the partners (herein: the "Partnership Agreement"). The Partnership Agreement includes, inter alia, provisions regarding the management of Hot Telecom, division of profits and revenues and limits as to the transfer of rights in Hot Telecom. In addition, in October, 2003 the limited partners

[1] On December 31, 2001 the cable companies applied to the courts, the antitrust authorities and the cable authority for permission to merge. The cable authority approved in March 2002 and in February 2003, with a few conditions. The antitrust commissioner approved in April 2002 (for conditions of the merger see paragraph 13.16.4(1), above.

contracted (herein the: “Limited Partners Agreement”) to establish a jointly owned company that will act as a general partner in the limited partnership which will hold 1% of the rights in the partnership. The General Partner Agreement includes, inter alia, instructions regarding decision making by the general partner, division of profits and revenues and limitations on the transfer of the shares of the general partner as well as the availability of the cable network of the cable companies to the general partner and/or Hot Telecom. As of the date of the report, Matav holds approximately 26.5% of the outstanding share capital of the general partner and has a right to appoint two of the six members of the board of directors of the general partner. The partnership agreement determines that if within 36 months from the signing of the partnership agreement, the operations of the parties in the broadcasting field and the communication field will be merged, and the party's holdings in Hot Telecom will be transferred to the merged company with no charge.

13.17.3 Content Agreements

As part of its activities, Matav contracts with various content providers, for the use of their content to be broadcasted by Matav. Matav is obliged by the said agreements, to pay royalties to several entities regarding copyrights on programs broadcast in Matav’s multi channel TV broadcasting. In 2004 Matav paid NIS 3.6 million for the said royalties.

13.17.4 Hot Vision Agreement

In 1989 Matav and the other cable companies established Hot Vision Ltd. (formerly ICP Cable Programming Company for Israel Ltd.) (herein: “Hot Vision”) that will produce and purchase broadcast rights, programs and movies for the independent channels of the cable companies. Matav holds 26.6% of the ordinary outstanding shares of Hot Vision in accordance with the agreement between the cable companies, according to which, each of them will hold equity and voting rights in Hot Vision according to their relative number of subscribers. The relative to the number of subscribers between the cable companies as stated above, is checked at the end of every year.

13.18 Legal Proceedings

For information regarding substantive legal proceedings, that Matav is a part to, see note 15(b) of the Matav's financial statements.

13.19 Goals and Business Strategy

Matav has set a goal to leverage its cable infrastructure and its market share in order to become one of the leading companies in the Israeli communications market. In order to achieve this goal, Matav set a strategy that will increase the product and services offered to subscribers, to increase the penetration, in services it currently supplies and to expand into other areas of communication, and taking part of mergers and strategic acquisitions in order to add to the services it offers and to expand its part in this market.

13.20 Events or Matters External to Matav's Regular Business

In November, 2004, Matav announced the end of preliminary negotiations with Tevel for the purchase of Tevel's assets by Matav. As part of the deal, Tevel was to receive 26% of Matav's shares, by diluting the existing Matav shareholders. No documents were signed regarding the said transaction and it is subject to the completion of negotiations between the parties, signing the transaction forms, due diligence, and receiving approvals demanded by the authorities. During the last few months there has been no progress in the negotiations and there is no certainty that the transaction will be completed.

13.21 Risk Factors

What follows are the risk factors that could adversely affect Matav's operations:

13.21.1 Appropriate Licenses

Matav's operations are conducted under the licenses given by the Cable council and the Minister of Communications that are detailed in paragraph 13.8.1, above. The said licenses include various conditions regarding their expiration date and breaches that may result in their cancellation. Regarding the said licenses and in order to ensure that Matav upholds the licensing conditions and the relevant laws, Matav gave bank guarantees to the council and to the Minister of Communications, totaling $13 million. Both the council and the Ministry have the authority to execute the guarantees should Matav violate the terms of the licenses. The guarantee is also to assure the payment Matav is obligated to pay, including royalties, fines that may be imposed by the council or the Minister. The execution of these bank guarantees, does not derogate from the authority of the Council or the Minister to end the licenses or to change their conditions or to impose additional sanctions on Matav.

The council and the Minister of Communications (as appropriate) have the authority to change the licensing conditions at any time, dependent upon certain restrictions and a right of hearing by the license owners. In addition, the licenses can be canceled due to a substantial breach of their conditions or if a legal requirement is not upheld or if a non-substantial breach is not amended. Even though Matav is of the opinion that it is in compliance with all the conditions of the licenses, the application of standards and interpretation for measuring compliance with the licenses is not absolute and there could be future disagreements on this matter, between Matav and the Council or the Ministry.

13.21.2 Subordination To Special Restrictions Concerning Monopolies

In light of the declaration of the commissioner that the cable companies are a monopoly, Matav has operated under the limitations and oversight of the antitrust authority, in addition to oversight of its actions by the Council and the Ministry of Communications, including the setting of prices, terms of subscriber agreements, agreements with content providers and the use of Matav’s cable network.

13.21.3 Agreement to the conditions of the Merger Agreement and the possibility that its potential will not be realized

As stated above, in February, 2003, Matav and the other cable companies in Israel agreed to a final version of an agreement stipulating the structure and term of the merger between Matav and the other cable Companies. As of the date of this report, the merger agreement has yet to be signed and it is not possible to say when or if it will be signed.

Before the signature of the complete merger agreement, Matav will have to come to arrangements with the major Israeli banks as they are the major creditors of the parties to the merger agreement. The merger also requires the approval of the council, income tax authorities, the commissioner and the court in addition to approvals from creditors of the companies and the approvals required according to the Companies Law -1999. According to the merger agreement, it might be that the need will not arise for the receipt of an additional approval by the Tax Authorities. The Supervisor of the Banks of the BOI has yet to give his approval to the merger and has even expressed reservations in light of certain restriction in the Israeli bank laws (see paragraph 13.17.1, above).

As of April 2002 and in correlation with the approval of the commissioner, Matav has cooperated with the other cable companies in order to strengthen its competitive stance in the sector.

In light of the barriers, the approvals and the agreements necessary for performing the merger, there is no assurance, if when and in what final structure the merger will take place. If the merger does not happen, Matav will find it difficult to fulfill its strategic goals and to compete effectively. In addition, without the merger, Matav's general expenses will increase since it will not be able to realize the cost efficiencies inherent in the merger. Even if the merger does go through, there is no assurance that the terms of the merger will enable the merged entity to compete effectively or that the integration of the entities will be successful and\or that the merged company will be able to take advantage of the economic benefits that are expected to evolve out of the merger. In addition, the approval of the merger is subject to certain tax risks and restriction according to tax laws regarding the transition of assets for a certain period after the completion of the merger.

13.21.4 Regulatory Factors

a. As stated above, Matav operates under the Communication Law as described in paragraph 13.16.1 above. Changes in legislation, regulations and government policy influence Matav's operations and could adversely effect the business situation. Matav cannot know when and if the Minister of Communications will intervene regarding the sums paid to Matav by the Subscribers.

b. The amendments to the Communication Law and the licenses Matav received in 2002 have greatly reduced the entrance barriers to the market were it operates.

c. Matav is obligate by the law and the licenses to abide by "unbundling". This commitment allows other owners of broadcasting rights the access to Matav's customers via Matav's infrastructure at conditions that are not worse than the terms given by Matav and the Hot Telecom communication infrastructure license. Similarly, the above commitments include the right of use, to owners of other communication licenses (that may be, inter alia, suppliers of other services) to Matav's infrastructure. In addition, according to the Commissioner's terms for the merger, in the event that the commissioner believes there is a significant reduction in the competition of the multi-channel TV market, he can instruct Matav to enable Yes or any other license holder to use Matav's infrastructure for the benefit of all the potential subscribers (and not only Matav's subscribers) as long as the cable infrastructure reaches to their area.

d. According to the policy of the Ministry of Communications as of May, 2005 it will be possible to obtain VOB licenses. In this case, such license owners may request to use Matav's cable infrastructure. The cable companies have filed their position regarding this policy that may adversely effect their operations in general and in their ability to compete in the local telephony market in particular.

13.21.5 Competition with Yes and Bezeq

Bezeq is the controlling shareholder in Yes, Bezeq is a government company and a monopoly in the land-line telecom market, data transmission and broadband internet service. Yes, with the wide backing of Bezeq can offer its services at low prices and uses aggressive marketing techniques. In addition, in accordance with the decision of the Minister of Communication, Matav is obligated to allow Yes use of the subscriber lines it owns and Yes is similarly obligated to Matav. The competition from Yes has affected Matav's revenues and has reduced its subscriber base and increased its expenses, mainly in the marketing and computing fields. Yes's buying power has raised the costs of content purchase from the main producers (MGM, Paramount, Buena Vista, Universal, Warner Brothers, 20th century Fox, Columbia and Sony). In light of the above stated there is a risk that Matav will not be able to compete against Yes.

In addition, the supply of land-line communications in the local Israeli market has to be done in competition with Bezeq. According to the Minister of Communications policy, of March 2004, regarding Bezeq's general license, Bezeq may receive approval to market a basket of services, in a manor that will make it harder for Matav to penetrate the field of land line communication's. It is also possible that as a result of the said competition concerning the supply of services by Bezeq, Matav may losses cable subscribers.

13.21.6 Competition Due To New Technologies

Even though Matav feels that it is in a position to compete efficiently in the Israeli technological market, it is possible that new technologies will be developed and implemented in Israel. Matav cannot estimate when and if these said technologies influence the cable technology used and offered by Matav. Similarly, Matav cannot be sure that the technology it uses today will not be outdated and loose its value due to future technological developments. In addition, technological developments in the communications field require Matav to invest major financial resources in order to remain competitive.

13.21.7 Ability To Raise Capital

Even though, today, Matav management feels that the available financial resources, including its credit lines are enough to allow it to fulfill its financial needs, for fulfillment of its business plan in the coming months, Matav could require additional funds. Its financial needs are dependent upon, inter alia, the following factors: The ability to supply services successfully; the need to upgrade the network in order to provide additional services; the need to purchase additional equipment; the need to expand its infrastructure to remote areas.

Any future financing, if it is possible to attain, could be at terms that are not favorable to Matav and any equity financing could cause dilution of Matav's current shareholders.

13.21.8 The influence of the Economic Situation of the Other Cable Companies

Since Matav cooperates with the other cable companies, their economic situation has an influence on Matav. A worsening condition of these companies could increase Matav's part in the joint expenses and could have a negative influence on the plan to merge the companies activities as stated above.

13.21.9 Legal proceedings and Copyrights

a. Besides the legal proceedings against Matav as detailed in note 15(b) of Matav's financial reports, Matav is exposed to lawsuits dealing with its breach of some of the terms of the prior concessions it held, some of which are connected to arrangement of the accessibility to cable services of potential customers found in Matav's licensed regions.

b. Matav broadcasts several foreign channels. These channels may purchase rights from third parties for the broadcast of specific programming. According to a ruling by the Supreme Court, the broadcasting of these channels and the content included in them may result in a cause of action for the owners of the copyrights in the shows aired, if they did not give their consent for the broadcasting of their programs in Israel. In light of this, Matav might need to come to an agreement with the holders of the copyrights before airing the programs as

part of the foreign channels, in addition to agreements with the foreign channels themselves. These agreements could increase Matav's broadcasting costs. In addition, legal action could be taken against Matav for violation of copyrights regarding the programs being aired on the foreign channels.

13.21.10 Taxation

According to estimates by the tax authorities, Matav may need to incur significant additional tax expenses for past years. Matav received several tax evaluations from the income tax authorities. As a result of the said tax evaluations it is possible that Matav will be required to pay substantially amounts of income tax, which will materially effect its activities.

	Risk Factors and Company Operations		
	Large	Medium	Small
Macro			
Industry		- Regulations	- competition regarding Technological Advances
Company Specific	- Competition with Yes and Bezeq	-maintaining proper licenses agreement to the conditions of the Merger Agreement and the possibility that its potential will not be realized - Influence due to Economic conditions of other cable companies.	Subordination To Special Restrictions Concerning Monopolies Ability to Raise Capital Legal proceedings and copyrights - Taxation

The above analysis of the risk factors are only estimates. In reality, the factors could be different.

14 Other Operations

The Delek Group has different operations that are not included in the above sectors and which the income and expenditures deriving from them are not substantial in relation to Delek Group's operations. These activates are included in the Group's financial reports of December 31, 2004 and listed as "other" (besides the investment in Menora Holdings, Ltd which was concluded after the end of 2004). They are, as follows:

14.1 Desalinization –

Delek's involvement in desalinization is done through Delek Infrastructure, which holds 50% of IDE Technologies. IDE builds and operates seawater desalinization plants at various locations around the world. At some locations it acts as operator and at some it constructs them for other operators. Amongst others, IDE built a BOT (build-operate-transfer) plant in Cyprus with the capabilities of desalinating 17 million cubic meters (cbm) of seawater per year.

IDE was part of the group that won a tender published by the Israeli government to create a BOT desalinization plant in Ashkelon. The facility should be capable of desalinating 100 million cbm of water a year. The period of operation is to extend for 24 years and 11 months from August 20, 2002. The expected investment by the partners is about NIS 1 billion. VID Desalinization Company, Ltd, under whom IDE participated in the tender, is held by Veolia Water, SA of France as well as by Eleren, Ltd (Israel). VID will hold 50% of the ownership and 40% of the operation of the plant. In January 22, 2003, VID contracted agreements with investors and institutional investors to finance the project. The amount of financing might reach NIS 760 million (with an additional NIS 52 million in supplementary financing) dependent upon certain milestones. The additional NIS 235 million (and an additional NIS17 million in supplementary financing) will be financed by VID from its equity and shareholder's loan.

14.2 Power Generating Station

In the framework of building the desalination plant, a subsidiary of Delek Infrastructure also won a tender to build a power generating plant on the grounds of the desalinization facility. The power station will produce 80 megawatt of electricity and is part of the

BOT contract for the Ashkelon desalinization plant. Most of the capacity of the generating station is to be used by the desalinization plant with the rest being sold to private customers and/or the IEC. When the desalinization plant stops operating, the power station will become State property.

In 2003, a financing agreement was signed for NIS 260 million and a "Notice to Proceed" was issued to the contractor, Siemens Nederland, NV.

The construction of the power plant is in progress and its completion requires a "test run" with natural gas. The "test run" and the operation of the plant (scheduled to begin at the end of the second quarter of 2005) requires that natural gas be delivered to the Ashkelon shore. Regarding the delays in the delivery of the gas see note 9(j)(11) of the financial reports.

Infrastructure operations usually require heavy financial investments in construction and "test run" that usually takes 2-3 years to complete. Revenues only come after that period.

14.3 Regarding Delek Infrastructure's joining the "Dorad" power station project see paragraph 7.19.6 above.

14.4 **Menora Holdings, Ltd:**

On March 13, 2005, Delek Investments completed a deal to purchase 9.99% of Menora via a private placement. Delek Investments paid $44 million for the shares. In addition, Delek Investments received an option (for a period up to 19.5 months from December 15, 2004) to purchase from Menora via private placement up to 5% additional shares of Menora. Exercise of the option is dependent upon Delek Investment holding a specific number of shares (in minimum) over the life of the option.

After signing the agreement, Delek Investments signed an agreement with the controlling shareholders of Menora ("Shareholder's Agreement") that included, amongst others, instructions regarding right of first refusal to Menora shareholders should Delek wish to sell its shares in Menora. Delek Investments received a "tag along" right if Menora's controlling shareholders should decide to sell their shares to others and reduce their holding to below 50%. Delek Investments also received minority shareholder rights protection

giving it the right to agree to voluntary winding up of Menora and for significant changes in the company (with the exception of increasing Menora's registered capital). These rights conditioned amongst others in Delek Investments maintain a minimum investment in Menora as stipulated in the shareholder's agreement..

Menora is a public company which is traded on the TASE. Its main operations consist of holding shares in the insurance and investment company including Mivtachim Pensions, Ltd, purchased in a public tender in the fourth quarter of 2004.

14.5 Additional Investments and Holdings:

Delek Group has additional investments and holdings that are not significant to the volume of its operations. These include holdings in small technology based companies, hedge funds and financial investments while taking advantage of business opportunities.

Part Four – General Company Issues

15 Human Resources

15.1 Company Staff

The total number of workers in the Company and Delek Investments is 12. Four hold senior management positions in the Company and the rest are staff and administrative workers. These workers serve also as managers and workers of Delek Investments.

There has not been a substantial change in the company staff over the last years.

15.2 Officers of the Company and Senior Manager Positions in the Company

15.2.1 In addition to the four senior managers there are eleven CEO's and chairmen of the boards of directors of the various subsidiary companies in the different sectors the Company operates in.

15.2.2 Perquisites and Employment Conditions – Officers of the Company and the senior management of the group are employed under personal contracts that include pension coverage. Certain managers have options programs or loans to purchase shares. Some managers are entitled to or up to six months pay after leaving the company. In addition, bonuses are usually given to senior managers depending on various parameters, such as: Management rating, business results and personal accomplishments. The officers of the Company are also insured and are indemnified against damages from their work at the Company.

16 Financing

(This section does not deal with loans taken out by subsidiaries in the specified areas, unless noted otherwise.)

16.1 Interest Rates

What follows is a listing of average interest rates on loans from bank and non-bank sources that were in effect in 2004 and that are not intended for specific use by the Company:

		Average Interest Rate	
		Short Term	Long Term
Bank Sources	NIS Linked	4.6%	5.5%
	NIS non-linked	5.2%	7.4%
	USD	4.4%	3.7%
	Canadian Dollar	4.3%	6.4%
	Sterling	6.9%	6.2%
	Swiss Franc	1.5%	5.3%
	Yen	1.6%	---
	Euro	2.9%	4.0%
Non-Bank Sources	NIS Linked	---	6.2%
	NIS non-linked	4.3%	---
	USD	3.1%	---

16.2 Credit Received form the Date of the Financial Reports until the Date of this Report:

What follows is a list of the credit received by the Company and Delek Investments between December 31, 2004 until the date of this report (March 27, 2005)[1], in NIS millions:

	Short Term	Long Term
Bank Sources	---	200
Non-Bank Sources	35	585

16.3 Credit Framework

The Company and Delek Investments have a credit framework as of the period of the report of NIS 1,360 million. From this framework the Group used NIS 773 million as of March 22, 2005 (including compounded interest). The credit framework is for one year.

16.4 Variable Rate Loans

What follows are the details of credit taken by the Company and Delek Investments at variable rates in 2004.

Mechanism	2004 Range	Actual March 22, 2005
Prime +	4.8-6%	4.8%
USD Libor +	1.9-4.9%	4.9%
Euro Libor +	3.9-4%	4%
Yen Libor +	1.61-1.625%	1.625%

[1] Some of the monies will be used or were used to redeem other debt.

16.5 Credit Rating

The last series of bonds that the Company floated were rated AA- by Ma'alot, the Israel securities rating company.

17 Taxes

For an explanation of the tax laws that pertain to the Company, see note 30 of the financial reports.

18 Collateral

18.1 Security

For a description of the security deposits of the Company, see note 22(b) of the financial reports

18.2 Collateral

What follows are the details of the collateral the Company gave that do not relate to any of the sectors as described above:

18.2.1 Delek Group Collateral

A permanent first series pledge to Bank Leumi and Bank Poalim of 81,000 regular NIS 0.01 par value shares each of Delek Real Estate and all of the rights, options and revenues for it and all of the rights of the Company in it as well as the securities deposit including the cash accounts attached to it.

18.2.2 Delek Investments Collateral

Delek Investments has collateralized various assets to Israeli banks. What follows is a summary of the main ones:

50,132,161 shares of Delek Automotive which are all of the Delek Investment shares in Delek Automotive. Delek Investments holds 61% of Delek Automotive

9,050,865 shares of Matav, which is 75% of Delek Investment's holding in Matav and 40% of Matav shares.

2,444,604 shares of Delek Energy which is 60% of Delek Investment's holding in Delek Energy. Delek Investments holds 89% of Delek Energy's shares.

For security and collateral given by other companies in the group, see the discussion concerning the different sectors in this report.

19 Legal Issues

For a description of material claims in which companies within the Group are involved see note 22(a) of the financial statements.

20 Business and Strategic Goals

The Company examines its goals and strategies from time to time, updating them as the business environment changes and as opportunities arise:

What follows are the main strategic goals:

20.1 Improved business practices in order to increase return on equity over time and to take advantage of new business opportunities

20.2 Concentration of substantial and high-growth holdings in which the Group can have a substantial ability to influence.

20.3 Constant scrutiny over possibilities to float holdings.

20.4 Examination of possibilities of entering into strategic partnerships with other companies in Israel and abroad.

20.5 Increasing the Company's activities abroad through appropriate business opportunities and lessening the dependence on the Israeli market.

20.6 Take advantage of opportunities in the relevant markets in order to cash in on investments.

20.7 To execute goals via widening and more diversified financial sources.

20.8 Contributions and assistance to the community in Israel.

21 Expected Developments in the Coming Year

For expected development in the coming year, see discussion concerning each sector.

22 Financial Data for Geographical Regions

What follows is a description of areas in which the Company is most active:

Israel – The Company is active in Israel in all of its sectors (real estate, automotive, fuels, energy, biochemicals and telecom).
USA – The Company is active in fuel products
England – The Company is active in real estate
Canada – The Company is active in real estate
Western Europe – The Company is active in real estate and biochemicals.

For more information concerning geographical regions see note 33(c) of the financial reports.

23 Risk Factors

The Company is predominantly a holding company and therefore the main risk factors come from those specific to each and every area of activity. These were explained in the sections dealing with each individual sector. Aside from those, what follows are the additional risks that the Company is exposed to:

23.1 FX Volatility

The Company and its holdings have loans denominated in foreign currency exposing the Company to the volatility of the FX markets. These markets could also influence the Company's financial reports as a substantial part of the Company's acquisitions and imports are in FX.

23.2 Interest Rates

The Company and its holdings have NIS denominated variable rate loans exposing it to the monetary policy of the BOI. Some of the companies in the Group have taken out variable rate loans abroad exposing them to foreign rate movements. These changes can have negative effects on the Company's results.

23.3 Economic Slowdown and Changes in Markets

The Group operates in various countries around the world. Changes in those markets and economies and especially economic slowdowns (including in Israel) can have deleterious effects on the Group and its holdings.

23.4 Capital Markets

The volatility of securities held by the Group can have an effect on the Company. An Israeli or global market decline can harm the Company's prospects for raising capital and for selling its

holdings for capital gains. In addition, weak capital markets can have an effect on the ability of the Company and its holdings to issue shares and may cause a decline in the prices of securities issued by the Company after their issuance.

23.5 Security Situation

A worsening security and political situation in Israel can have a negative effect on operations amongst others, by discouraging foreign investors and corporations from investing in and dealing with Israeli companies. A deteriorating security situation could also cause economic slowdown or recession which may adversely affect the Company's sales and financial results.

23.6 Legislative and Standards Changes

Changes to Israeli and foreign antitrust law, government tenders, fuel regulation, natural gas regulation, telecom laws, insurance regulations, price controls, import duties, consumer protection and other regulations and laws can have a negative effect on the Company's performance.

Changes in accounting standards can also have an effect on the financial results of the Company and its holdings and on their ability to distribute dividends.

23.7 Bank Regulations (Single Borrower Regulation)

The Company and its affiliates have their borrowing abilities influenced by the "Proper Conduct of Banking Business Regulations" of the Supervisor of the Banks of the BOI. This includes limitations on the amount of loans that an Israeli bank can lend to a "single borrower" and to the six largest borrowers and the bank's largest "borrower groups" as defined by the above regulation. The Company, its main shareholder and some of its affiliates are considered a single "borrowing group". Therefore, in certain circumstances this can have an influence on the ability of said companies to borrow additional sums from Israeli banks. The said regulations may affect the Group's ability to borrow additional sums from the Israeli banks and its ability to perform investments that require bank credit or investments in companies with large loans from certain banks.

23.8 Licenses and Concessions

Some of the Company's affiliates operate under licenses, permits, concessions or various other official government permissions obtained in Israel and abroad from various authorities. These include allowances from the Ministry of National Infrastructure, Ministry of Communications and Ministry of Transportation. Non-compliance with the various standards and conditions of the licenses and allowances can cause sanctions, fines or the cancellation of the relevant permits or to non-renewal in the future by the relevant authorities. The cancellation of permits, authorizations, licenses or concessions may significantly harm the Company's affiliates whose activities are dependent on these permits. Some of the licenses and concessions are given for a certain period and can be renewed form time to time according to their terms and the relevant laws and there is no guarantee that these licenses or concessions will be renewed.

These events can have a negative influence on the Company's holdings such a license or concession and ultimately on the profitability of the Group.

23.9 Environment

Some of the Company's affiliates are exposed to various environmental regulations in Israel and abroad. Changes in laws, regulations or policy can affect the profits of the Company's affiliates and ultimately the Company.

23.10 Human Resources

Substantial changes in minimum wage laws or major changes in other labor laws can influence the results of the Company's affiliates and ultimately the Company's results. Strikes, work slowdowns, etc in the Company's affiliates can also negatively influence financial results.

23.11 Antitrust

Some of the affiliates in certain circumstances can be influenced by antitrust regulations and by individual rulings by the Restrictive Trade Practices Commissioner. In addition, for some operations, the Group and its affiliates as affected buy antitrust laws which may influence their dealings which fall under the definition of merger of restrictive arrangements as defined by the law. The Company is therefore, in certain circumstances, dependent upon receiving approvals from the above commissioner that may limit or even prevent the deals. Various conditions in existing of future permits of mergers given by the commissioner regarding the purchase of various holdings in various companies by the main shareholder of the company or companies it holds could limit the business activities of the Company and its results.

23.12 Limitation on Selling Holdings

There are legal and contractual limits to the ability of the Company and its affiliates to sell its holdings when it wants to.

23.13 Dependence on Cash Flow of Affiliates

One of the sources of capital for the Company comes from the profits distributed by the affiliates. Changes in the dividend distribution policy or in the cash flow of the affiliates can have an influence on the cash flow of the Company and its business activity.

What follows is a list of the risk factors and their influence on the Company:

	Risk Factors and Company Operations		
	Large	Medium	Small
Macro	- Interest Rate volatility	-FX volatility Capital Markets Economic slowdown Legislation and Standards - Bank Supervision	- Security situation
Industry		-Environment	
Company Specific		- Licenses and concessions	limitations on sale of holdings Dependence on cash flow of affiliates Employee relations and salary - Antitrust

For the affiliates, see also the Risk Factor sections of parts 7-13, above.

Board of Directors Report

for the year ended December 31, 2004

The Board of Directors of The Delek Group Ltd. (the "Group" or the "Company") is privileged to submit this report for the year ended December 31, 2004.

1. General

The Delek Group, Ltd. is a holding and management company that acts as parent company for all of the corporations that form the Delek Group.

The Company operates in Israel and over the last years its foreign subsidiaries have broadened their international operations mainly in the gasoline service station sector in North America and in real estate in England, Canada, Germany and Sweden.

The main business activities of the Group are concentrated under the following three subsidiaries:

A. Delek Petroleum Ltd. (Delek Petroleum) – Concentrates on the sale of fuel and oil products and in the operation of service stations and convenience stores in Israel and the US. In Israel, the operations are executed via Delek Israel Fuel Company, Ltd (Delek Israel) and in the U.S. via Delek US Holdings Inc. (Delek US).

B. Delek Investments and Properties Ltd. (Delek Investments) – Concentrates on the automotive sector; in oil and gas exploration and production in Israel; in infrastructure projects; in the biochemical industry and in telecommunications.

C. Delek Real Estate Ltd. (Delek Real Estate) – Concentrates on the development and maintenance of real estate in Israel. Its subsidiary, Delek Belron, holds foreign corporations that invest in rental properties abroad. During the year of this report, Delek Real Estate purchased 87.5% of Dankner Investments Ltd. which deals mainly in real estate development in Israel. After the successful tender offer in November, 2004, Delek Real Estate holds all of the shares of Dankner Investments.

It should be noted that the Company holds 100% of Delek Petroleum and Delek Investments and 91% of Delek Real Estate.

2. Results of Operations

The net income of the Group for 2004 was NIS 403 million vs. NIS 183 million for the previous year, an increase of 120%. The net income for 2002 was NIS 101 million.

The Company's EBITDA, (earnings before interest, tax, depreciation and amortization) for the year was NIS 1,169 million vs. NIS 917 million in the previous year and NIS 641 million in 2002.

The growth in net income and EBITDA in 2004 was due mainly to the newly profitable oil and gas exploration and production sector, the increased profitability of the biochemical unit, increased profits from foreign real estate, capital gains from the sale of 4% of Delek Automotive deducted by and the deduction for the loss in the telecom sector's holding of Matav.

Revenues for 2004 were NIS 14.9 billion vs. NIS 12.1 billion for the previous year. The increase was mainly due to the increase in automobile sales, the increase in fuel prices in Israel and the world and from the purchase of 100 service stations and convenience stores in the US that were consolidated into the Group's financial statements for the first time.

The gross profit of the Company for 2004 was NIS 2,027 million vs. NIS 1,600 million in the previous year, an increase of 27%.

The operating profit for 2004 was NIS 905 million vs. NIS 633 million for the previous year, a rise of 43%.

In 2004, after the completion of the production facility at the "Mari" field, the Group started selling natural gas (mostly through the limited partnerships Delek Drilling and Avner Oil & Gas, as well as through Delek Investments) to the Israel Electric Corporation (IEC). As a result, in the second quarter of the year, the Group started to profit form natural gas operations after a long period in which this sector produced only losses. Similarly, the natural gas operation generated positive cash flows used to reduce bank debts.

This year, the Group made a number of new investments including a NIS 215 million purchase of Matav-Cable Systems Media Ltd. It also made a NIS 265 million purchase of Dankner Investments Ltd. and the purchase of an American company which owns and operates 100 service stations and convenience stores amounting to NIS 104 million. The Group also purchased 10% of the equity of Menora Holdings, Ltd. for NIS 190 million in a deal that closed after the balance sheet date of the annual report. Also, after the balance sheet date, Delek US purchased an oil refinery and pipeline in Texas for $78 million.

This year, Delek Investments sold 4% of its shares of Delek Automotive System Ltd. for NIS 115 million. The after tax profit from the sale was NIS 68 million.

From the start of the year, the Group's companies have stopped linking their financial reports to the Israeli or other CPI's in light of new Accounting Standards 12 and 13. In the previous year, before the new accounting rules went into effect, the Company earned financing income, net after taxes, of NIS 53 million in its real estate operations, due to linkage with the British, Canadian and American CPI's and earned an additional NIS 10 million for fuel operations.

In the real estate sector, where the affiliated companies report on international accounting standards including International Standard 40, where rental properties are listed according to their fair value, a profit after taxes of NIS 50 million was registered.

Delek Petroleum and Delek Real Estate floated bonds in 2004 for a total of NIS 511 million. After the balance sheet date the Company floated bonds to the institutional market in Israel for NIS500 million. In the US, $275 million in bonds were issued by Delek and Avner Yam Tethys (SPC) for the Yam Tethys Project. A large portion of the financial and management resources of the Company are invested in long term projects which will bear fruit in the coming years.

These projects are infrastructure projects like the 100 million CBM (cubic meter) desalination plant in Ashkelon (on the southwestern coast of Israel) and the construction of the power plant next to it, as well as the entry of the Company into the telecom market via the purchase of Matav.

A detailed description of the operations of the Group's subsidiaries will appear below.

Contribution by Sector

The following are the details of the net income of the Group, by main sectors (in NIS in millions):

	1Q04	2Q04	3Q04	4Q04	2004	2003
Oil and gas exploration and production	(7)	7	16	19	35	(72)
Automotive	41	50	38	34	163	164
Real estate*	11*	19	26	63	119	95
Fuel products	3*	6	---	---	9*	(24)
Biochemical	8	12	16	24	60	20
Telecom	---	(4)	(11)	(11)	(26)	---
Capital gains and other**	(3)	35	5	6	43	---
Total	**53**	**125**	**90**	**135**	**403**	**183**

* including tax expenses due to Accounting Standard 19 for NIS 18 million in real estate and NIS 2 million for fuel products in the first quarter in the US.

** Including mainly profit from the sale of Delek Automotive and depreciation of the gas turbine.

Restatement of Financial Reports for the three quarters of 2004

In this report the real estate sector's numbers were restated in order to reflect accounting change at the financial statements of an affiliated company:

- The revised accounting treatment for scheduled fixed rent increases in operating leases in which the affiliated company is a lessor. The affiliated company had previously recognized the effects of such increases as received over the lease term. In these financial statements, the affiliated company has revised the accounting treatment and is recognizing the effects of the scheduled fixed rent increases, under the lease contract, on a straight-line basis over the lease term.

- The revised allocation of the purchase price in a business combination at the date of acquisition to the assets and liabilities of the acquiree. In these financial statements, the Company has revised the amount allocated to deferred taxes in respect of temporary differences relating to rental properties with a corresponding increase in goodwill. Accordingly, the Company also revised its amortization of goodwill and its tax expenses in 2004 and 2003.

The first quarter results were also corrected due to Accounting Standard Number 19.

As a result of the restatement the net income for the first quarter was reduced by NIS 7 million and in each of the second and third quarter the net income increased by NIS 9 million. The cumulative increase in profit for the nine months ended September 30, 2004 as a result of the restatement, was NIS 11 million.

What follows is the key data for the Consolidated P&L of the Company in NIS in millions:

	1Q04	2Q04	3Q04	4Q04	2004	2003
Revenues	3,211	3,797	3,941	3,944	14,893	12,105
Less - excise, customs, purchase taxes and royalties	845	1,002	784	898	3,529	3,075
	2,366	**2,795**	**3,157**	**3,046**	**11,364**	**9,030**
Cost of revenues	1,924	2,293	2,610	2,510	9,337	7,430
Gross profit	**442**	**502**	**547**	**536**	**2,027**	**1,600**
Selling, marketing and gas operating expenses,	179	200	217	218	814	711
General and Administrative expenses	66	68	79	95	308	256
Operating income	**197**	**234**	**251**	**223**	**905**	**633**
Net financial expenses, net	65	80	119	78	342	216
Gain from sale of investments in investees, net	**132**	**154**	**132**	**145**	**563**	**417**
	---	76	24	---	100	32
Other revenues (expenses), net	4	(15)	5	(22)	(28)	(47)
Income before taxes on income	**136**	**215**	**161**	**123**	**635**	**402**
Taxes on income	55	71	49	14	189	153
Income after taxes on income	**81**	**144**	**112**	**109**	**446**	**249**
Equity in earnings of affiliated and partnership, net	19	25	18	74	136	20
Minority interest in earnings of subsidiaries, net	(27)	(44)	(40)	(48)	(159)	(86)
Income before cumulative effect of change in accounting principle, net	**73**	**125**	**90**	**135**	**423**	**183**
Cumulative effect as of the beginning of the year of change in accounting principle, net	(20)	---	---	---	(20)	---
Net income	**53**	**125**	**90**	**135**	**403**	**183**

Profit from Real Estate Property Value Increases – The affiliated companies in the real estate sector report according to international accounting standards, including Standard 40 which recorded rental properties in accordance with their fair value. The affiliated companies recorded a profit on their P&L for the year ended December 31, 2004. The net gains of the Group from these companies for the fourth quarter of the year were NIS 50 million.

Early Implementation of Accounting Standard Number 19 – The financial statements of the Company as of December 31, 2004 include the early implementation of Accounting Standard Number 19 – Taxes on Revenues, which was approved in July, 2004 by the Israel Accounting Standards Board.

As a result of the early implementation as of January 1, 2004, the Group realized a loss of NIS 20 million from an increased tax liability for land and companies held. The loss was presented in the P&L as a separate item in "cumulative effect as of the beginning of the year of change in accounting principles".

Financial Expenses

The financial expenses for the Group were NIS 342 million in 2004 vs. NIS 216 million for the previous year.

The increase in financial expenses is due mainly to the influence of new accounting rules that were implemented at the start of 2004. As a result, the companies started to report on nominal financial expenses. In the previous year, the financials were linked to the CPI in Israel and abroad which caused a listing of real, after inflation, financial expenses. This linkage reduced the reported expenses by NIS 87 million.

An additional influence on the increased financial expenses was the start of natural gas production that occurred during the first quarter of the year. The Company was then able to credited the financial expenses for loans used to fund the Yam Tethys Project, to financial expenses. In previous years, these expenses were capitalized to the cost of oil and gas exploration.
Financial expenses in general also rose due to the increasing financial obligations of the Company.

On the other hand, the NIS 31 million profit (NIS 19 million after taxes) from the increase in the value of the stock portfolio of Delek Investments and the Delek Group, balanced the increase in financial expenses.

3. Finance, Liquidity and Financing Sources

Changes in Assets and Liabilities

Total assets in the consolidated balance sheet for December 31, 2004 were NIS 12,888 million vs. NIS 10,734 million in 2003, an increase of NIS 2,154 million.

Total liabilities of the Group's companies for December 31, 2004 were NIS 10,981 million vs. NIS 9,180 million in 2003 - an increase of NIS 1,801 million.

The main changes in the balance sheet are as follows:

Trade Receivables

There was an increase of trade receivables of NIS 237 million. Of this, NIS 142 million was as a result of a rise in customer receivables in the Israeli fuel market resulting from the increase in the price of oil, as well as a rise in sales to the US fuel market. There was also an increase of NIS 48 million from IDE Technologies for the building of the desalination plant in Ashkelon. The rest of the increase is from customers of Dankner Investments (Dankner's financials were consolidated in 2004 for the first time), and from an increase in Gadot's receivables. There was also an increase in receivables from Delek Automotive, due to increased car sales.

Inventory

There was an increase of NIS 121 million in inventory due mainly to an increase of NIS 58 million in automotive sector inventories. There was also an increase of NIS 52 million in the fuels sector due to the increase in the number of service stations in the US and to the increase of oil inventories in Israel.

Investments

Total net investments in subsidiary companies and others was NIS 728 million. The main increase was the investment in Matav-Cable Systems Media, Ltd. The Company bought a 40% stake for NIS 406 million. There was also a NIS 215 million increase in the foreign real estate sector due to the profits of affiliated companies and purchase of new affiliated companies. The Group also added the NIS 64 million stock portfolio to long-term investments and exercised options and registered profits in the Avner partnership for a total of NIS 31 million.

Total investment in the construction of new rental properties increased by NIS 208 million due mainly to the addition of Dankner Investments as well as accounting for the exchange rate differences of foreign real estate.

Total investment in land for construction increased by approximately NIS 232 million as a result of the initial consolidation of Dankner Investments.

Fixed Assets

Fixed assets increased by a net of NIS 406 million. Most of the increase was due to the purchase of 100 service stations in the US for NIS 186 million, the construction of the electric power station in Ashkelon for NIS 175 million, the construction of the Gadot facility for NIS 28 million and the investment in the new Mazda and Ford logistics center in Nir Tzvi. NIS 59 million was reduced due to the sale price of the corporate jet in early 2004.

Short-Term Credit from Banks and Others

There was a net increase of NIS 696 million in short-term credit. Of that, NIS 289 million debt that is Delek Drilling is due in March, 2005. The bank credit to Delek Drilling was paid down after the date of the balance sheet date in March, 2005, by using proceeds from the issuance of long-term bonds to American institutional investors.

NIS 277 million of the increase was due to the inclusion, for the first time, of Dankner Investments. NIS 276 million was due to the purchase of 100 service stations by Delek US and NIS 143 million was from Delek Automotive.

In addition, there was an increase in short-term credit of NIS 147 million from reclassification of certain bonds from long-term to short-term credit.

There was a decline in short-term credit in Delek Israel of NIS 326 million as a result of the conversion to long-term credit, a decline of NIS 44 million in Delek Real Estate and a NIS 68 million decline from Delek Investments.

Trade Payables

There was an increase of NIS 211 million in trade payables mostly due to NIS 155 million payment to fuel suppliers in Israel as well as the result of the purchase of service stations in the US.

Working Capital

There was negative working capital of NIS 1,079 million on December 31, 2004 vs. a negative NIS 397 million at the end of 2003.

The increased working capital deficiency of nearly NIS 682 million is due mainly to the rise in short-term credit to banks and others used to finance long-term investments, as described above.

The NIS 289 million short-term debt to banks that is on the financials and was used to finance the Yam Tethys Project was paid after the balance sheet date via proceeds from the Issuance of bonds to institutional investors in the US.

Avner Partnership, whose financials are not consolidated in the Company's financials, also refinanced their short-term loans.

Since during 2004 short-term credit costs were lower than long-term credit cost many of the companies financed their operations with short-term monies. To the best estimation of the Group management and its subsidiaries, they will be able to convert the short-term debt to long-term, if necessary.

Long-Term Loans

There was a NIS 327 million net increase in long-term loans. Most of the increase was due to the NIS 295 million in long-term loans of Dankner Investments, an increase by Delek Real Estate of NIS 254 million and the NIS 166 million financing of the power station in Ashkelon. The increase was balanced by the NIS 358 million loan to Delek Drilling, due March, 2005 that was presented as a long-term investment in previous statements and was transferred to short-term loans for 2004.

Other Bonds

There was an increase of NIS 312 million in other bonds, due mainly to the private placement to institutional investors by Delek Petroleum and Delek Real Estate, balanced by the bonds that were reclassified to short-term.

Equity

The equity of the Company on December 31, 2004 stood at NIS 1,545 million vs. NIS 1,258 million at the end of 2003. The increase is due mainly to a profit of NIS 403 million and from fund caused by the exchange rate differences of the foreign currency translation, balanced by the declared and paid dividend of NIS 151 million.

Lawsuits

The Company accountants have drawn their opinion on the lawsuits against the Company and its subsidiaries in Note 23 to the financial statements.

4. Financing Sources

A. In 2004, Delek Petroleum issued NIS 250 million of bonds in a private placement. Most of the bonds are linked to the Israeli CPI and bear an annual interest rate of between 5.1-6.3%. They are due between 2008-2013.

B. Delek Real Estate floated NIS 261 million of bonds in a private placement. A total of NIS 65 million is linked to the Israeli CPI with an interest rate of 5.65%, due between

2004-2014. NIS 196 million is linked to the Israeli CPI and bears a 6.3% interest rate and is due between 2005-2012.

C. After the balance sheet date, the Delek Group raised NIS 500 million by floating bonds to the Israeli institutional market in two AA- rated series, as follows:

   Series "F" totaling for NIS 300 million and is due in five equal annual payments between 2006-2010. This series is linked to the Israeli CPI with an interest rate of 5.25%. From this series, NIS 240 million was issued in January, 2005 at par value and NIS 60 million in February at a premium – giving it an effective rate of 4.85%.

   Series "G" totaling NIS 200 million and was issued in March, 2005 and is due in four equal payments between 2008-2011. They are linked to the CPI with a rate of 3.95%. The Company issued together with these bonds five series of warrants for shares of Delek Group, exercisable between one to five years. Each series included 80,000 warrants with an exercise price of between NIS 440 per share for the one-year warranties up to NIS 590 per share for the five-year warranties.

D. In March, 2005 the Yam Tethys Project completed its financing. The groups in the Project floated bonds to the US institutional market for $275 million. For more details see the chapter dealing with oil and gas exploration.

5. Analysis by Sector

A. Oil and Gas Exploration and Production

The following is certain financial data regarding the Oil and Gas Exploration and Production Sector:

	2004	2003	2002
	NIS in millions	NIS in millions	NIS in millions
Revenues from gas after royalties	141	---	---
Operating profit (Loss)	80	(74)	(14)
EBITDA	117	(20)	(14)
Group's portion in Avner	22	(5)	(2)
Net income (loss)	35	(72)	(25)
Total assets	837	850	

1. Results of Operations

A. The contribution of the oil and gas sector to the net income of the Group was NIS 35 million, of which NIS 19 million was in the fourth quarter. In the previous year, the sector registered losses of NIS 72 million.

B. Most of the oil and gas activities are related to the direct and indirect investments in the Yam Tethys Project. The legal status of the groups that hold the Project effects the way the results of the joint operations are listed on the financial statements:
   - The results of Delek Drilling, which holds 25.5% of the Yam Tethys Project are consolidated in the financial statements of the Company. The minority interest of Delek Drilling is included in P&L as minority interests and limited partnerships.
   - The 4.4% of the Yam Tethys Project that is held directly by Delek Investments are fully consolidated in the Group financial statements.
   - The results of Avner, which holds 23% of the Project, are included in one line - "Equity in earnings of affiliated and partnerships net".

C. In 2004, after completing development of the Mari gas field, as well as the supply connection to the "Eshkol" power station, the Company started (through its holdings in the partnerships and Delek Investments) to sell natural gas to the IEC. As a result, the Group is reporting profits and positive cash flows from the natural gas operations. The main analyses of the results of operation are as follows:

- In 2004, the Company reported revenues (after royalties) of NIS 141 million (revenues first generated in March, 2004). In the fourth quarter, the Group's revenues from the sale of gas (after royalties) totaled NIS 44 million. Average daily production changes due to the varied seasonal natural gas consumption and maintenance plans of the IEC. In light of this, in the first quarter of the year there was a drop in natural gas consumption. In previous years, as was stated, there were no revenues from the sale of natural gas.
- In the previous year, the costs of the Hannah, Nir 1 and Nir 2 wells the sum of NIS 39 million The Swan 1 and Swan 2 wells were amortized by NIS 29 million – all are listed on the P&L.
- In light of the fact that gas was produced during the year, the Company started to depreciate investment costs on the basis of the amount of gas produced in relation to the estimated amount of proven and developed natural gas reserves in the Mari field.
- As a result of the positive cash flow, the Company in its annual consolidated financial statement, reduced the amount of bank loans outstanding.

2. Financing the Yam Tethys Production Facility

In 2003, the loan agreement for the financing of the Israeli partners share are the cost of the underwater delivery and distribution system from the Mari gas field to the Ashdod shore was completed. According to the loan agreement, two Israeli banks financed the Israeli partners a total of $162 million (including bridge financing supplied on the day of the signing). The loan was due March 2005.

In March, 2005 the financing for the project was completed as Delek and Avner Yam Tethys (SPC) issued $275 million of bonds in a 144A placement. Of that, $175 million was at a fixed rate of 5.326% annually and $100 million was at a variable rate of three month Libor plus 1.1%, annually.

The bonds will be redeemed every quarter until August 1, 2013 in accordance with the amortization schedule (which is based on the expected supply of gas to the IEC).

The SPC is a company that was established by Delek Drilling, Delek Investments and Avner for the purpose of attaining the new financing for their part of the Yam Tethys Project.

B. Automotive Sector

The following is certain financial data regarding the Automotive Sector:

	2004	2003	2002
	NIS in millions	NIS in millions	NIS in millions
Revenues	3,924	3,212	2,303
Gross profit	466	445	254
Operating profit	402	370	185
EBITDA	414	388	197
Net income	261	246	130
Total assets	1,335	1,304	

The contribution of the automotive sector to the net income of the Company for 2004 was NIS 163 million, vs. NIS 164 million for the previous year (the decline was due the reduced holding in the company this year).

Delek Automotive is 61.48% held by the Group, as of the report date. It is a publicly traded company with published financials. Following are its key points:

1) The net income of Delek Automotive in 2004 totaled NIS 261 million vs. NIS 246 million for the previous year. The net income in the fourth quarter of the year was NIS 56 million vs. NIS 80 million for the same period in the previous year.

2) Revenues for 2004 were NIS 3,924 million vs. NIS 3,212 million for the previous year. The 22% rise in revenues was mainly due to the change in the mix of cars sold this year compared to previous year and from an increase in the number of cars sold. The revenues for the fourth quarter declined to NIS 943 million from NIS 1,022 million for the same period in the previous year due to a drop in the number of automobiles sold in the quarter (8,326 vs. 9,701 for the same period in the previous year).

3) There was a decline in the gross profit in 2004 due to the strengthening of the Yen and Euro (the exchange rate in which the Company import its cars) against the NIS.

4) The results of operations were influenced by a deduction of NIS 4.9 million (NIS 6.5 million, the previous year) for payments that a subsidiary of Delek Automotive paid to the Israeli Automobile Company as compensation for transferring the exclusive import rights of Ford vehicles to the subsidiary. This deduction was listed under G&A on the P&L and ended in the third quarter.

5) For 2004, Delek Automotive had financial expenses of NIS 22 million vs. financing income of NIS 8 million the previous year. In the fourth quarter of 2004, Delek Automotive had financial

expenses of NIS 27 million vs. NIS 11 million for the same period in the previous year. The fourth quarter financial expenses rose mainly due to the rise in the fair market value of open FX futures (as of financial statements date and due to the depreciation of the NIS vs. Yen and its effects on credit to suppliers.

C. Real Estate Sector

The following is certain financial data regarding the real estate sector:

	2004	2003	2002
	NIS in millions	NIS in millions	NIS in millions
Revenues	503	371	284
Gross profit	268	221	190
Operating profit	242	208	168
EBITDA	290	260	202
Equity in earnings of affiliated, net	109	11	(11)
Net income	124	108	82
Total assets	4,738	3,668	

1) Results of Operations

The real estate sector contributed NIS 119 million to the Company's net income in 2004 vs. NIS 95 million in the previous year, as follows:

A. Revenues

1) Rent tenants - revenues for 2004 totaled NIS 359 million vs. NIS 337 million for the previous year, an increase of NIS 22 million (6.4%). The increase in revenues from England was due to the fact that the Sterling rate was higher than the CPI and rental fees.
The decline in Canada was due to four floors that were vacated by a key renter, balanced by the strength of the Canadian dollar vs. the CPI in Israel (until December, 2003) and from straight line increases in rental income.
The growth from other income from tenants is due to an early vacancy payment, spread out over time, from a tenant in Canada for NIS 8 million and by compensation from a tenant for NIS 8 million in 2004 vs. NIS 11 million in 2003. Also, from a NIS 15 million payment received from a tenant in England in order to be released from his lease, balanced by four empty floors in Canada. The following are the details of the rents (in NIS in millions):

	2004	%	2003	%	2002	%
England	137	38.2%	131	38.9%	125	44.2%
Canada	180	50.1%	186	55.1%	148	52.5%
Canada & England						
Other revenues						
From tenants	31	8.6%	12	3.6%	---	0.0%
Israel	8	2.3%	8	2.4%	9	3.2%
Dankner	3	0.8%		0.0%	---	0.0%
Total	**359**	**100%**	**337**	**100%**	**282**	**100%**

2) Revenues from the sale of apartments in 2004 totaled NIS 110 million vs. NIS 34 million in the previous year. This was a NIS 76 million increase, of which NIS 53 million came from the consolidation of Dankner Investments' results.

   Revenues from the sale of office space and land were due to a NIS 29 million sale of land in Hod Hasharon (northeast of Tel-Aviv) and NIS 6 million for an office project in Kfar Neter (also northeast of Tel-Aviv).

3) The revenues include the Company's relative stake in the affiliated companies in England and Sweden and the sale of land, apartments and properties in Israel, during 2004 as follows:

	NIS in millions	% of Revenues
England	431	54.7%
Canada	195	24.7%
Sweden	6	0.9%
Israel	156	19.7%
Total	**788**	**100%**

B. Gross Profit

The gross profit from rentals in 2004 totaled NIS 233 million vs. NIS 214 million in 2003, an increase of NIS 19 million.

The increase is mainly due to a rise in other revenues from tenants as stated above in paragraph 1.A.

The increase in England is due to the rise in the value of the Sterling above the CPI (for 2003).

The decline in gross profit in the Canadian operations resulted from lower occupancy rate mentioned above which was mediated by the rise in the Canadian dollar above the CPI (for 2003).

The decline in the gross profit in the Israeli rental sector was due to high maintenance expenses in new projects that have yet to be fully occupied as well as from the costs of investigating potential investments.

C. Financial Expenses

Financial expenses for 2004 totaled NIS 199 million vs. NIS 83 million for the previous year.
The increase is mainly due to first time implementation of Accounting Standards 12 and 13 resulting in a NIS 118 million increase. These standards stopped the linkage of the financial statements of companies held in England and Canada to the local CPI before being converted into NIS, causing a sharp drop in financial expenses on loans in previous period, due to the rise in the British and Canadian CPI's (2.8% and 2.9%, respectively) the adjustment of the financial statements to the Israeli CPI as stated above, caused a decline in the real (after inflation) financial costs.

2) Investments in affiliated companies

Delek Real Estate's portion in the profits of affiliated companies in 2004 totaled NIS 109 million, vs. NIS 11 million in the previous year. The increase of NIS 98 million is mainly due to the increase in the value of properties of the affiliated companies in England totaling NIS 55 million and from Delek's portion in the profits of Linchfield Ltd, purchased at the end of 2003, that contribute an increase of NIS 41 million. Following are the details:

A. Increase in Asset Value in British Affiliates -

In certain foreign affiliates, the share of a subsidiary of Delek Real Estate in the book value of these companies is determined on the basis of financial statements prepared in accordance with international accounting principles.

According to IAS 40, investment property is presented at its fair value and the affiliates included in their statements of income for the year ended December 31, 2004 gain of approximately £ 26.5 million (approximately NIS 220 million) from increase in value of investment property. The fair value of the invetsment property is determined based on a valuation of an indepnedent assessor.

The share of Delek Real Estate in the increase in the value of the properties is approximately £ 9.8 million (approximately NIS 81 million). This amount (net of the tax effect of approximately NIS 20 million applicable to Delek Real Estate) was included in the statement of income for the year ended December 31, 2004 as "Equity in earnings of affiliates".

Subsequent to the balance sheet date, three affiliates are effecting a refinancing procedure for loans from banks based on the fair value of the properties, as above. The refinancing is expected to be completed by the end of April 2005.

B. <u>Accounting Changes for Linchfield Ltd.</u> –

Delek Real Estate's figures have been restated in order to reflect the following changes to the Linchfield financial statements regarding:

- The revised accounting treatment for scheduled fixed rent increases in operating leases in which the affiliated company is a lessor. The affiliated company had previously recognized the effects of such increases as received over the lease term. In these financial statements, the affiliated company has revised the accounting treatment and is recognizing the effects of the scheduled fixed rent increases, under the lease contract, on a straight-line basis over the lease term.

- The revised allocation of the purchase price in a business combination at the date of acquisition to the assets and liabilities of the acquiree. In these financial statements, the Company has revised the amount allocated to deferred taxes in respect of temporary differences relating to rental properties with a corresponding increase in goodwill. Accordingly, the Company also revised its amortization of goodwill and its tax expenses in 2004 and 2003.

3) **Implementation of Accounting Standard Number 19** -
The financial statements of the Company for December 31, 2004 include the early implementation of Accounting Standard 19 – Taxes on Income, which was approved in July, 2004 by the Israel Accounting Standards Board. As a result of the first time implementation of the new Standard, Delek Real Estate recognized a loss from increased tax obligations from subsidiary companies and from land in a total of NIS 21 million.

D. Israeli Fuel Sector

The Company's operations of the Israeli fuel sector are executed through Delek Israel, which is a private company.
Delek Israel is active in the Israeli fuel market including the marketing and distribution of fuel, gasoline and oils as well as in the development, construction and operation of service stations and convenience stores. Delek Israel markets its products to 232 service stations in Israel.

The following is certain financial data regarding the Israeli Fuel Sector:

	2004	2003	2002
	NIS in millions	NIS in millions	NIS in millions
Revenues	5,719	5,462	4,737
Gross profit	496	466	539
Operating profit	53	60	101
EBITDA	124	131	182
Net income (loss)	(11)	(45)	7
Total assets	2,212	2,268	

Sales

Sales of fuels in Israel (including excise taxes) totaled NIS 5,719 million vs. NIS 5,462 million, in the previous year (excluding excise taxes it was NIS 3,711 million vs. NIS 3,551 million).
Excluding sales for one large institutional customer's, sales were NIS 5,279 vs. NIS 4,682. The year's sales showed reduced sales volume of 7.3% and an increase in the sales price by 13.1%.
The decline in volume was mainly due to a selective reduction of "out of station" activities resulting from credit limits of customers and limitation of credit risks to customers.

Gross Profit

The gross profit for 2004 was NIS 496 million, vs. NIS 466 million in the previous year. The increase was mainly due to the additional service stations and a slight improvement of sales margins.

Sales Costs, Service Station Operations Cost and G&A

These costs totaled NIS 443 million in 2004 vs. NIS 407 million in 2003. The increase was due to a rise in rental and operational costs of the service stations and to a sharp increase in allowance for doubtful debts reserve in the amount of NIS 24 million over the previous year (NIS 45 million - 2004 vs. NIS 21 million - 2003).

Operating Profit

The operating profit was NIS 53 million vs. NIS 60 million in the previous year. The decline in operating profit was mainly due to an increase in the cost of sales and G&A expenses which was partially offset by an improved gross profit.

Net Income/Loss

The net loss for 2003 was influenced by cumulative effect of implementation of new Accounting Standard Number 15, totaling NIS 30 million and in 2004 due to the amortization of properties by NIS 1 million.

E. USA Fuel Sector

Delek US operates service stations and convenience stores in eight states in the southeast of the United States. Delek US markets its products in 329 stations and its operations are concentrated mainly in Tennessee (178 service stations), Alabama (93) and Virginia (36) under the MAPCO Express name. Similarly, Delek US markets fuel products in Alabama as the exclusive supplier to 83 service stations operated by third parties.
Delek US operates in markets where the large oil companies and the large department store chains, which also compete by selling oil and other products, are active and therefore, Delek's share in the total American market is inconsequential. However in Nashville and Memphis (in the State of Tennessee), Delek US owns one of the largest market shares in its area of activity.

About two-thirds of the stations to which Delek US markets its products are owned by it. The rest are leased or rented by the Company. All of the service stations and convenience stores are operated by Delek US.

In April, 2004, Delek US acquired 100 convenience stores and service stations. The increase in sales, gross profit and expenses for 2004 is mostly due to this purchase. The January-April, 2004 expenses of these 100 stations are not included in the following data:

	2004	**2003**	**2002**
	NIS in millions	NIS in millions	NIS in millions
Revenues	4,025	2,647	2,773
Gross profit	582	446	452
Operating profit	70	55	21
EBITDA	150	107	74
Net income	20	21	2
Total assets	1,371	861	

Sales
Sales of Delek US totaled NIS 4,025 million($898million) in 2004 vs. NIS 2,647 million ($603 million) in 2003.
The reason for the increase, aside from the purchase of 100 new stations as mentioned above, was the rise in gas prices over the course of the year.

Gross Profit
Gross profit for 2004 was NIS 582 million ($130 million) vs. NIS 446 million ($102 million) in the previous year.
There was a deterioration in the profitability of fuels during the year compared to the same period last year which was balanced by a rise in the gross profit of the convenience stores.

Cost of Sales and G&A

Cost of sales, as well as G&A for 2004 was NIS 512 million vs. NIS 393 million for the previous year.

Net Income

The net income was NIS 20 million vs. NIS 21 million in the previous year. The reasons that the net income did not increase in spite of the rise in gross profit and EBITDA is the termination of the linkage of the financial statements to the CPI in the US, in line with Accounting Standards 12 and 13, introduced in 2004 (in 2003, this linkage contributed NIS 10 million to the net income).

Additional reasons are the early implementation of Accounting Standard Number 19, according to which NIS 2 million was listed under the cumulative influence of previous years and due derivative transactions that are not recognized as accounting hedges that caused a loss of NIS 4 million in 2004 compared to loss of NIS 1 million in 2003.

In March 2004, Delek US announced the acquisition of an oil refinery in Texas. For additional details see the corporate description in Section 11.15.

F. Gadot Biochemical Industries

Gadot Biochemical Industries, Ltd is a manufacturer of additives and chemicals for the food industry, health supplements and detergents.
The company produces granulated fructose, citric acid, citric acid salts and additional minerals and salts. Most of the sales are to the leading food industry and detergent company producers in the US and European markets.

The following is certain financial data regarding the Gadot Biochemical industries:

	2004	2003	2002
	NIS in millions	NIS in millions	NIS in millions
Revenues	343	273	237
Gross profit	111	67	42
Operating profit	66	31	8
EBITDA	80	45	23
Net income	86	36	1
Total assets	393	362	

Gadot's contribution to the Company's net income in 2004 was NIS 60 million, vs. NIS 20 million for the previous year.

Results of Operations

1) **Revenues**

Gadot's revenues for 2004 totaled NIS 343 million, vs. NIS 273 million for the previous year. The increase was mainly due to increased production and sales of fructose resulting from the expansion of a production facility at the end of January, 2004 as well as a 7% increase in citric acid sales. The expansion of the fructose facility increased the output and sales by 60%-70% compared to the same period the previous year. The strengthening of the Euro vs. the NIS by 10% also contributed to increased revenues over the previous year.

2) **Gross Profit**

The gross profit for the year was NIS 111 million (32% of sales) compared to NIS 67 million in 2003 (24% of sales), a 66% increase. The main reasons for the increase in gross profit were the 49% increase in fructose sales as well as the rising prices of most of the company's products due to existing contracts, as well as the strong Euro.

3) Sales and Marketing Expenses

Sales and marketing expenses for 2004 were NIS 34 million vs. NIS 27 million for the previous year, an increase of 22%. The increase in expenses was slightly less than the increased sales rate, due to higher sales in Europe than in the US. On the other hand, in the fourth quarter in logistics costs the increase due to a rise in sea shipping fees as well as due to the port strike in Israel (which required transport by land to Ashdod instead of to Haifa).

4) Operating Profit

Operating profit for 2004 totaled NIS 66 million (19.5% of sales), more than double the NIS 31 million (11.1% of sales) in 2003. The rise is due mainly to the improved gross profitability.

5) Net Income

Net Income for 2004 totaled NIS 86 million (25% of revenues) compared to a net income of NIS 36 million (13%) in the previous year.

One of the reasons for the increased net income was due to recording of a tax asset of NIS 20 million (in the fourth quarter) vs. only NIS 2 million the previous year. The reason for the creation of the asset is due to the high possibility that the company will utilize the tax credit created from losses carried forward from the previous years.

G. Matav

Matav is one of the three cable television companies in Israel who together operate under the "Hot" brand. They supply cable TV to 950,000 households in Israel. The three companies also provide broadband internet services to 350,000 households. The three cable companies hold, as partners, Hot Telecom, which started to provide telephony service to the general public in 2005. Matav's portion of the multi-channel cable TV business is 26%.

During the year, the Group purchased a 40% stake in Matav. It purchased 20% of the shares from Dankner Investments and received another 20% when it purchased Dankner Investments itself.

The following is certain financial data regarding Matav:

	2004[1]	**2003**	**2002**
	NIS in millions	NIS in millions	NIS in millions
Revenues	579	545	496
Gross profit (loss)	104	79	(12)
Operating profit (loss)	1	(8)	(99)
Net income (loss)	(83)	(5)	34
Total assets	1,079	1,143	

The investment in Matav is reported in the Group's financial statements as an affiliate company on one line, based on the equity method. The loss recorded by the Group in respect of its investment in Matav in 2004 amounted to NIS 26 million. As of December 31, 2004, the total investment in Matav is NIS 406 million.

Below, is the analysis of the Matav results of operations:

Revenues: In 2004, revenues totaled NIS 579 million, an increase of 6%, relative to the 2003 revenues of NIS 545 million.
In the fourth quarter of 2004, revenues were NIS 138 million, compared to NIS 143 million for the same period the previous year, a 3% decline. The decline was due mainly to a drop in the number of cable TV subscribers resulting from the competition with Yes satellite TV, controlled by Bezeq, the main Israeli telephone company. The decline occurred in spite of the increase in the number of broadband internet subscribers.

Subscribers: At the end of 2004, Matav had 257.3 thousand subscribers, vs. 259.3 thousand at the end of the third quarter of 2004 and 266.7 thousand at the end of 2003.

[1] Matav's results were consolidated relative to Hot's reports as of December 31, 2003. This has no substantial influence on Matav's positions. In 2003 (and before) Matav did not report relative to Hot Vision, so the 2004 results are also not brought relative to Hot Vision.

The ARPU (average monthly revenue per unit) for the last quarter of 2004 was NIS 202.70 vs. NIS 204.10 in the same quarter the previous year.
Matav's broadband internet service gained more than 92,000 subscribers.

Operating Expenses: Operating expenses for 2004 totaled NIS 474 million vs. NIS 467 million for 2003. The increase was mainly due to a rise in the cost of content resulting from the need to provide more content for the new tiered service offering. The increase was also a result of the costs of servicing new broadband internet subscribers, even though depreciation costs dropped.

Gross Profit: In 2004, the gross profit totaled NIS 104 million vs. NIS 79 million in 2003.

Marketing, Sales and G&A Expenses: These costs totaled NIS 104 million in 2004, vs. NIS 87 million in 2003. Marketing and sales expenses rose from NIS 44 million in 2003 to NIS 60 million in 2004. The increase is due mainly to the marketing of the Hot brand that was launched in 2003, and to the costs of marketing broadband internet services.

H. Additional Activities of Delek Investments

1) During 2004, Delek Investments exercised its right to repurchase certain securities that it had sold in 2003. In the first quarter of 2004, Delek Investments earned NIS 29 million (before taxes) from its investments in marketable securities. In the second quarter, Delek Investments exercised options (including of the above securities) and purchased additional shares. From the second quarter Delek Investments registered a NIS 64 million long-term investment resulting from the above purchases.

2) Profits from the Sale of Shares in Subsidiaries

In 2004, Delek Investments sold 4% from its stake in Delek Automotive for NIS 115 million. As a result of the sale, the Company registered a NIS 100 million profit (NIS 68 million, after taxes).

3) Infrastructure

Delek Investment's desalination of seawater operations are executed through IDE Technologies which is 50% held by Delek Infrastructure (Delek Infrastructure is a wholly owned subsidiary of Delek Investments).

a. Desalination Plant

IDE Technologies, together with other groups prevailed in the Government of Israel's tender to build and operate a desalination plant by the BOT (build, operate and transfer) method in Ashkelon.
VID Desalination Company, Ltd. was established in order to build and operate the plant as a BOT project. IDE holds 50% of VID.
In November, 2001, VID signed a BOT agreement with the Ministry of Finance to finance, plan, build and transfer to the Government of Israel a desalination plant with the capacity to desalinate 50 million cbm (cubic meters) of seawater a year. In April 2002, an additional agreement was signed for the supply of 50 MBC desalinated seawater per annum. The agreement is for 24 years and 11 months starting August 22, 2002.

On January, 22, 2003, a financing agreement was signed between VID and its shareholders and lenders who include numerous institutions. Bank Leumi acts as main agent and trustee. The cost of the project is estimated to run to NIS 1,095 million and will be financed through equity, loans by the owners (23.5%) and foreign capital.

IDE restated its earnings for the past few years in order to show, retroactively, the changes in accounting policy when dealing with

BOT-PFI (private finance initiative) projects for desalination plants.

The influence of the restatement on the equity and net income of the Company was not substantial. Specific balance sheet items were reclassified in order to reflect the above mentioned accounting changes.

b. Electric Generating Plant

IPP Delek Ashkelon is held by Delek Investments. It is responsible for building an electric generating station that will supply the energy for the desalination plant in Ashkelon (as part of the BOT agreement between VID and the government) and to other consumers. At the end of the contract period, the facility will pass to the ownership to the government.

The operation of the plant in the time period planned is dependent upon the ability to deliver natural gas to it by May, 2005. Since the construction of the national natural gas delivery system has been delayed, the plant will not open on time.

As of the date of these reports, Delek Ashkelon is in talks with the government and with the IEC so that the government and the IEC can fulfill their commitments as stated in letters that are explained in Note 9(11) to the financial statements. However, since the parties have yet to reach an agreement and since the government and the IEC object to some of their obligations, it is uncertain when the power plant will begin operations. At this stage, it is not possible to estimate the additional costs, if any, that Delek Ashkelon will have to bear due to the delay in the delivery of natural gas.

c. Delek Infrastructure, including Delek Ecology, produced a NIS 31 million loss for the Company in 2004. The loss was due to reduction in the value of certain assets as well as a one time allowance of NIS 28 million by Delek Ecology and Delek Infrastructure.

Infrastructure operations are typified by large, long-term investments in projects that usually take 2-3 years to complete. Revenues are usually only realized after that time.

4) Comutech Holdings and Investments

A. On December 30, 2003, Delek Investments completed its tender offer for all the shares of Comutech, except for shares other parties that relates to the shareholder of the Company, for NIS 6

million. In light of the tender offer, the shares were removed from the TASE trading list on January 5, 2004.

In May, 2004, Delek Investments completed the purchase of the rest of the Comutech shares that were held by the above mentioned shareholders at an identical price to that which was paid to the other shareholders in the tender offer, for a total of NIS 9 million. In conjunction with the Securities regulation of 1966, the difference between the purchase price and the value of the shares in the books of the controlling shareholders, a sum of NIS 6 million, is credited to equity. Delek Investments now holds 100% of Comutech.

B. In 2004, Comutech registered a loss of NIS 4 million due to the reduced value of some of its venture capital fund holdings.

C. Comutech contributed a NIS 6 million loss to the financial reports of the Company.

5) <u>Menora Holdings, Ltd.</u>

On December 14, 2004, Delek Investments purchased 9.99% of Menora Holdings via a private placement. Delek Investments paid NIS 190 million for the stake. In addition, Delek Investments received an option (for 18 months) to purchase an additional 5% of Menora for $22 million.

On March 13, 2005, the deal closed.

6. Managing Exposure to Market Risk

A. Responsibility for Managing the Corporation's Currency Risk

1) The Company's main focus is as a shareholder of its subsidiaries. These are long-term investments such that no hedging transactions are required.

   Risk management of the subsidiaries and other companies that are held by the Group is executed by the companies themselves. Some are public and traded on stock exchanges such that all activities are disclosed in their financial reports.

2) Mr. Ido Adar, who holds a degree in business administration, is responsible for managing currency risk for the Company. Over the last five years, Mr. Adar has managed the Office of the treasurer and Insurance of Delek Israel and in the Company.

B. Description of Market Risk

1) As stated, the Company is a holding company and its main exposure is to the shares of the companies it holds.

   The main risks for these companies are as follows:

   - Changes in the currency rates in the countries from which these companies import products. An example of this is the exposure to the Yen or USD for the import of Mazda and Ford automobiles. Additional examples are the exposure to the Sterling and Canadian dollar from the rental properties held in England and Canada and the exposure to the USD and Euro from the import of fuel products.

   - The Company and its subsidiaries have received loans from Israeli and foreign banks, some of which are denominated in NIS, some are USD linked and some are denominated in various foreign currencies. Loans are taken in fixed and adjustable rates. The Company has exposure to interest rates in Israel and abroad and to the Israeli CPI.
     The CPI exposure is limited, according to the Group's management, due to the fact that the value of the Company's assets often rises with the CPI.

2) In the first quarter of the year, the preparations for the Yam Tethys Project natural gas production and delivery system were completed and from that date the finance expenses for the USD loans used to finance the Project were reported on the P&L (until that time the expenses were applied to the asset). Since the financial statements of the corporations that hold the Yam Tethys Project are denominated in NIS, financial expenses that include allowances for changes to the NIS-USD exchange rate were applied, in the first quarter to the P&L.

   As a result of this, as well as the large amount of USD loans, the Company is exposed to changes in the exchange rate.

   Since most of the activities of the relevant corporations are denominated in USD – the revenues from natural gas sales, most of the fixed asset and equipment purchases and the financing – they have limited currency risk. In addition, most of the risk is accounting and not economic risk so the corporations do not need to hedge it.

C. Market Risk Management Policy

- As stated, risk management policy is conducted by each company on its own, according to its business and financial needs.
- The Group's holdings mainly focus their risk management operations on economic exposure.
- There were no changes to risk management policy in the year of the report.

D. Supervision and Implementation of Market Risk Management

- The subsidiaries manage their risks under the supervision of their respective Boards of Directors or through a special committee of the Board. They also use the advice of outside experts in the various markets.
- The internal audit system of the Company and its subsidiaries also monitor risk management policy and implementation.
- The subsidiaries report regularly on the type and level of the risks and on hedging, or lack thereof.

E. Linkage Report

December 31, 2004 (NIS in millions) Reported Amount												
	NIS		FX								Non-Monetary	
	Non-linked	Linked	US	Can$	Sterling	Yen	Euro	Swiss Franc	Cyp. Pnd	Swed, Crown		
Assets												
Cash & cash equivalents	187		182	44	122		18		1			554
Short-term Investments	116	37	30	21								204
Accounts receivable	1,644	11	154	11	3		29		4			1,856
Other receivables	58	42	19	30	43				12		76	280
Inventory						132	8				906	1,046
Building & land for sale											62	62
Investments in other holdings	21	26	9		189					43	1,244	1,532
Land											3,066	3,066
Land for construction											403	403
Long-term investments & deposits	57	123	14	9	2		2		84		3	294
Investment in oil & gas exploration											837	837
Fixed assets, net											2,013	2,013
Other property & prepaid Expenses											741	741
Total assets	**2,083**	**239**	**408**	**115**	**359**	**132**	**57**		**101**	**43**	**9,351**	**12,888**
Short-term loans	969	885	1,205	140	49	14	111	26				3,399
Accounts payable	389		286			391	18	1	3			1,088
Rights	352	38	66	37	89			1			11	594
Convertible bonds	1	602										603
Other bonds		615	22									637
Long-term debt/notes	9	770	1,226	912	1,304		119	69				4,409
Severance pay	3		3								8	14
Deferred taxes											170	170
Other liabilities	1		34								32	67
Minority Interests											362	362
Total Liabilities	**1,724**	**2,910**	**2,842**	**1,089**	**1,442**	**405**	**248**	**97**	**3**		**583**	**11,343**
Assets over liabilities	**359**	**(2,671)**	**(2,434)**	**(974)**	**(1,083)**	**(273)**	**(191)**	**(97)**	**98**	**43**	**8,768**	**1,545**
After net assets affil. co.			**1,159**								**(1,159)**	
Balance sheet, net	**359**	**(2,671)**	**(1,275)**	**(974)**	**(1,083)**	**(273)**	**(191)**	**(97)**	**98**	**43**	**7,609**	**1,545**

December 31, 2003 (NIS in millions) Reported Amount											
	NIS		FX							Non-Monetary	Total
	Non-linked	Linked	US	Can$	Sterling	Yen	Euro	Swiss Franc	Cyp. Pnd		
Assets											
Cash & cash equivalents	476	38	150	83	77		34		2		860
Accounts receivables	1,499		93		1		29	3			1,625
Other receivables	62	13	19	32	7			1	2	86	222
Inventory						71	16			838	925
Building & land for sale										20	20
Investments in other holdings	6		9		219					567	801
Land										2,856	2,856
Land for construction										171	171
Long-term investment & deposits	49	156	36							3	244
Investment in oil & gas exploration										850	850
Fixed assets, net										1,698	1,698
Other property & prepaid Expenses										479	479
Total assets	**2,092**	**207**	**307**	**115**	**304**	**71**	**79**	**4**	**4**	**7,568**	**10,751**
Short-term loans	400	181	882	82	11	75	78	83			1,792
Accounts payable	261		190			387	39	1	3		881
Rights	270	33	57	39	56		2	1		18	476
Convertible bonds	1	642									643
Other bonds		343									343
Long Term debt/notes	245	851	1,475	920	1,341		39	81			4,952
Severance pay	12		2							3	17
Other liabilities	1		11							81	93
Minority interests										296	296
Total liabilities	**1,190**	**2,050**	**2,617**	**1,041**	**1,408**	**462**	**158**	**166**	**3**	**398**	**9,493**
Assets over liabilities	**902**	**(1,843)**	**(2,310)**	**(926)**	**(1,104)**	**(391)**	**(79)**	**(162)**	**1**	**7,170**	**1,258**
After net assets affil. co.			**980**							**(980)**	
Balance sheet, net	**902**	**(1,843)**	**(1,330)**	**(926)**	**(1,104)**	**(391)**	**(79)**	**(162)**	**1**	**6,190**	**1,258**

F. Derivatives Positions: December 31, 2004

Reported Amounts: December 31, 2004 (NIS in millions)																
	NIS/USD				Sterling/Swiss Fr				Euro/Yen				NIS/Euro			
	Units		Fair Value		Units		Fair Value		Units		Fair Value		Units		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
Calls																
Hedge-Recognized													59		*	
Hedge-Unrecognized	368	86	2	*						59		(1)		29		*
Non-Hedge										29		(1)				
Puts																
Hedge-Recognized																
Hedge-Unrecognized	806	174	(6)	5					29		*		59		*	
Non-Hedge					50		(1)		29		*					
Futures																
Hedge-Recognized	146		(1)													
Hedge-Unrecognized	323		(8)										3		*	
Non-Hedge																

* Amount less than NIS 1 million

Reported Amounts: December 31, 2004 (NIS in millions)																
	NIS/Yen				USD/Yen				Euro/Can$				Euro/USD			
	Units		Fair Value		Units		Fair Value		Units		Fair Value		Units		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
Calls																
Hedge-Recognized																
Hedge-Unrecognized	55	21	1	*	130		4							50		(1)
Non-Hedge									27		*			88		(6)
Puts																
Hedge-Recognized																
Hedge-Unrecognized	130		*		48		*									
Non-Hedge																
Futures																
Hedge-Recognized																
Hedge-Unrecognized					17		*							29		*
Non-Hedge						45		(2)						29		(2)

* Amount less than NIS 1 million

Reported Amounts: December 31, 2004 (NIS in millions)																
	USD/Swiss Fr				Aust $/Yen				Aust$/Swiss Fr				Basket/NIS			
	Units		Fair Value		Units		Fair Value		Units		Fair Value		Units		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
Calls																
Hedge-Recognized																
Hedge-Unrecognized																
Non-Hedge																
Puts																
Hedge-Recognized																
Hedge-Unrecognized																
Non-Hedge	56	36	(1)	(1)	17		*									
Futures																
Hedge-Recognized																
Hedge-Unrecognized													20		*	
Non-Hedge	22		(1)						10		*					

* Amount less than NIS 1 million

Reported Amounts: December 31, 2004 (NIS in millions)																
	Euro/Sterling				USD/Can$				CPI/USD				Sterling/USD			
	Units		Fair Value		Units		Fair Value		Units		Fair Value		Units		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
Calls																
Hedge-Recognized																
Hedge-Unrecognized																
Non-Hedge		42		(1)		19		*								
Puts																
Hedge-Recognized																
Hedge-Unrecognized																
Non-Hedge		42		(1)	21	19	*	(1)								
Futures																
Hedge-Recognized																
Hedge-Unrecognized																
Non-Hedge									19		*		21		*	

* Amount less than NIS 1 million

Reported Amounts: December 31, 2004 (NIS in millions)												
	Sterling/Can$				Can$/SwissFr				Sterling/NIS			
	Units		Fair Value		Units		Fair Value		Units		Fair Value	
	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
Calls												
Hedge-Recognized												
Hedge-Unrecognized												
Non-Hedge	20	40	*	(1)		36		(2)				
Puts												
Hedge-Recognized												
Hedge-Unrecognized												
Non-Hedge		22		(1)	18	54	*	(1)				
Futures												
Hedge-Recognized												
Hedge-Unrecognized												
Non-Hedge	16		(1)						165		1	

Reported Amounts: December 31, 2004 (NIS in millions)				
Interest rate swaps: variable for fixed				
	Units		Fair Value	
	> One Year		> One Year	
	Long	Short	Long	Short
Receiver swaption				
Hedge- Recognized				
Hedge not-Recognized**	-	172	-	2
Non-Hedge				

* Amount less than NIS 1 million
**Buyer has option to pay variable rate and to receive fixed rate according to Libor at the time.

G. Maximum Derivative Holdings: December 31, 2004 (NIS in millions)

	Euro/Can$		Euro/Yen		Sterling/USD		Euro/NIS		Sterling/Yen		NIS/USD		Yen/NIS		Euro/USD		Yen/Can$	
	Units		Units		Units		Units		Units		Units		Units		Units		Units	
	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
Puts	59	59				24	59	59			974	258	55		185	235	13	14
Calls		59	29	88		22	59	70			659	215	118		59	118	29	
Futures						43			15		224				39	60		

	Sterl/SwFr		Yen/USD		Sterling/Yen		Euro/Sterling		Can$/SwFr		Sterling/Can$		USD/Can$		Sterling/USD		Sterling/NIS	
	Units		Units		Units		Units		Units		Units		Units		Units		Units	
	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
Puts			138	65	42		17	44		54	20	40	17	28				
Calls	75	35	57	22				59	18	36	21	22	60	70				
Futures			67								16		29		40		165	

	CPI/USD	
	Units	
	Long	Short
Puts		
Calls		
Futures	19	

	Interest rate swaps: variable for fixed		Affix gas price	
	Units		Units	
	Long	Short	Long	Short
IRS contracts	183			
Receiver swaption		426		
Guaranteed set gas price	1,561			

H. Hedging the Price of Natural Gas

In May, 2004, a hedging agreement was singed between the Israeli partners of the Yam Tethys Project (the partnerships and Delek Investments) and a foreign investment bank which deals in futures transactions in the natural gas market. The deal was completed in the beginning of June fixing the price of natural gas at $2.47 per MMBTU for the years 2005-2010. In October 2004,the deal was extended to the first quarter of 2013.
The total amount of the deal is $650 million.

The price of natural gas in the agreement is linked to a basket of fuels and to the US PPI. There is also a maximum and a minimum price.

The hedge was based on the expected quarterly natural gas delivery to the IEC. The actual amount sold will probably deviate from the estimates.

If the quarterly price of gas is lower than the price set in the hedge agreement, the investment bank will pay the partnerships the difference between the prices. If the price of gas is higher than that which is set in the hedge agreement, the partnership will pay the investment bank the difference. Each payment will be in accordance with the amount of gas that is set in the agreement.

Delek Drilling had to provide bank guarantees as part of the deal. A total of $17.3 million was guaranteed by Poalim and by Leumi, $16.6 million was provided to guarantee Avner's part and $3.4 million for Delek Investments. The foreign investment bank also provided bank guarantees.

After the date of the balance sheet, within the framework of the agreements signed regarding the bond issuance as described in paragraph 3.2.b, above, hedge and guarantee agreements were signed over to the benefit of SPC (the underwriter). There was also a "back to back" agreement between the partnerships and SPC such that the profits and losses of the hedge agreement will be passed to the partnerships.

7. Philanthropy

Philanthropic activities are executed through the non-profit Delek Fund for Science, Education and Culture, Ltd. set up by Delek Israel over 40 years ago in order to provide scholarships to students in institutions of higher learning and high schools. The goal of the Fund is to contribute to the public good in the areas of education and culture and to contribute to organizations that aid the needy.

While in the past most of the aid was to education and culture which was the original purpose of the Fund, in the past few years, in light of the worsening economic situation, there has been an increase in funding to provide food and healthcare to the needy.

During 2004, the Foundation contributed NIS 1 million.

8. Directors with Financial Expertise

The Company has stipulated that at a minimum one director should be an expert in accounting and finance.

Since the Board of Directors of the holding company has only five members and since the others have broad business and financial experience (even if they are not considered "experts") the lone "expert" can fulfill his legal and fiduciary responsibilities regarding the review and approval of the financial statements. This is stipulated in accordance with the points voiced below.

It should be noted that the auditor of the Company is invited to each meeting of the Board of Directors where the financial reports are discussed and is on call to the board for any question which may come up.

It should also be noted that, according to the law, each director is able to request professional advice regarding the condition of the Company, including financial advice (with the cost borne by the Company) according to the rules and conditions stipulated in the law.

The directors with financial and accounting expertise are:

A. **Mr. Benjamin Davidai** – Mr. Davidai has a Masters degree in Business Administration from Tel-Aviv University and served as CEO of the publicly traded company, Caniel, Ltd., for 18 years.

Since ending his tenure as CEO ten years ago, Mr. Davidai has served on the board of directors of a number of public and private companies.

B. **Mr. Shimon Vig** – Mr. Vig has a BA in economics and Masters in Business Administration. He held various senior positions in Bank Discount for 30 years (Senior Financial Advisor, Manager of Ilanot-Discount, Associate Director of Credit and others).

C. **Mr. Moshe Amit** - Mr. Amit has a BA in the Social Sciences. He worked for over 40 years in various senior positions at Bank Poalim. He served as EVP at the bank for ten years and then as joint CEO for ten years and then as acting CEO for three years. He also serves as a director of Bank Poalim Switzerland, Signature Bank (in NYC) and at other companies.

9. Dividends

A. The Board of Directors decided on March 30, 2004 to distribute a dividend from profits at a rate of 550% of the paid-in capital shares. The dividend totaled NIS 54 million and was paid on May 3, 2004.

B. The Board decided on August 29, 2004 to distribute an additional dividend from profits at a rate of 1,000% of the paid-in capital shares. The dividend totaled NIS 97.3 million and was paid on September 23, 2004.

C. The Board decided on March 8, 2005 to pay an additional dividend from profits of 800% of the paid-in capital shares. The dividend totaled NIS 77.9 million and was paid on March 31, 2005.

D. On March 30, 2005, the Board decided to distribute an additional dividend from profits at a rate of 267% of paid-in capital shares. The dividend total was NIS 26 million and was paid on May 3, 2005.

10. Internal Auditor's Findings

A. The internal auditor for the corporation is Mr. Michael Greenberg who has served in the position since 2002. He has degrees in Accounting and Economics and is a CPA. He is a member of the Office of Internal Auditors in Israel and has many years experience in the field.

B. The internal auditor is full-time worker for The Delek Group.

C. The internal auditor's position is full time with responsibility for the Group and for its main holdings. The internal auditor has an additional staff of the equivalent of 2.5 full-time employees.

D. The internal audit plan is based on risk assessment as well as the ongoing audit needs of the management.

E. The internal audit plan includes the audit of the Company's main holdings. It is based on their risk assessment. In the main holdings there is also an internal auditor and an audit committee which reviews the reports of the internal auditor.

F. The internal auditor conducts the audit based on professional standards as accepted in Israel and abroad as well as from the approved professional guidance as published by the Israeli Office of Internal Auditors.

G. The internal auditor reports directly to the CEO of the Delek Group.

H. The internal auditor issues the following reports during the following periods:
The Final Audit Report for 2004 was issued in December, 2004 and discussed on January, 2005. The reports of the various subsidiaries are given to and discussed at the respective audit committees.

I. The internal auditor's work plan is set up such that he can review each of the main topics once a year. The Board of Directors has given assurance that the internal auditor's work load is such that he can accomplish all of his tasks in a timely manner.
The internal auditor has free, unfettered access to all of the information systems of the Company, including its financial data.

11. Critical Accounting Assessments

The preparation of the Company's and its subsidiaries' financial statements, executed according to accepted accounting practices in Israel, requires management to make certain assessments and assumptions that influence the data as presented in the statements. These assessments require proper judgment when analyzing the uncertainties that can have a major influence on the presentation of the financial statements.

What follows is a description of the critical assessments that are used in preparation of the statements including the assumptions about various situations and activities that by their nature are uncertain. The assessments that the Company and its subsidiaries make are based on past experience, available facts, external factors and reasonable assumptions – each dependent upon the specific circumstances. The actual results may differ from management assessments.

A. Changes in the Fair Value of Real Estate Assets in Foreign Affiliated Companies

In certain foreign affiliated companies, the Group's portion is based on the balance sheet value of these companies. Their financial statements are prepared according to international financial standards, including Standard 40 which stipulates that rental properties should be listed according to their fair value. The fair value is established by independent real estate assessors. Changes in value are reported on the P&L and can therefore have a substantial effect on the results.

B. Dependent Obligations

The chances for success of lawsuits against the Company or its subsidiaries are based on the assessments of the legal teams dealing with the issues. These assessments are based on the professional judgment of the attorneys, taking into consideration the circumstances of the lawsuit and the progress of each case. Since it is not possible to accurately predict how a court will respond to individual cases, the actual results may differ from the assessments of the legal team.

C. Asset Value Decline

In accordance with Accounting Standard 15, the Company and its subsidiaries are required to verify the value of all non-monetary assets at the time of the financial statements. If it is determined that the decline in value will affect the future cash flows of the asset, then the statements will reflect a decline in value up to the amount of the affected the cash flows. The cash flow assessments are based on the past history of the asset or similar assets and on the best judgment of the Company or its subsidiaries, based on the economic conditions of the remaining useful life of the asset.

D. Evaluating Proven Natural Gas Reserves

The proven natural gas reserve evaluation is used to determine the amount of depreciation of the respective wells as reported in the financial statements.

The depreciation of the investments connected with the exploration and production of proven and developed natural gas reserves is done by the depletion method. This method allows the depreciation of the amount of gas extracted from the well by the estimated proven and developed reserves. The amount of gas that is estimated in productive gas wells is assessed each year by the opinion of outside experts. This assessment is subjective and different experts can give substantially different amounts. Due to the significance of the depreciation figure on the financial statements of the Company, these assessments can have a major effect on the financial position of the Company.

12. Code of Ethics

The Board of Directors approved a Company ethical code and appointed an attorney, Liora Pratt Levine, as responsible for its implementation.

The Code of Ethics and rules of business behavior that were adopted obligate all of the directors, managers and workers of the Company and its subsidiaries. All of the above were instructed to adopt the code.
The goal of the Code of Ethics is to establish criteria which the Company believes are necessary, in order to prevent inappropriate behavior and to promote proper conduct. The principles of the Code of Ethics are as follows:

- Proper and ethical behavior, specifically regarding actual or potential conflicts of interest between personal and professional activities.
- Full, clear and timely disclosure of reports and documents that the Company is legally required to submit to the authorities. Full, clear and timely disclosure of all necessary facts in public pronouncements by the Company.
- Keeping all relevant laws, regulations and standards.
- Internal reporting of all violations of the Code of Ethics.
- Responsibility for following the Code of Ethics.

13. Employees

The Board of Directors wishes to show its respect and appreciation to the management of the Company, to the management of the subsidiaries and to all the employees whose dedicated work contributes so greatly to the success of the Company.

With respect,

Gabriel Last	**Asaf Bartfeld**
Chairman of the Board	CEO

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DELEK GROUP LTD.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2004

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AUDITORS' REPORT

To the shareholders of

DELEK GROUP LTD.

We have audited the accompanying balance sheets of Delek Group Ltd. ("the Company") as of December 31, 2004 and 2003 and the consolidated balance sheets as of such dates and the related statements of income, changes in shareholders' equity and cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of subsidiaries and partnerships, whose assets constitute 36% and 41% of total consolidated assets as of December 31, 2004 and 2003, respectively, and whose revenues constitute 6%, 6% and 10% of total consolidated revenues for the years ended December 31, 2004, 2003 and 2002, respectively. We also did not audit the financial statements of affiliates and partnerships in which the Company's investment at equity amounted to NIS 623 million and NIS 614 million as of December 31, 2004 and 2003, respectively, and in which the Company's share in earnings amounted to NIS 142 million and NIS 14 million for the years ended December 31, 2004 and 2003, respectively, and the Company's share in losses amounted to NIS 4 million for the year ended December 31, 2002. The financial statements of those companies and partnerships were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for those companies and partnerships, was based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and consolidated - as of December 31, 2004 and 2003, and the results of operations, changes in shareholders' equity and cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 2004, in conformity with generally accepted accounting principles in Israel. Furthermore, in our opinion, the financial statements referred to above are prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

As described in Note 2, the financial statements as of the dates and for the reported periods subsequent to December 31, 2003, are presented in reported amounts, in conformity with Accounting Standards of the Israel Accounting Standards Board. The financial statements as of the dates and for the reported periods until the aforementioned date are presented in values that were adjusted until that date according to the changes in the general purchasing power of the Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

Without qualifying our opinion, we draw attention to the matter discussed in Note 23a to the financial statements regarding claims filed against investees.

Tel-Aviv, Israel
March 30, 2005

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

CONSOLIDATED BALANCE SHEETS

		December 31,	
		2004	2003
		NIS in millions	
	Note	Reported (1)	Adjusted (2)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	554	588
Short-term investments	4	204	272
Trade receivables	5	1,856	1,619
Other accounts receivable	6	280	229
Inventories	7	1,046	925
Real estate held for sale	8	62	10
		4,002	3,643
INVESTMENTS, LOANS AND LONG-TERM RECEIVABLES:			
Investments in investees and other companies	9	1,532	804
Real estate for rent	10	3,066	2,858
Land held for construction	11	403	171
Loans, deposits and long-term receivables	12	294	327
Investments in petroleum and gas exploration	36	837	850
		6,132	5,010
FIXED ASSETS, NET	13	2,013	1,607
OTHER ASSETS AND DEFERRED CHARGES, NET	14	741	474
		12,888	10,734

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

The accompanying notes and appendix are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2004 Reported (1)	December 31, 2003 Adjusted (2)
		NIS in millions	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	15	3,399	2,703
Trade payables	16	1,088	877
Other accounts payable	17	594	460
		5,081	4,040
LONG-TERM LIABILITIES:			
Long-term loans from banks and others	18	4,409	4,082
Convertible debentures	19	603	620
Other debentures	20	637	325
Accrued severance pay, net	21	14	17
Deferred taxes	31	170	55
Other liabilities	22	67	41
		5,900	5,140
MINORITY INTEREST		362	296
CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS	23		
SHAREHOLDERS' EQUITY	25	1,545	1,258
		12,888	10,734

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

The accompanying notes and appendix are an integral part of the financial statements.

March 30, 2005			
Date of approval of the financial statements	G. Last Chairman of the Board	A. Bartfeld CEO	R. Ben Dov Vice CEO and Responsible for Financial Matters

BALANCE SHEETS - THE COMPANY

	Note	December 31, 2004 NIS in millions Reported (1)	December 31, 2003 NIS in millions Adjusted (2)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	16	163
Short-term investments	4	270	305
Accounts receivable (mainly investees)		10	10
		296	478
INVESTMENTS, LOANS AND LONG-TERM RECEIVABLES:			
Investments in investees	9	2,258	1,804
Loan to related party	34f	4	-
		2,262	1,804
DEFERRED CHARGES		4	5
		2,562	2,287
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current maturities of convertible debentures	19	23	23
Current maturities of other debentures	20	147	-
Accounts payable (mainly accrued interest)		14	25
		184	48
LONG-TERM LIABILITIES:			
Long-term loans	18	229	214
Convertible debentures	19	603	620
Other debentures	20	1	147
		833	981
CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS	23		
SHAREHOLDERS' EQUITY	25	1,545	1,258
		2,562	2,287

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

The accompanying notes and appendix are an integral part of the financial statements.

March 30, 2005			
Date of approval of the financial statements	G. Last Chairman of the Board	A. Bartfeld CEO	R. Ben Dov Vice CEO and Responsible for Financial Matters

CONSOLIDATED STATEMENTS OF INCOME

		Year ended December 31,		
		2004	2003	2002
		NIS in millions (except per share amounts)		
	Note	Reported (1)	Adjusted (2)	
Revenues		14,893	12,105	9,837
Less - excise, customs, purchase taxes and royalties		3,529	3,075	2,537
	33b(1)	11,364	9,030	7,300
Cost of revenues	26	9,337	7,430	5,891
Gross profit		2,027	1,600	1,409
Selling, marketing and gas station operating expenses	27	814	711	698
General and administrative expenses	28	308	256	276
Operating income		905	633	435
Financial expenses, net	29	342	216	173
		563	417	262
Gain from sale of investments in investees, net	9j	100	32	13
Other expenses, net	30	28	47	21
Income before taxes on income		635	402	254
Taxes on income	31	189	153	100
Income after taxes on income		446	249	154
Equity in earnings (losses) of affiliates and partnerships, net		136	20	(8)
Minority interest in earnings of subsidiaries, net		(159)	(86)	(45)
Income before cumulative effect of change in accounting principle, net		423	183	101
Cumulative effect as of the beginning of the year of change in accounting principle, net	2o	(20)	-	-
Net income		403	183	101
Net earnings per NIS 1 par value of Ordinary shares (in NIS):	32			
Income before the cumulative effect of change in accounting principle		43.5	18.9	10.4
Cumulative effect of a change in accounting principle		(2.1)	-	-
Net income		41.4	18.9	10.4

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

The accompanying notes and appendix are an integral part of the financial statements.

STATEMENTS OF INCOME - THE COMPANY

		Year ended December 31,		
		2004	2003	2002
		NIS in millions		
	Note	Reported (1)	Adjusted (2)	
Revenues, net:				
Equity in earnings of investees, net		421	188	116
Management fees from investees		5	7	5
		426	195	121
Expenses:				
General and administrative expenses		5	6	7
Financial expenses (income), net	29	(2)	6	13
		3	12	20
Earnings before cumulative effect of change in accounting principle, net		423	183	101
Cumulative effect as of the beginning of the year of change in accounting principle, net	2o	(20)	-	-
Net income		403	183	101

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

The accompanying notes and appendix are an integral part of the financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

		Capital reserves		Retained earnings			
	Share capital	Premium on shares	Additional paid-in capital	Unappropriated retained earnings	Dividend declared subsequent to balance sheet date	Shares of Company held by subsidiary	Total
	Adjusted NIS in millions (1)						
Balance as of January 1, 2002	11	768	3	278	-	(11)	1,049
Shares of Company acquired by subsidiary	-	-	-	-	-	(1)	(1)
Additional paid-in capital from a transaction with controlling shareholder	-	-	-	(51)	-	-	(51)
Foreign currency translation adjustments for investees	-	-	26	-	-	-	26
Net income	-	-	-	101	-	-	101
Dividend declared subsequent to balance sheet date	-	-	-	(49)	49	-	-
Balance as of December 31, 2002	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
Dividend	-	-	-	(35)	(49)	-	(84)
Net income	-	-	-	183	-	-	183
Dividend declared subsequent to balance sheet date	-	-	-	(54)	54	-	-
Balance as of December 31, 2003	11	770	50	373	54	-	1,258
	Reported NIS in millions (2)						
Balance as of January 1, 2004	11	770	50	373	54	-	1,258
Conversion of debentures into Company shares	-	1	-	-	-	-	1
Additional paid-in capital from a transaction with controlling shareholder	-	-	-	(6)	-	-	(6)
Unrealized losses on interest rate swap transaction of an associated company	-	-	(2)	-	-	-	(2)
Foreign currency translation adjustments for investees	-	-	42	-	-	-	42
Dividend	-	-	-	(97)	(54)	-	(151)
Net income	-	-	-	403	-	-	403
Dividend declared subsequent to balance sheet date	-	-	-	(104)	104	-	-
Balance as of December 31, 2004	11	771	90	569	104	-	1,545

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

The accompanying notes and appendix are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported (1)	Adjusted (2)	
Cash flows from operating activities:			
Net income	403	183	101
Adjustments to reconcile net income to net cash provided by operating activities (a)	86	510	587
Net cash provided by operating activities	489	693	688
Cash flows from investing activities:			
Purchase of fixed and other assets	(374)	(210)	(246)
Proceeds from sale of fixed assets and real estate	109	15	17
Investment in real estate and real estate for rent	(37)	(39)	(106)
Realization (purchase) of marketable securities, net	63	(127)	(81)
Collection of long-term loans granted	44	55	107
Short-term deposits, net	33	52	(2)
Increase in joint ventures for oil and gas exploration	(29)	(227)	(227)
Proceeds from sale of investments in investees and others	162	47	-
Investment in investees and partnerships	(286)	(261)	(235)
Acquisition of businesses and newly consolidated subsidiaries (b)	(384)	(54)	(7)
Loans granted to others	(42)	(28)	(40)
Net cash used in investing activities	(741)	(777)	(820)
Cash flows from financing activities:			
Short-term credit from banks and others, net	42	(245)	(916)
Receipt of long-term loans	1,062	882	1,347
Repayment of long-term loans	(1,089)	(747)	(398)
Issuance of shares to minority in subsidiary	12	17	24
Dividend paid	(151)	(84)	-
Acquisition of Company shares by subsidiary	-	-	(1)
Dequisition of Company shares by subsidiary	-	14	-
Dividend paid to minority in subsidiary	(128)	(99)	(30)
Sale of debentures held by subsidiary	7	29	-
Issuance of debentures and convertible debentures, net	509	472	212
Repayment of debentures and convertible debentures	(48)	(12)	(12)
Net cash provided by financing activities	216	227	226
Translation differences in respect of cash balances of autonomous investee companies	2	7	23
Increase (decrease) in cash and cash equivalents	(34)	150	117
Cash and cash equivalents at the beginning of the year	588	438	321
Cash and cash equivalents at the end of the year	554	588	438

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

The accompanying notes and appendix are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported (1)	Adjusted (2)	
(a) Adjustments to reconcile net income to net cash provided by operating activities:			
Income and expenses not involving cash flows:			
Depreciation, depletion, amortization and impairment of assets	292	331	227
Deferred taxes, net (1)	48	4	(5)
Accrued severance pay, net	-	(1)	-
Increase in value of loans granted, net	(2)	(25)	(43)
Gain from sale of fixed assets, land and investments, net	(139)	(34)	(14)
Equity in losses (undistributed earnings) of associated companies and partnerships, net (2)	(152)	1	21
Erosion (increase in value) of securities and deposits, net	(30)	(11)	2
Erosion (increase in value) of long-term liabilities, net	5	(41)	(39)
Minority interest in earnings of subsidiaries, net	159	86	45
Changes in operating assets and liabilities:			
Increase in trade receivables	(215)	(243)	(12)
Decrease (increase) in other accounts receivable	(40)	33	58
Decrease (increase) in inventory	(80)	(57)	235
Increase in trade payables	166	420	66
Increase in other accounts payable	74	47	46
	86	510	587
(1) Including cumulative effect as of the beginning of the year of change in accounting principle	20	-	-
(2) Net of dividends received	14	21	13

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

The accompanying notes and appendix are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported (1)	Adjusted (2)	
(b) Acquisition of businesses and newly consolidated companies:			
Working capital deficiency (working capital), net (except cash)	226	(4)	5
Fixed assets, land, investments and other assets	(900)	(44)	(40)
Goodwill	(255)	(6)	(3)
Long-term liabilities	545	-	2
Loans to newly jointly controlled entities	-	-	(5)
Minority interest	-	-	7
Investment at equity on the date of acquisition (former affiliates)	-	-	27
	(384)	(54)	(7)
(c) Significant non-cash activities:			
Purchase of fixed assets by credit	-	6	1
Increase in investments in oil and gas exploration against liabilities	-	26	35
Receivables for sale of marketable securities	-	14	-
Preferred interest income in advance against investment in deposits	-	14	-

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

The accompanying notes and appendix are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS - THE COMPANY

	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported (1)	Adjusted (2)	
Cash flows from operating activities:			
Net income	403	183	101
Adjustments to reconcile net income to net cash provided by operating activities (a)	(231)	(77)	(97)
Net cash provided by operating activities	172	106	4
Cash flows from investing activities:			
Realization (purchase) of marketable securities, net	80	(104)	(83)
Collection of loans granted to investees and others	96	23	5
Loans granted to investees and others	(321)	(300)	(144)
Net cash used in investing activities	(145)	(381)	(222)
Cash flows from financing activities:			
Issuance of convertible debentures, net	-	472	-
Redemption of convertible debentures	(23)	-	-
Issuance of debentures, net	-	-	144
Dividend paid	(151)	(84)	-
Net cash provided by (used in) financing activities	(174)	388	144
Increase (decrease) in cash and cash equivalents	(147)	113	(74)
Cash and cash equivalents at the beginning of the year	163	50	124
Cash and cash equivalents at the end of the year	16	163	50

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

The accompanying notes and appendix are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS - THE COMPANY

	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported (1)	Adjusted (2)	
(a) Adjustments to reconcile net income to net cash provided by operating activities:			
Income and expenses not involving cash flows:			
Equity in undistributed earnings of investees, net (*)	(235)	(103)	(105)
Increase in value of long-term liabilities to investees and others	25	22	13
Increase in value of loans granted to investees and others	(13)	(12)	(12)
Changes in operating assets and liabilities:			
Decrease in accounts receivable	2	5	-
Increase (decrease) in accounts payable	(10)	11	7
	(231)	(77)	(97)
(*) Net of dividends received	166	85	11

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

The accompanying notes and appendix are an integral part of the financial statements.

NOTE 1:- GENERAL

a. Delek Group Ltd. ("the Company") acts as a holding company for three companies which focus on the operations of the Group companies, as follows: Delek Petroleum Ltd. ("Delek Petroleum") focuses on the gasoline and lubricants business and the operation of gas stations in Israel and in the U.S.; Delek Real Estate Ltd. ("Delek Real Estate") focuses on the initiation and development of real estate business in Israel and abroad; Delek Investments and Properties Ltd. ("Delek Investments") focuses on all other businesses of the investees, such as activities in the automotive market, oil and gas explorations and production, biochemical, communication and energy and infrastructure systems. As for business segments, see Note 33.

b. As of December 31, 2004, the Group has a working capital deficiency amounting to approximately NIS 1,079 million, deriving mainly from long and short-term liabilities repayable in the coming year, that were assumed in order to finance long-term investments. It is the estimate of the management of the Company and the subsidiaries that they will be able to either assign these loans into long-term loans or to continue to receive short and long-term loans from banks and others in order to continue to finance their investments and to repay their liabilities (see also Notes 20b(9) and 36f).

c. Definitions:

In these financial statements:

The Company	-	Delek Group Ltd.
The Group	-	Delek Group Ltd. and its investees and partnerships. The principal investees and partnerships are listed in the appendix to financial statements.
Subsidiaries	-	companies over which the Company exercises control (as defined in Opinion 57 of the Institute of Certified Public Accountants in Israel) and whose accounts are consolidated with those of the Company.
Jointly controlled entities	-	companies owned by various entities that have a contractual arrangement for joint control, and whose accounts are consolidated with those of the Company using the proportionate consolidation method.
Affiliates	-	companies that are not subsidiaries and over which the Company has significant influence. The Company's investment therein is included using the equity method of accounting.
Investees	-	subsidiaries, jointly controlled entities or affiliates.
Other companies	-	companies that are not investees and the investment therein is presented at cost.

NOTE 1:- GENERAL (Cont.)

Controlling shareholders	-	as defined in the Securities Regulations (Presentation of Transactions Between a Corporation and a Controlling Shareholder Therein in the Financial Statements), 1996.
Related parties	-	as defined in the Securities Regulations (Preparation of Annual Financial Statements), 1993 and as defined in Opinion 29 of the Institute of Certified Public Accountants in Israel.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements on a consistent basis, except as described in a, e(5), p and aa below, are as follows:

a. Discontinuance of the adjustment of financial statements and financial reporting in reported amounts as of December 31, 2004 and for the year then ended:

In 2001, the Israel Accounting Standards Board published Accounting Standard No. 12 with respect to the discontinuance of the adjustment of financial statements. According to this Standard (as amended by Accounting Standard No. 17), the adjustment of financial statements for the effects of inflation should be discontinued beginning January 1, 2004. The Group applied the provisions of the Standard and, accordingly, the adjustment for the effects of inflation was discontinued as from January 1, 2004.

1. Starting point for the preparation of financial statements:

a) In the past, the Group prepared its financial statements based on the historical cost convention, adjusted for the changes in the general purchasing power of the Israeli currency based on the changes in the Israeli Consumer Price Index ("Israeli CPI"). These adjusted amounts, as included in the financial statements as of December 31, 2003 (the transition date), served as a starting point for nominal financial reporting beginning January 1, 2004. Additions made after the transition date are included at nominal values.

b) The amounts for non-monetary assets do not necessarily represent realizable value or current economic value, but only the reported amounts for those assets.

c) In the financial statements "cost" represents cost in the reported amount (see 2 below).

d) All comparative data for previous periods are presented after adjustment for the Israeli CPI as of the transition date (the Israeli CPI for December 2003).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Financial statements in reported amounts:

   a) Definitions:

      Adjusted amount - historical nominal amount adjusted for the Israeli CPI as of December 2003, according to the provisions of Opinions No. 23 and No. 36 of the Institute of Certified Public Accountants in Israel.

      Reported amount - adjusted amount as of the transition date (December 31, 2003), plus additions in nominal values after the transition date and less amounts deducted after the transition date.

   b) Balance sheet:

      1) Non-monetary items are presented in reported amounts.

      2) Monetary items are presented in nominal values as of the balance sheet date.

      3) The book value of investments in investees is determined based on the financial statements of these companies in reported amounts.

   c) Statement of income:

      1) Income and expenses relating to non-monetary items are derived from the change in the reported amounts between the opening balance and the closing balance.

      2) Other items in the statement of income are presented in nominal values.

      3) The equity in the results of operations of investees is determined based on the financial statements of these companies in reported amounts.

   d) Statement of changes in shareholders' equity:

      Dividends declared in the reported period are presented in nominal values.

3. Condensed financial data of the Company in nominal historical values for tax purposes is presented in Note 37.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Adjusted financial statements as of December 31, 2003 and for each of the two years in the period then ended:

1. The Group maintains its current accounting records in nominal NIS. In accordance with pronouncements of the Institute of Certified Public Accountants in Israel, all the amounts in the financial statements are presented in adjusted NIS, which have an equivalent purchasing power. The purchasing power of adjusted NIS reflects the average price level in December 2003, according to the Israeli Consumer Price Index ("CPI") published on January 15, 2004 (178.6 points on the average basis of 1993 = 100).

   Foreign investees maintain their accounting records in foreign currencies. As for the translation of their financial statements into NIS, see e(5) below.

2. The amounts for non-monetary assets do not necessarily represent realization value or current economic value, but only the original historical values which have been adjusted according to the changes in the general purchasing power of the currency.

3. Principles of adjustment:

   Balance sheet:

   a) The amounts for non-monetary items (items whose amounts in the balance sheet reflect their historical values upon acquisition or incurrence - see below) have been adjusted based on the changes in the Israeli CPI since their acquisition or incurrence.

      The following items have been treated as non-monetary items: prepaid expenses, inventories, contracts in progress, long-term investments, fixed assets and related accumulated depreciation, other assets, deferred revenues, and capital and additional paid-in capital derived from equity investments made by shareholders.

   b) The carrying value of investments in investees is determined based on the adjusted financial statements of these companies.

   c) Monetary items (items whose amounts in the balance sheet reflect current or realizable values) are presented in the adjusted balance sheet as of December 31, 2003 in their nominal amounts as of such date.

   Statement of income:

   a) The components of the statement of income (except for financing), relating to transactions carried out during the year - income, expenses, etc. - have been adjusted at monthly indices at the time the related transactions were carried out or paid. The erosion of monetary balances relating to the aforesaid transactions has been included in financial income or expenses.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) The components of the statement of income relating to non-monetary balance sheet items (mainly depreciation, capital gain (loss), etc.) have been adjusted on the same basis used for the adjustment of the related balance sheet items.

c) The components of the statement of income relating to accruals and provisions included in the balance sheet, such as: accrued severance pay, net, accrued vacation pay, etc., have been determined based on the changes in the balances of the related balance sheet items after cash flows in respect thereof are taken into account.

d) Current taxes on income include the erosion in the value of the payments from the date of payment to the balance sheet date.

e) The equity in the results of operations of investees is determined based on the adjusted financial statements of these companies.

f) The financing item, reflects real financial income or expenses including the erosion of monetary items during the year.

Statement of changes in shareholders' equity:

Dividends declared and actually paid during the year are adjusted based on the Israeli CPI upon actual payment date.

Dividends declared subsequent to the balance sheet date and before the date of the approval of the financial statements are not reflected as a liability in the financial statements.

Translation of financial statements of foreign investees:

The financial statements of investees, which operate independently and whose reporting currency is the foreign currency, were adjusted on the basis of the change in foreign index (except statements of affiliates which are prepared in accordance with international accounting principles) and translated at the representative exchange rate of the foreign currency as of the balance sheet date. The difference resulting from the adjustment of shareholders' equity by investees, as above, and its adjustment by the holding company on the basis of the changes in the Israeli CPI, is classified as a separate component of shareholders' equity ("Foreign currency translation adjustments for investees"). The difference between the changes in the Israeli CPI and the exchange rate for loans which directly finance the investment is also classified in the separate component of shareholders' equity

c. Consolidated financial statements:

The consolidated financial statements include the accounts of companies over which the Company exercises control. Jointly controlled entities are included by the proportionate consolidation method. Significant intercompany balances and transactions between the Group companies have been eliminated in the consolidated financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Company shares held by subsidiary:

Company shares held by subsidiary are presented at cost and shown as a deduction from shareholders' equity.

e. Investments in investees and other companies:

1. The investments in investees are presented by the equity method of accounting. The holding company's share is determined based on the issued capital at balance sheet date.

   In certain foreign affiliates the Company's share in the carrying value of these companies is determined on the basis of financial statements prepared in accordance with international accounting principles, including the adoption of IAS No. 40 according to which investment property is presented at its fair value. Changes in the fair value are included in the statement of income.

   The investments in other companies are presented at cost net of impairment losses, if so exist, which, in management's opinion, are other than temporary.

2. Excess of cost of investment in investees over their book value upon the date of acquisitions was attributed to real estate and other fixed assets and amortized to operations concurrently with the depreciation of the assets. The excess of the purchase price of the investment not attributed to identifiable assets was recorded as goodwill and is amortized by the straight-line method over its estimated useful life of 10 to 20 years from the dates of acquisition, in accordance with Accounting Standard No. 20 of the Israel Accounting Standards Board. The period of amortization reflects the best estimate of the period during which future economic benefits from the goodwill are expected to flow to the Company.

3. The Group evaluates in each reporting period the necessity to record an impairment loss, in accordance with the provisions of Accounting Standard No. 15 (see o below).

4. As for deferred taxes, see p below.

5. Translation of financial statements of foreign operations:

   a) On January 1, 2004, Standard No. 13 with respect to the effect of changes in foreign exchange rates became effective ("Standard No. 13"). Standard No. 13 replaces Interpretations No. 8 and No. 9 of Opinion No. 36 of the Institute of Certified Public Accountants in Israel, which were superseded when Accounting Standard No. 12, as described above, became effective.

      Standard No. 13 deals with the translation of foreign currency transactions and with the translation of financial statements of foreign operations for incorporation into the financial statements of the Group.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) Foreign operation that is classified as a foreign autonomous entity ("the entity"):

In accordance with Standard No. 13, assets and liabilities, both monetary and non-monetary, of the entity are translated at the closing rate. The components of the statement of income and of the statement of cash flows of the entity are translated at the exchange rates at the dates of the transactions or at average exchange rates for the period if such exchange rates approximate the actual exchange rates. All exchange rate differences resulting from the translation, as above, are classified as a separate component of shareholders' equity ("Foreign currency translation adjustments for investees") until the disposal of the investment.

Loans that have the characteristics of an investment are treated as part of the investment in the investee. Exchange rate differences in respect of these loans are also classified in the separate component of shareholders' equity.

As a result of the adoption of Standard No. 13, goodwill arising on the acquisition of the entity is accounted for as an asset of the entity and translated at the closing rate and not at the rate as of the date of the transaction, which was the rate used until December 31, 2003. The components of the statement of income and of the statement of cash flows are no longer translated at the closing rate, but instead are translated as described above, and the financial statements of the entity are no longer adjusted for the changes in the foreign consumer price index before their translation into NIS.

f. Cash equivalents:

The Group considers all highly liquid investments, including short-term bank deposits purchased with original maturities of three months or less and unrestricted, to be cash equivalents.

g. Marketable securities:

The investments in marketable securities which constitute a current investment or which are designated as investment in fixed assets and liabilities for short sale of marketable securities are stated at quoted market prices. Changes in the value of securities are included in the statement of income.

h. Inventories:

Inventory is stated at the lower of cost or market value. Cost is determined as follows:

Fuels and consumption products - reserve inventory of fuels in Israel whose dollar price is secured by the Government is presented at its secured price. The balance of inventory of fuel products (operating inventory) and inventory of consumption products are estimated at the lower of cost or market value.

Cost of operating inventory of fuels is determined using the "quarter weighted average" method. Cost of fuel products includes manufacturing costs.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Cost of inventory of consumption products abroad is estimated by the retail method.

Motor vehicles - at specific cost.

Other - mainly by the average cost method.

i. Buildings and land for sale:

Buildings and land for sale are stated at identifiable cost, however, not more than the estimated selling price for each building unit.

The Group capitalizes to the cost of buildings under construction management and selling expenses which can be clearly and exclusively identified with specific projects.

j. Real estate for lease:

Properties for lease are presneted according to the cost of their acquisition (including costs attributed directly to the acquition of properties), net of accumulated depreciation. Improvements are added to the cost of the properties whereas maintenance expenses and repairs are carried to the statement of income as incurred.

Depreciation is calculated by the straight-line method at annual rates which are deemed adequate to depreciate the properties over their estimated useful lives.

The Group evaluates in each reporting period the necessity to record an impairment loss, in accordance with the provisions of Accounting Standard No. 15 (see o below).

k. Real estate for construction:

Real estate for construction is presented at cost that, according to management's estimate, is lower compared to its estimated selling price. The Group capitalizes to the cost of land under construction which constitute "qualified assets" borrowing costs, according to Accounting Standard No. 3 (see t below). The capitalization period begins at the earlier of the request for a building permit or when the construction works began.

The Group evaluates in each reporting period the necessity to record an impairment loss, in accordance with the provisions of Accounting Standard No. 15 (see o below).

l. Allowance for doubtful accounts:

The allowance for doubtful accounts is principally determined in respect of specific debts whose collection, in the opinion of the Group's management, is doubtful and, in part, at a certain rate of customer debts.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Fixed assets:

1. Fixed assets are stated at cost net of accumulated depreciation. Expenditures for improvements and upgrading are added to cost, whereas maintenance expenses and repairs are carried to the statement of income as incurred.

   The Group evaluates in each reporting period the necessity to record an impairment loss, in accordance with the provisions of Accounting Standard No. 15 (see o below).

2. Depreciation is calculated by the straight-line method at annual rates which are deemed adequate to depreciate the assets over their estimated useful lives, as follows:

	%
Buildings (including leasehold improvements)	2 - 33
Machinery and equipment	6 - 33
Motor vehicles	15 - 20
Office furniture and equipment	6 - 33

n. Other assets and deferred charges:

1. As for the amortization of goodwill created upon the acquistion of subsidiaries, see e(2) above.

2. Expenses relating to the issuance of debentures and to obtaining long-term loans are amortized over the term of the debentures and loans, in proportion to the outstanding amounts of debentures and loans.

3. Prepaid expenses and other deferred charges are amortized by the straight-line method over their estimated useful lives.

o. Impairment of assets:

1. Impairment of fixed assets:

   On January 1, 2003, the Group adopted Accounting Standard No. 15, "Impairment of Assets". This Standard prescribes the accounting treatment and disclosures required in the event of impairment of assets. The Standard applies to all assets recognized in the balance sheet other than inventories, assets generated by construction contracts, assets generated by employee benefits, deferred tax assets and financial assets (except investments in investees that are not subsidiaries). According to the Standard, whenever there is an indication that an asset may be impaired, the Company should determine if there has been an impairment of the asset by comparing the carrying amount of the asset to its recoverable amount. The recoverable amount is the higher of an asset's net selling price or value in use, which is determined based on the present value of estimated future cash flows expected to be generated by the continuing use of an asset and by its disposal at the end of its useful life.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

If the carrying amount of an asset exceeds its recoverable amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. An impairment loss recognized should be reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the impairment loss was recognized.

In testing for impairment of gas stations which a subsidiary operates in Israel, the gas stations are considered as a single cash generating unit and this, among other things, because of the corporate customer base and the business dependency of the various stations. Nonetheless, in cases where the management of the subsidiary is of the opinion that certain stations do not contribute to the chain of gas stations, each of these stations is deemed as a separate cash generating unit. In testing for impairment of gas stations in the U.S., each cluster of stations that is managed and operated together is considered as a separate cash generating unit. The evaluation for impairment of other assets is taken into consideration separately for each asset.

The assessment of an asset's value in use is based on the Group's best estimate of the conditions that will exist over the remaining useful life of the asset and on the asset's present condition.

2. Impairment of investments in other companies:

The Group generally evaluates the fair value of its investments in each reporting period and whenever changes in circumstances or occurrence of other events indicate a decline in value that is other than temporary.

The evaluation of the fair value takes into consideration, among others, the market value of the investments (in respect of investments in marketable securities), estimates of analysts and valuations of the investments, the conditions of the industry in which the portfolio company is operating, the portfolio company's business condition, off-market transactions in the portfolio company's securities, prices of equity transactions in the portfolio company and additional information that the portfolio company presents to its board of directors (if the Company is represented on the board) or to its shareholders.

Based on the results of the above evaluation, the Group, if necessary, recognizes an impairment loss that is other than temporary in the statement of income.

p. Deferred taxes:

1. Deferred taxes are computed in respect of temporary differences between the amounts included in the financial statements and the amounts allowable for tax purposes. The components in respect of which deferred taxes have been provided are:

Differences between the carrying value of real estate properties and fixed assets in the financial statements and their value for tax purposes (taking into account the provisions of Opinion 40 of the Institute of Certified Public Accountants in Israel), accrued vacation pay, accrued severance pay, net, allowance for doubtful accounts and carryforward tax losses.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred tax balances are measured using the enacted tax rates expected to be in effect when the differences are expected to reverse, based on the applicable tax laws at balance sheet date. The amount for deferred taxes in the statement of income represents the changes in said balances during the reported year.

2. Taxes that would apply in the event of the sale of investments in investees have not been taken into account in computing the deferred taxes, as long as it is probable that the sale of the investments in investees is not expected in the foreseeable future. Deferred taxes are provided for an investment whose sale in the foreseeable future is likely.

   Similarly, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing the deferred taxes, since it is the Group's policy not to initiate distribution of dividends that involves an additional tax liability.

3. In cases when there exists uncertainty of taxable income in the future, no deferred tax assets have been recorded in the financial statements.

4. In July 2004, the Israel Accounting Standards Board approved Accounting Standard No. 19, "Taxes on Income" ("the Standard"). The Standard prescribes the principles for recognition, measurement, presentation and disclosures of taxes on income in the financial statements.

   The major changes promulgated by the Standard in relation to the accounting principles which were previously in effect are: recognition of deferred taxes for temporary differences resulting from using a currency for financial reporting purposes that is different than the currency used for tax purposes and recognition of deferred taxes for temporary differences relating to land.

   The Standard will apply to financial statements for periods beginning on or after January 1, 2005. The effects of the adoption of the Standard will be recognized by including the cumulative effect as of the beginning of the period in which the Standard is adopted in the statement of income.

   The Group had decided on the early adoption of the Standard in 2004. As a result, the Group recorded a loss of approximately NIS 20 million, which was included as a separate item in "Cumulative effect as of the beginning of the year of change in accounting principle".

q. Petroleum and gas exploration and development of proved wells:

The investments in petroleum and gas exploration are presented by the "successful efforts" method, whereby:

1. Participation expenses in conducting geological and seismic examinations and surveys are carried to the statement of income immediately as incurred.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Investments in petroleum and gas drilling in drilling stages for which it was not yet proved whether they produce oil or gas and not yet qualified as non-marketable are presented in the balance sheet at cost.

3. Investments in petroleum and gas drilling, which were proved as dry and abandoned or qualified as non-marketable or for which development programs were not determined in the near period are written off in full in the statement of income.

4. Expenses relating to wells for which it was determined that there are proven gas or oil reserves are recorded in the balance sheet at cost and amortized to operations based on the relation of the volume of production to total proved reserves for same oil asset, as estimated by an expert.

4. Costs accrued in respect of the development of the proven wells of the joint venture Yam Tethys were designated to provide the options for the drilling, production, treatment and compression of gas. These costs which include engineering planning, development drillings, purchase and establishment of production facilities and pipes for the delivery of gas to the point onshore are recorded in the balance sheet at cost and amortized to operations based on the relation of the volume of production to total proved reserves, as estimated by an expert

Expenses relating to purchase of rights to license of possession and preliminary permits to petroleum and gas drilling, including increasing the Group's share in joint ventures, are treated as aforesaid.

Excess of cost of investment in companies and joint ventures which own wells, as above, over their book value was attributed to investment in wells and amortized as aforesaid.

r. Expenses for obligations associated with the retirement of a drilling well:

During the reported period, the operation of the drillings in the area of Mary well which delivers gas to the Israel Electric Corporation Ltd. commenced. In these financial statements, the Group adopted FAS 143 which addresses obligations associated with the retirement of long-lived assets ("the Statement"). This Statement requires that the liability and the related asset for the Group's obligation associated with the retirement of the drilling well at the end of its use be accounted for consistently and recognized when the liability is incurred. The liability is initially measured at fair value and changes in liability that result from elapsed time are allocated to expense. The asset is depreciated over the asset's useful life, based on a determined depreciation method to operations.

s. Revenue recognition:

1. Revenues from product sales are recognized upon delivery to the customer.

2. Revenues from provision of services are recognized ratably over the term of the service contract or at the time that services are rendered.

3. Revenues from rental fees are recognized ratably over the term of the lease.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

4. Fixed rates of increases in long-term lease contracts are spread by the straight-line method over the term of the lease and are shown as part of revenues.

5. The Group adopted Accounting Standard No. 2, "Construction of Buildings for Sale". The Standard prescribes the accounting principles relating to recognition of revenues from sale of apartments in buildings constructed for sale. According to this Standard, revenues will be recognized upon the sale of apartments, however not before the sales proceeds from the project constitute at least 50% of the anticipated total revenues therefrom and the percentage of completion of the project is at least 25%. In these cases, revenues are recognized base don the product of the sales proceeds by the percentage of completion of the project. Losses are recorded in full as incurred.

t. Capitalization of borrowing costs:

The Group adopted Accounting Standard No. 3, "Capitalization of Borrowing Costs". The Standard prescribes the accounting and reporting principles relating to capitalization of borrowing costs as part of the cost of "qualified assets", as defined by this Standard. According to the principles of this Standard, costs of specific borrowing in respect of investment in qualifying assets were capitalized and if there is no specific borrowing, the capitalization was computed based on the weighted average borrowing cost of the Group's borrowing sources.

u. Earnings per share:

Earnings per share are computed in accordance with the provisions of Opinion 55 of the Institute of Certified Public Accountants in Israel.

Basic earnings per share are computed based on the weighted average outstanding share capital during the year, retroactively adjusted for bonus shares and assuming the conversion of convertible securities at the later of either the beginning of the year or the date of their issuance, if conversion is likely.

Diluted earnings per share are computed as above, with the addition of the effect of shares deriving from the conversion of convertible securities which were not included in the computation of basic earnings per share. If the effect of the conversion of convertible securities is antidilutive, it is not included in the computation.

v. Convertible debentures:

Convertible debentures are included on the basis of the probability of conversion, in accordance with the criteria set forth in Opinion 53 of the Institute of Certified Public Accountants in Israel. In the event that the conversion is not probable, the debentures are included as a liability at their liability value; in the event that conversion is probable, the debentures are presented between long-term liabilities and shareholders' equity at the greater of their liability value or capital value.

The debentures are presneted net of discount which is amortized over the period of the debentures.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Exchange rate and linkage basis:

1. Assets and liabilities in or linked to foreign currency are presented according to the representative exchange rates published by the Bank of Israel at balance sheet date.

2. Assets and liabilities linked to the Israeli CPI are presented according to the relevant index for each linked asset or liability.

Below are data about the exchange rates and the Israeli CPI:

	Representative exchange rates as of December 31,		The annual change increase (decrease)		
	2004	2003	2004	2003	2002
	N I S		%		
1 U.S. dollar	4.308	4.379	(1.6)	(7.6)	7.3
100 Japanese Yen	4.200	4.096	2.5	2.6	18.7
1 Swiss Franc	3.806	3.552	7.2	3.9	29.6
1 Pound	8.308	7.847	5.9	2.8	19.3
1 Canadian Dollar	3.579	3.408	5.0	13.5	8.1
1 Euro	5.877	5.533	6.2	11.3	27.2

	Israeli CPI as of December 31,		The annual change increase (decrease)		
	2004	2003	2004	2003	2002
	N I S		%		
In Israe (**)	107.4	106.2	1.1	(1.9)	6.5
In U.K.	*)	183.5	*)	2.8	2.9
In Canada	*)	122.8	*)	2.0	3.9
In U.S.	*)	184.3	*)	1.9	2.4

*) As a result of the adoption of Standards 12 and 13, the Group discontinued to adjust the financial statements of foreign investees to the inflation.

**) The index on an average basis of 2000 = 100.

x. Derivative financial instruments:

The results of hedging transactions designated to hedge assets and liabilities in foreign currency recorded in the balance sheet against the fluctuations in the exchange rates of the above foreign currencies are reported in the statement of income, concurrently with the recording of the exchange rate differences of said assets and liabilities.

The results of hedging transactions for the future purchase or sale of foreign currency and inventories that are intended to hedge the cost of imports against the fluctuations in foreign currencies and against the changes in the prices of inventories are reported in the statement of income, concurrently with the recording of the results relating to the transactions which they are designated to hedge.

The results of swap transactions designated to hedge the expected cash flows from loans with floating interest are reported in the statement of income, concurrently with the recording of the financial expenses relating to the loans which they are designated to hedge.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Derivative financial instruments which are not hedging transactions, as above, are presented in the balance sheet at fair value. Changes in fair value are recorded in financing in the statement of income as incurred. The fair value of derivative financial instruments is determined based on their market prices and, if there is no price, the fair value is determined using valuation methodologies.

y. Use of estimates for the preparation of financial statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the financial statements and the amounts of revenues and expenses during the reported years. Actual results could differ from those estimates.

z. Transactions between the Group and a controlling shareholder:

Transactions between the Group and a controlling shareholder are presented in accordance with Israeli's Securities Regulations (Presentation of Transactions Between a Corporation and a Controlling Shareholder Therein in the Financial Statements), 1996. According to these regulations, the excess of payment over cost of assets sold to the controlling shareholder and the difference between the cost of acquisition of assets from the controlling shareholder and their carrying amount in the books of the controlling shareholder close to the date of acquisition are recorded in shareholders' equity

aa. The accounting treatment for projects type BOT-PFI in the accounts of a jointly controlled entity:

A jointly controlled entity ("the consolidated company") has restated its financial statements for previous years in order to retroactively reflect the change in the accounting treatment for projects type BOT-PFI for building seawater desalination facilities.

The accounting treatment common at the time when the consolidated company entered into franchise agreements for the delivery of services in projects type BOT-PFI was recording the facility as a fixed asset, its depreciation over the economic life and recording revenues from sale of water concurrently with the recording of the operating and maintenance expenses associated with the facility.

In Israel, accounting principles assigned to agreements for building and operating public property by the private sector have not yet been issued.

During 2004, a proposal for a Standard was formed which is intended to determine whether the concessionaire is to recognize the property as a non-monetary asset or, alternatively, to recognize a financial asset reflecting the customer's debt to it. The financial asset accrues financial income while the specific rate of return on the financial asset is deducted from the revenues associated with the property. The balance of payments (total payments net of principal payments and interest payments) will be recognized as operating income concurrently with the operating expenses.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As a result of the proposed Standard, the Company, together with the other shareholders in the consolidated company, addressed the Securities Authority Staff with a request to approve in advance the accounting treatment in the financial statements of the consolidated company with respect to the principles set forth in the proposed Standard whereby the consolidated company may recognize the property as a financial asset. On February 3, 2005, the approval of the Securities Authority Staff was obtained and it indicated, among others, that when the Standard is issued in its final version, the consolidated company shall examine the required adjustments, if so required.

The effect of the restatement in the financial statements of the consolidated company on its shareholders' equity and net income totaled in insignificant amounts. Certain balance sheet items have been restated in order to reflect the change in said accounting policy.

NOTE 3:- CASH AND CASH EQUIVALENTS

	Consolidated		The Company	
	December 31,		December 31,	
	2004	2003	2004	2003
	NIS in millions			
	Reported	Adjusted	Reported	Adjusted
In Israeli currency	192	301	16	163
In foreign currency	362	287	-	-
	554	588	16	163

NOTE 4:- SHORT-TERM INVESTMENTS

	Weighted annual interest rate (1)	Consolidated December 31, 2004	Consolidated December 31, 2003	The Company December 31, 2004	The Company December 31, 2003
		NIS in millions			
	%	Reported	Adjusted	Reported	Adjusted
Bank deposits:					
In CD (2)	2.2	21	33	-	-
In unlinked NIS	3	12	8	-	-
Restricted deposits (3)		30	22	-	-
Loans to subsidiaries:					
Linked to the Israeli CPI	4.9	-	-	163	118
Marketable securities:					
Government bonds		130	203	98	187
Mutual funds		-	2	-	-
Shares		11	4	9	-
		204	272	270	305

(1) As of December 31, 2004.

(2) The deposits were deposited as collateral with a bank in order to secure the liabilities of a subsidiary.

(3) A large amount is in dollars and serves as collateral in order to secure the liabilities of subsidiaries to banks.

NOTE 5:- TRADE RECEIVABLES

	Consolidated December 31, 2004	Consolidated December 31, 2003
	NIS in millions	
	Reported	Adjusted
In Israeli currency:		
Open accounts	1,192	987
Checks receivable and credit companies	634	621
	1,826	1,608
In or linked to foreign currency	145	83
	1,971	1,691
Less - allowance for doubtful accounts	115	72
	1,856	1,619

NOTE 6:- OTHER ACCOUNTS RECEIVABLE

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Prepaid expenses and accrued income	40	48
Current maturities of long-term receivables and loans	49	34
Deferred taxes (1)	41	44
Related parties	5	3
Government authorities	37	29
Dividend and distributable earnings receivable	6	-
Joint ventures for petroleum and gas exploration, net	3	3
Deposits (2)	75	23
Receivables for realization of securities	-	14
Other receivables	24	31
	280	229

(1) See Note 31e.

(2) Most of the deposits are trust deposits in order to secure the liabilities of subsidiaries in connection with the lease of properties in the U.K. and Canada.

NOTE 7:- INVENTORIES

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Fuels and inventory at stations: (1)		
Fuel products	388	365
Inventory of consumption products at stations	89	57
	477	422
Motor vehicles and spare parts	514	456
Others	55	47
	1,046	925

(1) The inventory is mainly stored with others.

(2) As for charges, see Note 24.

NOTE 8:- REAL ESTATE FOR SALE

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Composition:		
Land, commercial and office space for sale	11	6
Buildings for sale *)	51	4
	62	10
*) Inventory of buildings for sale, net:		
Cost of buildings for sale	378	48
Less - costs carried to the statement of income	305	34
	73	14
Less - customer advances	22	10
	51	4
Scope of selling contracts entered into during the year	98	26
Part of the accrued amount of selling contracts which was not recognized as revenues for the end of the reported year	92	49

NOTE 9:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES

a. Composition:

	December 31,					
	2004			2003		
	Shares	Loans	Total	Shares	Loans	Total
	NIS in millions					
	Reported			Adjusted		
Consolidated:						
Affiliates and partnerships (1)	1,080	314	1,394	497	240	737
Other companies (2)	138	-	138	67	-	67
	1,218	314	1,532	564	240	804
The Company:						
Subsidiaries (1)	1,666	592	2,258	1,397	407	1,804

(1) See e below.

(2) As for classification of investment in marketable securities from current investment to long-term investment, see Note 23c(3).

b. The unamortized balance of initial difference:

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
In respect of affiliates and partnerships:		
Excess of cost of investments over fair value at date of acquisition *)	571	207
Less - accumulated amortization	37	5
Balance to be amortized	534	202

*) Including goodwill in the amount of approximately NIS 228 million. The balance refers mainly to investments in oil and gas exploration and fixed assets.

c. The latest audited financial statements of investees prepared as of the date of the Company's balance sheet serve as a basis for the computation of the carrying amount, except one affiliate whose latest financial statements have been prepared as of September 30, 2004.

NOTE 9:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES (Cont.)

d. The change in investments in 2004:

	Consolidated			The Company
	Affiliates and partnerships	Other	Total	Subsidiaries
	Reported NIS in millions			
Balance at the beginning of the year	737	67	804	1,804
Changes during the year:				
Investments in shares	449	36	485	-
Loans, net	24	-	24	185
Investment in newly consolidated affiliate	122	-	122	-
Equity in earnings, net *)	156	-	156	401
Dividends and distributable earnings	(14)	-	(14)	(166)
Foreign currency translation adjustments	16	-	16	42
Changes in additional paid-in capital	(2)	-	(2)	(8)
Exercise of investments in shares	-	(8)	(8)	-
Sale of affiliate	(94)	-	(94)	-
Transfer from current investment to long-term investment	-	48	48	-
Write down of investments	-	(5)	(5)	-
Balance at the end of the year	1,394	138	1,532	2,258

*) In the consolidated - apart from approximately NIS 20 million which were taken into account in change in deferred taxes (see Note 31e(2)).

In the Company - after cumulative effect of change in accounting principle of NIS 20 million.

e. Composition of investments in investees:

	Consolidated		The Company	
	December 31,		December 31,	
	2004	2003	2004	2003
	NIS in millions			
	Reported	Adjusted	Reported	Adjusted
Cost of investment	876	401	874	874
Post acquisition earnings (net of dividends), net	211	111	760	525
Share in additional paid-in capital, net	(7)	(15)	32	(2)
	1,080	497	1,666	1,397
Loans (see h below)	314	240	592	407
	1,394	737	2,258	1,804

NOTE 9:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES (Cont.)

f. Dividends from investees:

	Year ended December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
In the consolidated balance sheet:		
Affiliates	14	20
In the Company's balance sheet:		
Subsidiaries	166	85

g. Investments in shares listed for trade on the stock exchange:

	December 31, 2004	
	Carrying amount	Market value
	Reported NIS in millions	
Subsidiaries	240	2,003
Affiliate and affiliated partnership	745	884
Other companies	86	109

h. Linkage terms and interest rates of loans:

	Weighted annual interest rate (1)	Consolidated December 31,		The Company December 31,	
		2004	2003	2004	2003
		NIS in millions			
	%	Reported	Adjusted	Reported	Adjusted
Linked to the Israeli CPI	2.1	50	-	592	407
Linked to the U.S. dollar	2.8	10	17	-	-
Linked to the Pound	-	189	219	-	-
In Swedish Krona	9	43	-	-	-
Unlinked	-	22	4	-	-
		314	240	592	407

(1) As of December 31, 2004.

(2) A maturity date for most of the loans has not yet been determined.

NOTE 9:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES (Cont.)

i. The Group's share in the financial statements items of jointly controlled entities included by the proportionate consolidation method:

	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Current assets	123	70
Non-current assets	213	195
Current liabilities	142	100
Long-term liabilities	162	139

	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Revenues	215	98	69
Costs and expenses	209	99	80
Net income (loss)	6	(1)	(11)

j. Additional information:

Principal changes in investees:

1. In February 2004, Delek Investments purchased from Dankner Investments Ltd. ("Dankner") part of the shares of Matav - Cable Systems Media Ltd. ("Matav"). In the context of the transaction, Delek Investments purchased from Dankner about 17.99% of the shares of Matav in consideration for approximately $ 43.5 million (approximately NIS 193 million). In addition, Delek Investments provided Dankner with a loan of approximately $ 4.8 million (approximately NIS 22 million) for a period of up to two years. Delek Investments was granted an option (for two years) to purchase from Dankner additional 2% of Matav shares in return for the loan amount. On September 2, 2004, Delek Investments exercised the above option (see also 4 below).

2. On May 31, 2004, Delek Real Estate signed an agreement for the purchase of about 87.5% of the ownership and control over Dankner in consideration for $ 58.5 million (approximately NIS 265 million). In the first stage, Delek Real Estate paid to the sellers on June 14, 2004 a total of approximately NIS 75 million for the receipt of 25% of the ownership in Dankner. On August 11, 2004, the purchase transaction was closed and Delek Real Estate paid to the sellers the remaining sum (approximately NIS 189 million). Excess of cost of investment over the book value relating to the above purchase totaled NIS 312 million which was recorded mainly as goodwill which is amortized over 20 years and as Dankner's investment in Matav (see also 4 below).

NOTE 9:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES (Cont.)

As the purchase was consummated, the financial statements of Dankner have been consolidated since the third quarter of 2004.

Following are data included in the financial statements as of December 31, 2004 and for the six-month period then ended as a result of the initial consolidation of the financial statements of Dankner:

Balance sheet data:

	December 31, 2004
	Reported NIS in millions
Current assets	299
Land held for construction	241
Real estate for rent	94
Investments in investees and other companies	40
Fixed assets	19
Current liabilities	(349)
Long-term liabilities	(295)
Goodwill	230

Operating results:

	Six months ended December 31, 2004
	Reported NIS in millions
Revenues	59
Cost of revenues	50
Selling, general and administrative expenses	(9)
Financial expenses	(16)
Other expenses	(2)
Equity in losses of affiliates, net	(9)
Loss	(27)

3. On November 4, 2004, Delek Real Estate published a full tender offer ("the offer"), in the context of which Delek Real Estate addressed all the holders of Dankner shares with an invitation to purchase from them in a full tender offer according to section 336 of the Companies Law, 1999, the entire shares they hold and all according to the terms of the offer.

NOTE 9:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES (Cont.)

On November 25, 2004, the tender offer was consummated and Delek Real Estate took over the entire minority interest in Dankner in consideration for approximately NIS 34 million which were included as remaining goodwill associated with the investment in Dankner. Subsequent to the consummation of the tender offer, Dankner became a private company and its shares were delisted from the Tel Aviv Stock Exchange.

4. On December 30, 2004, Delek Investments entered into another agreement with Dankner for the purchase of additional 20% of the shares of Matav (constituting the remaining holdings of Dankner in Matav) in consideration for approximately NIS 214 million.

   Subsequent to the purchases described in 1 and 2 above, at December 31, 2004, the Group holds about 40% of the shares of Matav.

   The Group presents its investments in Matav by the equity method of accounting. Excess of cost of investments over the book value of Matav upon the date of acquisitions totaled approximately NIS 376 million. Out of the above excess of cost, an amount of approximately NIS 170 million was attributed at this stage to fixed assets in Matav and the balance was attributed to goodwill which is amortized over a period of 20 years.

5. On November 11, 2004, Matav announced the conclusion of the preliminary discussions with Tevel Israel International Communications Ltd. ("Tevel") regarding the acquisition by the Company of the cable operations assets of Tevel. As part of the transaction, Matav is contemplating to issue to Tevel 26% of its share capital, while diluting the existing shareholders. Matav will also assume part of the liabilities of Tevel.

   The parties have not signed any document in connection with the aforesaid transaction and the transaction is subject to the completion of the negotiations between the parties, receipt of different approvals and other conditions. In recent months, the negations did not progress and it cannot be certain that the transaction, as above, will be actually completed.

6. On December 30, 2003, Delek Investments completed a full tender offer for the shares of Commutech Holdings and Investments Ltd. ("Commutech") in consideration for approximately NIS 6 million, except shares which are held by parties related to the controlling shareholder (ultimate linking) of Commutech and the Company. Subsequent to the tender offer, on January 5, 2004, Commutech shares were delisted from the Tel Aviv Stock Exchange.

NOTE 9:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES (Cont.)

In May 2004, Delek Investments completed the purchase of the remaining shares of Commutech which were held, as above, by parties related to the controlling shareholder (ultimate linking) of Commutech and the Company for the same price as paid to the shareholders of Commutech out of the public totaling approximately NIS 9 million. According to the Securities Regulations (Presentation of Transactions Between a Corporation and a Controlling Shareholder Therein in the Financial Statements), 1996, the difference of approximately NIS 6 million between the payment made for the purchase and the carrying amount of the shares in the books of the controlling shareholders is recorded in shareholders' equity. Subsequent to the above acquisition, Delek Investments holds 100% of the shares of Commutech and procedures towards its merger with Delek Investments take place.

7. During 2004, Commutech recognized an impairment loss amounting to approximately NIS 4 million in connection with part of its venture capital investments.

8. As of December 31, 2004, Delek Real Estate holds 17.3% of the share capital of Hof Hacarmel Recreation and Tourism 89 Ltd. and Hof Hacarmel 88 Ltd. ("Hof Hacarmel companies") which are engaged in the establishment and operation of a hotel and apartment hotel. At December 31, 2004, the investment of Delek Real Estate in Hof Hacarmel companies totals approximately NIS 3 million.

   As of December 31, 2004, Hof Hacarmel Recreation and Tourism 89 Ltd. ("Hof Hacarmel 89") has a shareholders' deficiency amounting to approximately NIS 99 million and working capital deficiency amounting to approximately NIS 288 million. The activity of Hof Hacarmel 89 was primarily financed by a bank in the context of financial support, by shareholders' guarantee as well as by long and short-term credit available from related parties.

   In their opinion on the financial statements as of December 31, 2004, the auditors of Hof Hacarmel 89 draw attention to the fact that the going business operation of Hof Hacarmel 89 is dependent upon continuing credit provided by external entities, mainly by banks. It is the estimate of the management of Hof Hacarmel 89 which is based, among other things, on a financial support agreement with said bank and on guarantees provided by shareholders in favor of said bank, that Hof Hacarmel 89 will be able to fulfill its obligations and to continue its operations.

   As for guarantees that Delek Real Estate provided to Hof Hacarmel 89, see Note 23b(5).

9. During 2004, Delek Investments sold some 4% of the shares of Delek Automotive Systems Ltd. in consideration for approximately NIS 115 million. The Group derived a gain of approximately NIS 100 million from the above sale (approximately NIS 68 million net of the tax effect).

NOTE 9:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES (Cont.)

10. In April 2004, Delek US Holdings Inc. ("Delek US") purchased the entire ownership and control rights over a company in the U.S. which owns a chain of 100 gas stations and convenience stores located mainly in Alabama, U.S.A. Delek US paid in consideration for the purchase approximately $ 24 million (approximately NIS 104 million). Goodwill created upon acquisition totals approximately $ 4.7 million (approximately NIS 21 million) and is amortized over a period of 20 years.

    In March 2005, Delek US signed an agreement for the purchase of a refinery and pipe for the transmission of crude oil in Texas, U.S.A. The payment for the purchase is estimated at approximately $ 78 million (including inventory). Delek US intends to finance the investment by shareholders' equity and bank loans (most of the financing). The consummation of the transaction is subject to additional due diligence procedures and to receiving all the required approvals from the entities authorized under the laws of the U.S. and the State of Texas.

    Delek US estimates that in the coming five years an amount of approximately $ 70 million up to $ 90 million will be required to be invested in order to improve the acquired property.

11. An agreement regarding delivery of energy to the desalination facility in Ashkelon:

    On August 5, 2002, Delek Investments established a wholly owned company (indirectly) under the name of IPP Delek Ashkelon Ltd. ("Delek Ashkelon"). Delek Ashkelon is engaged in building a facility for the production of energy that shall deliver electricity to the desalination plant in Ashkelon in the context of the BOT agreements of VID and the State and to others. At the end of the contractual period, the electricity facility will be transferred to the State.

    The operation of the power station at the planned date depends, among other things, on transmission of natural gas to Ashkelon site by May 2005. Since the inland system for transmission of gas is behind schedule, it is expected that the transmission of gas to the power station will be delayed.

    In a letter by the director general of the Ministry of Infrastructure dated April 25, 2002 addressing the partners of Yam Tethys group, it was stated, among other things, that the partners of Yam Tethys group will be granted a license to build and operate a pipe for the transmission of natural gas from the production plant to the entering point of the inland transmission system which is planned at Ashkelon shore/the facility for the production of natural gas at Ashkelon shore; and Delek Ashkelon, which owns interest in Yam Tethys, will be granted a license to build and operate a pipe for the distribution of natural gas to the power station. It was further stated in the letter that the licensees will be entitled to reimbursement from the Israel Electric Corporation in connection with the establishment cost of the pipes, at terms to be determined. It was also stated that if a transmission company is not formed or that, following the decision of the director of the Natural Gas Administration, transmission fees are not paid, the above reimbursement will not be granted.

NOTE 9:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES (Cont.)

Moreover, in a letter by the director of the Israel Electric Corporation dated April 25, 2002 addressing the partners of Yam Tethys group, the Israel Electric Corporation has undertaken to participate in the cost of laying the pipe at a scope conditioned upon the terms stated in the letter and its ownership in the pipe will correspond to its rate of participation in the cost of its establishment. Ex post facto it was noted that on May 6, 2002, the Ministry of Infrastructure informed the Israel Electric Corporation that according to the Law for the Natural Gas Market, 2002, the Israel Electric Corporation cannot have any interests in a pipe for the transmission or distribution of natural gas.

As of the date of the approval of the financial statements, the partners of Yam Tethys group have not yet been granted the license to build and operate an underwater pipe.

Since the State and the Israel Electric Corporation express reservations in connection with their commitments, there is substantial doubt whether indeed a license to build an underwater pipe will be issued under the principles set forth in these letters. The implications of not building an underwater pipe is that the operating date of the power station will become possible only once an inland pipe for the delivery of natural gas to Ashkelon is built by the Government Gas Company, expected to be formed and operated up to July 2006. At this stage, it can not be determined with certainty that the Government Gas Company will achieve its targets.

Further, it is pointed out that, at this stage, there are indications that the cost of building the underwater pipe may be higher than planned and, therefore, it is expected that a decision regarding its establishment will not be accepted.

The partners of Yam Tethys group held negotiations with the Israel Electric Corporation in order to examine the manner and scope of compensation due to a change in the underwater route of the natural gas pipe to Ashdod instead of the original route to Ashkelon which makes the operation of the power station in time impossible.

Any agreement in this respect is pending the approval of the Board of the Israel Electric Corporation.

It is emphasized that despite the aforesaid, different options in the technological and practical aspects are being examined as to reduce the additional costs and expenses which Delek Ashkelon would have to bear in respect of the delay in delivery of natural gas, however, it can not be determined with certainty that these options may be feasible.

As of the date of the approval of the financial statements, Delek Ashkelon is negotiating with the State and with the Israel Electric Corporation in order to realize the commitments of the State and the Israel Electric Corporation as stipulated in the above letters, however, since the parties have not reached any agreements whatsoever and since the State and the Israel Electric Corporation express reservations in connection with their commitments, as aforesaid, it cannot be determined with certainty that the power station will be operated in time. Likewise, at this time it cannot be estimated what the additional costs that Delek Ashkelon will have to bear as a result of the delay in the delivery of gas, if any, are.

NOTE 9:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES (Cont.)

12. Subsequent to the balance sheet date, on January 3, 2005, Shagrir Towing Services Ltd., which is 33.3% owned by Delek Automotive Systems Ltd. and a wholly owned subsidiary of Shagrir ("Shagrir") signed an agreement with Pointer (Eden Telecom) Ltd. ("the buyer"), whereby the buyer purchases from Shagrir all of Shagrir's activity in the field of automobile towing services, road repairs and spare car and all of the assets and liabilities related to this activity.

    The payment for the transaction will be placed at NIS 190 million, payable at closing and an additional amount which equals the value of the net assets in the books of Shagrir upon closing.

    On February 28, 2005, the transaction was closed. The expected gain to Delek Automotive Systems Ltd. from this transaction (net of tax) is estimated at approximately NIS 45 million (the Group's share is approximately NIS 28 million).

    In the context of said agreement, it is determined that upon closing Nexus Telocation Systems Ltd., the buyer's parent company ("Nexus") will grant Shagrir an option to purchase up to 25 million Ordinary shares of NIS 0.03 par value each of Nexus that are listed for trade in the U.S. The option is exercisable from the date of closing up to the end of a 24-month period. The exercise price per share is $ 0.18 (subject to adjustments).

13. A subsidiary has restated its financial statements for prior periods in order to retroactively reflect the change in the adjustment of these financial statements up to December 31, 2003 to NIS adjusted for the changes in the general purchasing power of the Israeli currency based on the changes in the Israeli CPI rather than according to the changes in the exchange rate of the U.S. dollar, as presented by the subsidiary in the past and, beginning January 1, 2004, the financial statements of the subsidiary should be prepared in reported NIS and not in dollars, as presented by the subsidiary. The above change was made since it is the opinion of the Securities Authority Staff that the subsidiary does not comply with the criteria in paragraph 29(a) of Opinion 36 of the Institute of Certified Public Accountants in Israel in view of the fact that the majority of the fixed assets of the subsidiary have not been purchased directly in foreign currency.

    The adjustment in the financial statements of the subsidiary caused an increase of NIS 9 million in the Group's share in the shareholders' equity of the subsidiary (net of minority interest). Since this amount is insignificant compared to the shareholders' equity of the Group, this amount was reported directly in shareholders' equity as of December 31, 2004 in "Foreign currency translation adjustments for investees".

NOTE 9:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES (Cont.)

14. On December 14, 2004, Delek Investments entered into an agreement with Menora Holdings Ltd. ("Menora"), whereby Delek Investments will purchase 9.99% of the issued share capital of Menora by a private placement of Menora in consideration for approximately $ 44 million. Additionally, Delek Investments will be granted an option (exercisable over a period of 18 months) to purchase from Menora additional 5% of the issued and outstanding share capital of Menora in consideration for approximately $ 22 million.

    On March 13, 2005, the above transaction was closed.

15. In certain foreign affiliates, the share of a subsidiary of Delek Real Estate in the book value of these companies is determined on the basis of financial statements prepared in accordance with international accounting principles.

    According to IAS 40, investment property is presented at its fair value and the affiliates included in their statements of income for the year ended December 31, 2004 gain of approximately £ 26.5 million (approximately NIS 220 million) from increase in value of investment property. The fair value of the invetsment property is determined based on a valuation of an indepnedent assessor.

    The share of Delek Real Estate in the incresae in the value of the properties is approximately £ 9.8 million (approximately NIS 81 million). This amount (net of the tax effect of approximately NIS 20 million applicable to Delek Real Estate) was included in the statement of income for the year ended December 31, 2004 as "Equity in eanrings of affiliates".

    Subsequent to the balance sheet date, three affiliates are effecting a refinancing procedure for loans from banks based on the fair value of the properties, as above. The refinancing is expected to be completed by the end of April 2005.

    Delek Real Estate recorded for certain of the affiliates detailed above an impairment of investments of NIS 5 million since the carrying amount of its investments in these affiliates exceeds the recoverable amount, according to Accounting Standard No. 15. The above impairment loss resulted from changes in the value in use of the investments in the affiliates due to a change in the interest rates, on the one hand, and the increase in the carrying amount of these investments, on the other hand. The impairment loss was reported in the statement of income as "Equity in earnings of affiliates".

    One of the foreign affiliates which was established in 2002 effected an interest rate swap transaction which complies with the conditions to act as a hedging transaction on future cash flows (hedging variable interest payments deriving from loan with floating interest). According to international accounting principles, the swap transaction shall be recorded at its fair value and changes in fair value are reported in capital surplus.

NOTE 9:- INVESTMENTS IN INVESTEES AND OTHER COMPANIES (Cont.)

16. In September 2004, a foreign affiliate (49% owned by a subsidiary of Delek Real Estate) entered into an agreement for the sale of seven real estate properties in the U.K. which are used as road service centers ("the properties") in consideration for approximately £ 23.7 million (approximately NIS 192 million). The transaction was closed in December 2004. The payment reflected the carrying amount of the above real estate proprties including the recording of the increase in value, as detailed below.

    The affiliate included in its financial statements for 2004 which were prepared in accordance with international accounting principles, the gain from the increase in the value of properties totaling approximately £ 2.2 million (approximately NIS 17.8 million). The share of Delek Real Estate in the above gain is approximately £ 1.1 million (approximately NIS 9 million and net of tax - NIS 7 million) and it is included as "Equity in earnings of affiliates".

17. In March 2004, a foreign subsidiary (wholly owned and controlled by Delek Real Estate) informed a third party of its right to convert a loan of $ 5.25 million in return for receiving interest (15%) in a corporation which sold an office building in Huston, U.S.A. for approximately $ 129 million (whose cost was approximately $ 110 million). The corporation which sold the building distributed to its holders the cash remaining at the corporation after the sale amounting approximately $ 51 million. The share of Delek Real Estate in this amount totaled approximately $ 7.6 million (approximately NIS 35 million).

    As a result of the aforesaid, the subsidiary derived a pre-tax gain of approximately $ 2.1 million (approximately NIS 9.9 million) and net of tax - approximately $ 1.3 million, net of tax (approximately NIS 6.7 million). The gain from the realization of the right was included in the statement of income as "Other income".

18. On July 15, 2004, a subsidiary of Delek Real Estate and its partners to ownership rights to land in Hod Hasharon (the subsidiary's share - 27%) ("the sellers") entered into an agreement with a third party ("the buyer"), whereby the sellers undertake to sell and transfer to the buyer their entire rights and liabilities in connection with the land in Hod Hasharon as prevailing at the date of delivery of the right of possession in consideration for approximately $ 24.6 million (approximately NIS 111 million). As part of the terms of the agreement, if it is impossible to build a gas station and to issue a permission for a gas station on the area, an amount of $ 1 million (NIS 4.5 million) will be taken from the payment as in the agreement. The Group's share in the gain of Delek Real Estate from this transaction totals approximately NIS 22 million (net of the tax effect - approximately NIS 16 million).

19. As for claims against affiliates, see Note 23a(1) and (6).

20. The list of principal companies and partnerships held by the Group is presented in an appendix to the financial statements.

21. As for charges, see Note 24.

22. The Group encloses to its financial statements the financial statements of the affiliate, Matav.

NOTE 10:- REAL ESTATE FOR RENT

a. Composition:

	Consolidated		
	Properties for rent (1)	Land designated to be constructed for rent	Total
	Reported NIS in millions (except 2003)		
Cost:			
Balance at January 1, 2004	2,978	99	3,077
Additions during the year	9	12	21
Foreign currency translation adjustments for foreign investees	152	-	152
Additions for newly consolidated company	118	-	118
Disposals during the year	(7)	(6)	(13)
Classification of land to properties for rent	2	(2)	-
Balance at December 31, 2004	3,252	103	3,355
Accumulated depreciation:			
Balance at January 1, 2004 (2)	219	-	219
Additions during the year	39	-	39
Foreign currency translation adjustments for foreign investees	8	-	8
Impairment loss	2	2	4
Additions for newly consolidated company	24	-	24
Disposals during the year	(5)	-	(5)
Balance at December 31, 2004	287	2	289
Depreciated cost at December 31, 2004	2,965	101	3,066
Depreciated cost at December 31, 2003 (adjusted NIS in millions)	2,759	99	2,858
Annual depreciation rates	1%-4%	-	

(1) The depreciated cost of properties for rent includes a leased property whose depreciated balance as of December 31, 2004 totals approximately NIS 504 million. The lease period terminates in 2114. Most of the other land is either freehold land or land leased for generations.

(2) Including impairment loss of approximately NIS 8 million.

NOTE 10:- REAL ESTATE FOR RENT (Cont.)

(3) Capitalized borrowing costs:

Consolidated	
December 31,	
2004	2003
NIS in millions	
Reported	Adjusted
11	10

b. As for charges, see Note 24.

NOTE 11:- LAND HELD FOR CONSTRUCTION

a. Composition:

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Land in Moshav Kfar Aharon (1)	99	111
Land in Tel Aviv (2)	97	33
Land in Petach Tiqva (3)	77	-
Land in Netanya (4)	82	-
Other land	48	27
	403	171
Capitalized borrowing costs	10	3

(1) In February 2000, a subsidiary acquired from Moshav Kfar Aharon rights to land with area of some 120 thousand sq.m. designated for construction of 596 residential units and 600 sq.m. of commerce in consideration for approximately $ 25 million. The subsidiary has also undertaken to build for the moshav 48 residential units in consideration for a prepayment in the amount of approximately $ 2.6 million. Up to the balance sheet date, the subsidiary sold 192 residential units out of stages A, B and C which comprise of a total of 211 residential units and which are shown as inventory of buildings for sale. The balance represents the remaining residential units not yet constructed.

The subsidiary has entered into an agreement with a subcontractor for the construction of the residential units. According to the agreement with the subcontractor, payment to the subcontractor will be made by transferring part of the revenues from the sale of the units.

NOTE 11:- LAND FOR CONSTRUCTION (Cont.)

(2) A company which was initially consolidated in 2004, is the registered owner, together with others (in equal parts) of an area with some 68,000 sq.m. on the border of Bavli district in North Tel Aviv. The area was acquired for approximately NIS 5 million and for the commitment to transfer 26% of anticipated revenues from the project. A subsidiary has undertaken to evacuate tenants from the complex at estimated cost of approximately $ 14 million for the establishment of the project.

(3) A company which was initially consolidated in 2004, has the right to construct together with others (the Company's share - 50%) about 874 residential units on land in Petach Tiqva.

(4) A company which was initially consolidated in 2004, has a lease agreement for land in Netanya designated for construction of 648 residential units and commerce areas. The remaining cost represents cost of land for construction of some 500 residential units whose construction has not yet begun.

b. As for charges, see Note 24.

NOTE 12:- LOANS, DEPOSITS AND LONG-TERM RECEIVABLES

a. Composition:

	Weighted annual interest rate (1)	Consolidated December 31,	
		2004	2003
		NIS in millions	
	%	Reported	Adjusted
Financial asset in Cyprus Pounds (2)	6.2	93	96
Loans: (3)			
Linked to the Israeli CPI (6)	5.2	143	138
Linked to the U.S. dollar	3.9	6	35
Unlinked	-	-	2
		149	175
Investment in financial lease transactions, net (5)		1	9
		243	280
Less - current maturities		49	34
		194	246
Long-term receivables		62	53
Deposits and marketable securities designated for investments (4)		9	14
Other		29	14
		294	327

(1) As of December 31, 2004.

(2) See Note 2aa.

(3) Including loans of NIS 106 million provided to owners of gas stations and to other customers of Delek.

(4) Mainly with the intention of investing in the planning and establishment of gas stations.

(5) The balances are in respect of financial lease transactions of facilities for treating water and purifying sewerage for industrial enterprises. The balance at December 31, 2004 includes a write down of NIS 9 million (2003 - NIS 4 million) relating to the decrease in the value of the above transactions.

(6) As of December 31, 2004, includes approximately NIS 9 million to related parties, see also Note 34f.

NOTE 12:- LOANS, DEPOSITS AND LONG-TERM RECEIVABLES (Cont.)

b. Collection dates:

	Consolidated
	December 31, 2004
	Reported NIS in millions
First year - current maturities	49
Second year	23
Third year	38
Fourth year	20
Fifth year	17
Sixth year and thereafter	96
	243

c. Details of the loans by the balances of the borrowers as of December 31, 2004:

Balance in NIS in millions	Number of loans	Reported NIS in millions
Up to 1	75	21
From 1 to 5	41	98
From 5 to 10	2	12
Over 10	2	112
	120	243

d. As for charges, see Note 24.

NOTE 13:- FIXED ASSETS

a. Composition and change:

	Consolidated				
	Land and buildings	Machinery, facilities and equipment	Motor vehicles and airplane (2)	Office furniture and equipment	Total
	Reported NIS in millions (except 2003)				
Cost:					
Balance at January 1, 2004	1,190	1,208	129	160	2,687
Additions during the year	77	244	12	31	364
Additions for newly consolidated companies	208	84	1	5	298
Foreign currency translation adjustments for investees	(11)	7	-	2	(2)
Disposals during the year	(14)	(24)	(78)	(3)	(119)
Balance at December 31, 2004	1,450	1,519	64	195	3,228
Accumulated depreciation:					
Balance at January 1, 2004	271	627	45	108	1,051
Additions during the year	48	67	8	16	139
Additions for newly consolidated companies	3	1	1	5	10
Foreign currency translation adjustments for investees	1	4	-	2	7
Disposals during the year	(7)	(11)	(14)	(3)	(35)
Balance at December 31, 2004	316	688	40	128	1,172
Depreciated cost at December 31, 2004	1,134	831	24	67	2,056
Less - provision for impairment (1)	16	27	-	-	43
Balance of depreciated cost at December 31, 2004	1,118	804	24	67	2,013
Balance of depreciated cost at December 31, 2003 (adjusted NIS in millions)	902	569	83	53	1,607

(1) During 2004, a consolidated partnership included an impairment loss of plants for the production of electricity and steam in the amount of approximately NIS 18 million which is included in other expenses. The recoverable amount of these plants was determined based on the proceeds expected to be received from the sale of the above plants based on negotiations for the sale of the plants and the sale of one of them.

(2) On May 10, 2004, the general meetings of the Company and of Delek Automotive Systems Ltd. ("DAS") approved an agreement whereby the subsidiaries entered into an agreement for the sale of their share in the executive airplane to Elad Group Ltd. (a company owned and controlled by the controlling shareholder in the Company). The price of the transaction totalled approximately $ 13.4 million (approximately NIS 59 million), based on a valuation made to the airplane in January 2004. The payment approximates the value of the airplane in the Group's books.

NOTE 13:- FIXED ASSETS (Cont.)

(3) Capitalized borrowing costs:

December 31,	
2004	2003
NIS in millions	
Reported	Adjusted
29	23

b. As for charges, see Note 24.

NOTE 14:- OTHER ASSETS AND DEFERRED CHARGES

	Consolidated				
	Goodwill from acquisition of subsidiaries	Deferred taxes	Expenses relating to issuance of debentures and obtaining long-term loans	Prepaid expenses and other	Total
	Reported NIS in millions (except 2003)				
Cost	646	79	125	37	887
Accumulated amortization	94	-	35	17	146
Balance to be amortized at December 31, 2004	552	79	90	20	741
Balance to be amortized at December 31, 2003 (adjusted NIS in millions)	327	51	78	18	474

NOTE 15:- SHORT-TERM CREDIT FROM BANKS AND OTHERS

a. Composition:

	Annual interest rate (1)	Consolidated December 31, 2004	Consolidated December 31, 2003
	%	NIS in millions Reported	NIS in millions Adjusted
From banks:			
In foreign currency:			
In or linked to U.S. dollars	4.4	811	898
CD dollar	4.3	98	82
Pound Sterling	6.9	4	11
Swiss Franc	1.5	11	92
Japanese Yen	1.6	14	51
Euro	2.9	93	79
		1,031	1,213
In Israeli currency:			
Linked to the Israeli CPI	4.6	279	161
Unlinked	5.2	829	399
Liabilities for short sale (2)	-	41	20
		1,149	580
From others:			
Marketable securities:			
Unlinked	4.3	139	-
Linked to the U.S. dollar	3.1	108	-
		247	-
Current maturities of convertible debentures		23	23
Current maturities of debentures		221	18
Current maturities of long-term loans		728	869
		972	910
		3,399	2,703

(1) Most of the loans bear interest at variable rate. The rate presented is a weighted average as of December 31, 2004.

(2) In respect of short sale of marketable securities (mainly short-term bill, and Government bonds type Galil).

NOTE 15:- SHORT-TERM CREDIT FROM BANKS AND OTHERS (Cont.)

b. As for obligations to comply with financial covenants, see Note 18c.

c. As for securities, see Note 24.

NOTE 16:- TRADE PAYABLES

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
In or linked to foreign currency *)	714	616
In Israeli currency	374	261
	1,088	877

*) As of December 31, 2004, an amount of NIS 391 million is linked to the Japanese Yen (2003 - an amount of NIS 387 million was linked to the Japanese Yen).

NOTE 17:- OTHER ACCOUNTS PAYABLE

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Government authorities	198	133
Deferred revenues and accrued expenses	120	104
Customer advances	50	42
Salary and payroll accruals *)	62	56
Dividend to minority in subsidiary	4	-
Related parties	2	5
Liabilities in respect of derivative transactions	37	17
Accrued expenses and other	121	103
	594	460

*) As of December 31, 2004, including an amount of approximately NIS 9 million relating to liabilities of a subsidiary in the U.S. to its employees due to certain privileges given to them (such as medical insurance, sick leave etc.) and relating to other potential liabilities of the subsidiary. The subsidiary computes the above liabilities in accordance with the prescribed liability limit per each potential type of claim and based on claims filed and estimates as to claims whose cause had occurred but were not yet reported to the subsidiary. Employee privileges in excess of certain limits are secured.

NOTE 18:- LONG-TERM LOANS FROM BANKS AND OTHERS

a. Composition and terms:

	Annual interest rate (1)	Consolidated December 31, 2004	Consolidated December 31, 2003	The Company December 31, 2004	The Company December 31, 2003
		NIS in millions			
	%	Reported	Adjusted	Reported	Adjusted
Loans from banks:					
In or linked to the U.S. dollar	3.7	1,510	1,515	-	-
In Pound Sterling	6.2	1,334	1,327	-	-
In CD dollar	6.0	954	920	-	-
In or linked to the Swiss Franc	5.3	84	81	-	-
In or linked to the Euro	4.0	136	39	-	-
Linked to the Israeli CPI	5.5	819	764	-	-
Unlinked	7.4	11	112	-	-
Liabilities for short sale (2)		125	179	-	-
		4,973	4,937	-	-
Loans linked to the Israeli CPI from subsidiaries	5.6	-	-	229	214
Loans from minority shareholders in subsidiary (3)		15	14	-	-
Loans from others - linked to the Israeli CPI	6.2	149	-	-	-
		5,137	4,951	229	214
Less - current maturities		728	869	-	-
		4,409	4,082	229	214

(1) Most of the loans bear interest at variable rate. The rate presented is a weighted average as of December 31, 2004.

(2) In respect of short sale of marketable securities (mainly Government bonds type Galil).

(3) The loans are in Pound Sterling, do not bear interest and their repayment date was not yet determined.

NOTE 18:- LONG-TERM LOANS FROM BANKS AND OTHERS (Cont.)

b. Maturity dates:

	Consolidated	The Company
	December 31, 2004	
	Reported NIS in millions	
First year - current maturities	728	-
Second year	612	-
Third year	736	-
Fourth year	480	44
Fifth year	714	-
Sixth year and thereafter	1,686	-
Undetermined yet *)	181	185
	5,137	229

*) The loans (consolidated) have been obtained in the course of 2004 as part of a financing agreement signed between a subsidiary, Delek Ashkelon, and a bank which provided Delek Ashkelon financing for building a power station. According to the financing agreement, the loans are to be repaid on a quarterly basis over a period of 13 years beginning at the earlier of four months after the completion of the establishment of the power station or 36 months from the date of the approval of the financing agreement (July 13, 2003).

c. Additional information:

1. As for short and long-term loans from banks whose balance as of December 31, 2004 is approximately NIS 1,287 million, Delek - The Israel Fuel Corporation Ltd. ("Delek") has undertaken to maintain irrevocable covenants towards certain banks in Israel ("the banks"), according to which:

   (i) Shareholders' equity in the Company's consolidated balance sheet will not be below NIS 680 million;

   (ii) The Company's operating income shall exceed its financial expenses in respect of loans type non-recourse given to the Group companies, financial expenses in respect of loans to finance the reserve inventory of fuels and 140% of the other financial expenses of the Company.

   If these covenants are not satisfied, the banks may either demand additional collaterals or reduce the amount of loans provided to Delek. The undertaking towards each of the banks is in effect as long as the liabilities to that bank in respect of loans are not below $ 50 million (in certain banks - the lower of $ 50 million or 60% of approved obligo).

   As of balance sheet date, the Company is complying with the above financial covenants.

NOTE 18:- LONG-TERM LOANS FROM BANKS AND OTHERS (Cont.)

2. As collateral for liabilities to banks of a subsidiary in the U.S. amounting to approximately $ 175 million (approximately NIS 754 million), the subsidiary pledged all of its assets. In addition, in the loan agreements it is stated that if the subsidiary does not satisfy certain financial covenants, the banks may be entitled, among other things, to demand early repayment of the above loans. As of December 31, 2004, the subsidiary is complying with the above financial covenants.

3. In connection with loans from banks whose balance as of December 31, 2004 is approximately NIS 339 million, additional subsidiaries have undertaken to maintain certain financial covenants mainly in connection with the amount of their shareholders' equity and the ratio of capital to total balance sheet. As of the date of the financial statements, the subsidiaries are complying with the required financial covenants, as above. In addition, a subsidiary has undertaken towards a bank that as long as the loans are not being repaid, the subsidiary will not be able to distribute dividends exceeding 50% of net income and the subsidiary was restricted as to the management fees payable to the Company.

4. As for short-term loans from banks whose balance as of December 31, 2004 is approximately NIS 436 million, Delek Motors (subsidiary) has undertaken that its shareholders' equity will not drop below 30% of its total assets.

   As of December 31, 2004, Delek Motors is not complying with the above financial covenants toward the banks (said rate totaled about 25.5%).

   The subsidiary's management believes that the above non compliance is temporary and it will not impair the subsidiary's ability to obtain loans from banks, if so required.

d. As for collaterals, see Note 24.

NOTE 19:- CONVERTIBLE DEBENTURES

a. Composition:

	Consolidated and the Company	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Debentures (series A1) (1)	47	56
Debentures (series A2) (1)	93	107
Debentures (series B2) (1)	1	1
Debentures (series E) (2)	485	479
	626	643
Less - current maturities	23	23
	603	620

b. Information about debentures:

1. On July 31, 2001, the Company effected a private placement of non-marketable debentures, convertible into the Company's shares for the aggregate consideration of approximately NIS 156 million. The debentures are registered, of NIS 1 par value and issued in three series as follows:

   Debentures (series A1) at par value of NIS 55 million are linked to the Israeli CPI, bear annual interest at the rate of 4.1% and are convertible into Ordinary shares of the Company of NIS 1 par value at the conversion rate of NIS 400 par value of debentures per Ordinary share of NIS 1, subject to predetermined adjustments. The debentures were issued at discount for 92% of their par value. At December 31, 2004, the outstanding amount of debentures is 46,761,429 par value and the conversion rate after adjustments is approximately NIS 372 par value of debentures per Ordinary share of the Company.

   Debentures (series A2) at par value of NIS 108 million are linked to the Israeli CPI, bear annual interest at the rate of 4.1% and are convertible into Ordinary shares of the Company of NIS 1 par value at the conversion rate of NIS 450 par value of debentures per Ordinary share of NIS 1, subject to predetermined adjustments. The debentures were issued at discount for 91% of their par value. At December 31, 2004, the outstanding amount of debentures is 92,549,143 par value and the conversion rate after adjustments is approximately NIS 422 par value of debentures per Ordinary share of the Company.

NOTE 19:- CONVERTIBLE DEBENTURES (Cont.)

Debentures (series B2) at par value of NIS 1 million are unlinked, bear annual interest at the rate of 5.85% and are convertible into Ordinary shares of the Company of NIS 1 par value at the conversion rate of NIS 450 par value of debentures per Ordinary share of NIS 1, subject to predetermined adjustments. The debentures were issued at discount for 91% of their par value. At December 31, 2004, the outstanding amount of debentures is 857,143 par value and the conversion rate after adjustments is approximately NIS 422 par value of debentures per Ordinary share of the Company.

The interest on the debentures is paid annually on August 14 of each of the years until 2010. The principal of the debentures is redeemable in seven equal annual payments on August 14 of each of the years 2005 to 2010.

2. During 2003, the Company effected several private placements of non-marketable debentures, convertible into the Company's shares for the aggregate consideration of approximately NIS 475 million.

Registered debentures (series E) were issued at par value of NIS 499 million. The debentures are linked to the Israeli CPI, bear annual interest at the rate of 5.5% (except in the first year - the annual interest and linkage were determined to be at the minimal rate of 8.39%) and are convertible into Ordinary shares of the Company of NIS 1 par value at the conversion rate of NIS 420 par value of debentures per Ordinary share of NIS 1 par value, subject to predetermined adjustments. The debentures were issued at discount for 95% of their par value. At December 31, 2004, the outstanding amount of debentures is 499,494,407 par value and the conversion rate after adjustments is approximately NIS 406 par value of debentures per Ordinary share of the Company.

The interest on the debentures (series E) was first paid on December 9, 2003 and it is subsequently payable on June 9 and December 9 of each of the years 2004 to 2008. The last interest payment will be made on June 9, 2009. The principal of the debentures is redeemable in four equal annual payments on June 9 of each of the years 2006 to 2009.

c. Redemption dates as of December 31, 2004:

	Consolidated and the Company
	Reported NIS in millions
First year - current maturities	23
Second year	145
Third year	145
Fourth year	145
Fifth year	145
Sixth year	23
	626

NOTE 20:- OTHER DEBENTURES

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2004	2003	2004	2003
	NIS in millions			
	Reported	Adjusted	Reported	Adjusted
Debentures (series C) (1)	128	128	128	128
Debentures (series D) (1)	19	19	19	19
Debentures (series F) (2)	1	-	1	-
Debentures issued by subsidiaries (3) - (8)	710	196	-	-
	858	343	148	147
Less - current maturities	221	18	147	-
	637	325	1	147

b. Information about debentures:

1. On January 30, 2002, the Company effected a private placement of two series of debentures at the total monetary scope of NIS 150 million.

   The first series (series C) is in the amount of NIS 122 million par value. The debentures of this series are linked to the Israeli CPI and bear annual interest at the rate of 4.8%. The principal of the debentures is redeemable in one amount on July 31, 2005.

   The second series (series D) is in the amount of NIS 18 million par value. The debentures of this series are linked to the Israeli CPI and bear annual interest at the rate of 4.4%. The principal of the debentures is redeemable in one amount on January 31, 2005.

   The balance of debentures included in the consolidated balance sheet as of December 31, 2004 totals NIS 147 million.

2. On December 30, 2004 and between January to March 2005, the Company effected a private placement of debentures (series F) to institutional investors at the total monetary scope of NIS 300 million par value. The debentures are linked to the Israeli CPI and bear annual interest at the rate of 5.25%, payable twice a year. The principal of the debentures is redeemable in five equal annual payments from 2006 to 2010.

   A significant portion of the proceeds from the issuance of these debentures has been received at the beginning of 2005.

NOTE 20:- OTHER DEBENTURES (Cont.)

3. The balance of debentures includes debentures issued by Gal Shoham Petroleum Company Ltd., Delek's subsidiary, traded on the Tel Aviv Stock Exchange. At December 31, 2004, the outstanding amount of debentures is NIS 15,545,257 par value. The debentures are linked to the Israeli CPI, bear annual interest at the rate of 7% and are redeemable in equal payments from 2005 to 2006. As collateral for the redemption of the debentures, the subsidiary recorded a senior fixed charge on its rights to the bank account in which all the issuance proceeds were deposited and on its rights to the gas stations in which the cash withdrawn from the proceeds account was invested.

   The balance of the above debentures included in the consolidated balance sheet as of December 31, 2004 and their market value is approximately NIS 15 million.

4. In the context of a public issuance of securities of Delek Bellron International Ltd., a subsidiary ("Bellron"), NIS 80 million par value of registered debentures of NIS 1 par value bearing annual interest of 6.25% were issued in May 2000. The debentures (principal and interest) are linked to the Israeli CPI. The principal of the debentures is redeemable in 4 equal payments of approximately NIS 12 million on June 30 of each of the years 2005 to 2008.

   In 2004, a subsidiary sold NIS 6,150,000 par value of debentures which it held in consideration for approximately NIS 7 million.

   The balance of debentures included in the consolidated balance sheet as of December 31, 2004 totals NIS 48 million. The market value for the debentures as of December 31, 2004 is approximately NIS 52 million.

   All of the debentures are secured by the Company.

5. In 2000 and 2001, Delek Real Estate issued to Mivtahim National Insurance Institution of the Employees Ltd. ("Mivtahim") debentures whose balance as of December 31, 2004 totals approximately NIS 66 million (including accrued interest). The debentures bear annual interest at the rate of 6.5% and are linked (principal and interest) to the Israeli CPI.

   According to an agreement between Delek Real Estate and Mivtahim, the entire amount of the debentures (the principal including linkage differences and accrued interest) will be converted into Delek Real Estate shares close before effecting a public issuance of Delek Real Estate shares, if effected. The number of shares that Mivtahim is entitled to will be determined based on the issue price. If the debentures are not converted into shares, they will be redeemed at the end of five years from the date of their issuance (including, in certain circumstances, an option to extend the period by either Delek Real Estate or Mivtahim).

   All of Delek Real Estate's liabilities to Mivtahim, as per the agreement of Delek Real Estate, are secured by the Company.

NOTE 20:- OTHER DEBENTURES (Cont.)

Besides the issuance of debentures described above, in December 2000 Delek Real Estate issued to Mivtahim shares which constitute 7.5% of the issued share capital of Delek Real Estate. According to the agreement between Delek Real Estate and Mivtahim, if by the end of five years Delek Real Estate does not effect a public issuance of shares, Mivtahim shall be entitled to convert the issued shares into marketable shares of other companies of Delek Group based on the conversion rates determined in the agreement. If the shares of Delek Real Estate are not converted into marketable shares, as aforesaid, Mivtahim may demand that the Company pay for the shares in cash.

In view of the aforesaid, the Company deferred the debt totaling approximately NIS 24 million incurred from the issuance of shares, as aforesaid.

6. In September 2002, Delek Energy Systems Ltd., through its wholly owned subsidiary, effected a private placement of securities - debentures (series A and series A1) and stock options whose balance as of December 31, 2004 totals approximately NIS 70 million.

   The debentures are redeemable in five equal annual payments in 2006 to 2010 and they are linked to the Israeli CPI. The debentures (series A1) (approximately NIS 68 million) bear annual interest at the rate of 7.75%. The debentures (series A) (approximately NIS 2 million) bear current annual interest at the rate of 6% and deferred annual interest at the rate of 1.75% and they are convertible at certain dates and under certain conditions into debentures (series B) and into Ordinary shares of Delek Energy Systems.

   In addition, Delek Energy Systems issued to the offerees of the debentures (series A and series A1) registered stock options, non-marketable and exercisable into shares of Delek Energy Systems under certain conditions.

   The debentures are secured by a guarantee of the Company and, if certain predetermined conditions are met, the guarantee will be forfeited in whole or in part. In addition, Delek Energy Systems recorded a senior fixed charge on its right to receive royalty from Delek Drilling in connection with the share of Delek Drilling in gas produced in Ashkelon and Noa drills, as outlined in the debentures deed of trust.

7. In January 2004, Delek Petroleum issued debentures to institutional entities at the scope of NIS 170 million.

   The debentures are linked to the Israeli CPI, bear annual interest at the rate of 5.7% and are redeemable in six equal annual payments on February 1 of each of the years 2008 to 2013. The interest is payable annually beginning February 1, 2005.

   As collateral for the payments of the principal and the interest, Delek recorded a senior fixed charge, unlimited in amount, on all of its rights in connection with loans that Delek provided to the Company. In addition, Delek provided a guarantee, unlimited in amount, towards the holders of debentures to secure redemption of debentures.

NOTE 20:- OTHER DEBENTURES (Cont.)

In March 2004, Delek Petroleum effected a private placement of additional debentures in the aggregate amount of approximately NIS 30 million, redeemable in two equal payments in 2008 and 2009. Of the above balance, an amount of NIS 9 million is linked to the Israeli CPI and bears annual interest at the rate of 6.3% and the balance, approximately NIS 21 million, is linked to the exchange rate of the U.S. dollar and bears annual interest at the rate of 6%. As collateral for the payments of the principal and the interest, Delek provided a guarantee, unlimited in amount, towards the holders of debentures.

In November 2004, Delek Petroleum effected a private placement of debentures (series D) in the aggregate amount of NIS 50 million to institutional entities. The debentures are redeemable in one payment on November 15, 2010, while giving the investors an option for early redemption in November 2006 or 2008 (the dates of change of interest).

The debentures are linked to the Israeli CPI and bear annual linked interest at the following rates: in the first and second year - 5.1%; in the third and fourth year - 5.3% and in the fifth and sixth year - 5.5%. The interest is payable annually beginning November 20, 2005.

The balance of debentures included in the consolidated balance sheet as of December 31, 2004 in respect of debentures issued by Delek Petroleum totals NIS 253 million.

Subsequent to the balance sheet date, in March 2005, Delek Petroleum effected a private placement of additional debentures (series D) in consideration for approximately NIS 204 million.

As collateral for the payments of the principal and the interest of the above debentures, Delek provided a guarantee, unlimited in amount, towards the holders of debentures.

8. During 2004, Delek Real Estate effected a private placement of debentures to institutional entities at the scope of NIS 261 million, of which NIS 65 million is linked to the Israeli CPI, bears annual interest at the rate of 5.65% and is redeemable in 40 equal quarterly payments up to 2014. The balance of the debentures, approximately NIS 196 million, is linked to the Israeli CPI, bears annual interest at the rate of 6.3% and is redeemable in 8 equal annual payments beginning January 2005.

   As part of the collaterals for the debentures of Delek Real Estate, Bellron recorded a second ranked charge on the cash flows (after payment of principal and interest to the holder of the senior charge) from properties in the U.K. which are cross pledged and which are owned by foreign companies as well as a senior charge on the shares of a foreign company which owns a real estate property.

   Furthermore, Bellron has undertaken that if during 2004 to 2009 the expected pledged cash flows decrease then a default event occurs and a second ranked charge on free cash flows from other investment properties overseas will be recorded in favor of the senior creditor.

NOTE 20:- OTHER DEBENTURES (Cont.)

The balance of debentures included in the consolidated balance sheet as of December 31, 2004 in respect of the above debentures totals NIS 258 million.

9. Subsequent to the balance sheet date, in March 2005, the Company effected a private placement of NIS 200 million par value of non-marketable debentures (series G) redeemable in four equal annual payments in each of the years 2008 to 2011 and bearing annual interest at the rate of 3.95% and 400 thousand stock options each of which is exercisable into one Ordinary share of NIS 1 par value of the Company (under the conditions stipulated below). The debentures were issued for their full price and without any collaterals whatsoever and the stock options were issued without consideration.

The stock options were issued in five series of 80 thousand stock options each which are exercisable into the Company's shares under the following terms and dates:

Stock options	Exercise increment (NIS)	Exercisable up to
Series 1	440	March 2006
Series 2	484	March 2007
Series 3	523	March 2008
Series 4	559	March 2009
Series 5	590	March 2010

The exercise increment is linked to the Israeli CPI (subject to adjustments).

c. Redemption dates subsequent to the balance sheet date are as follows:

	Consolidated	The Company
	December 31, 2004	
	Reported NIS in millions	
First year - current maturities	221	147
Second year	87	-
Third year	79	-
Fourth year	57	-
Fifth year	89	-
Sixth year and thereafter	325	1
	637	1
	858	148

NOTE 21:- ACCRUED SEVERANCE PAY, NET

a. Composition:

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Liability for compensation, pension and early retirement	19	21
Less - amount funded	5	4
Total	14	17

b. The Group companies' liabilities for severance pay to most of the employees are covered by current payments to provident and pension funds and to insurance companies. The amounts deposited with provident and pension funds and with insurance companies are not under the control and management of the companies and, therefore, they and the respective liabilities are not reflected in the balance sheet. The Group companies' liabilities for severance pay not included in pension and insurance plans are recorded in the balance sheet according to the law and labor agreements and this also taking into account past experience and the anticipated dismissal in the future.

The amounts accrued in compensation funds include retained earnings and can be withdrawn only upon the fulfillment of the obligations under labor agreements or the Severance Pay Law.

c. The amount refers to several retired employees to whom the Group pays pension. The liability for pension to these employees is based on an actuary computation.

NOTE 22:- OTHER LIABILITIES

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Deferred credit balance *)	24	24
Expenses for obligations associated with the retirement of a drilling platform (see Note 2r)	14	-
Other (mainly for rent and deferred revenues)	29	17
	67	41

*) See Note 20b(5).

NOTE 23:- CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

a. Contingent liabilities:

1. In previous years, two requests to authorize class action lawsuits at substantial amounts were filed against an affiliate, Amisragas - the American Israeli Gas Corporation Ltd. ("Amisragas") and additional gas companies.

   As for one claim which relates to an alleged breach of a liability to perform safety checks on the part of Amisragas, the Court has dismissed the financial aspect of the request and has approved to file a class action suit calling for a declaratory judgment concerning the right of customers to reclaim from Amisragas all amounts paid by them in cases where safety checks were not performed. The defendants filed an appeal on this decision with the Supreme Court.

   As for the second claim which relates to the plaintiffs argument that the collection of fixed monthly fees from customers with central gas installation constitutes a breach of agreement, the Court has not yet given its decision. In the context of this lawsuit, the amount claimed from Amisragas is approximately NIS 200 million.

   In December 2003, an additional request to authorize a class action lawsuit was filed with the Tel Aviv District Court against Amisragas and three other gas companies in the aggregate amount of NIS 1 billion. The claim relies on a claim which was filed in April 2004 by the Anti-Trust Authority against the defendants concerning the existence of a cartel and coordination of prices between them in 1994 to 1999.

   Furthermore, the Tax Authorities issued to Amisragas orders relating to previous years in which Amisragas' appeal to the District Court was dismissed and, later, Amisragas submitted an appeal to the Supreme Court. It is the estimate of Amisragas' management that, at this time, the effect, if any, of said proceedings on Amisragas' businesses cannot be predicted.

   As for an arbitration procedure relating to a dispute between Amisragas and the distributors of the gas, during the third quarter of 2004, the given arbitration reward determines the liability of Amisragas toward the distributors of the gas. Amisragas submitted an appeal to the District Court to cancel the arbitration reward. In view of the arbitration reward, the Group's share in updating the provision in Amisragas books totaled in the reported period approximately NIS 4 million.

   As of December 31, 2004, the Group's investment in Amisragas totals approximately NIS 122 million.

2. In February 2000, a request to authorize a class action lawsuit against Delek - The Israel Fuel Corporation Ltd. ("Delek") and two other petroleum companies was filed with the Jerusalem District Court regarding alleged coordination of the prices of diesel fuel between them. In December 2004, the above lawsuit and request were dismissed.

NOTE 23:- CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

3. In January 2002, a request to authorize a class action lawsuit against a subsidiary, Delek Motors, was filed with the Tel Aviv District Court. The amount of the claim of the individual plaintiff is NIS 2,000 and, in the event that the claim is authorized as a class action lawsuit, the total amount of the claim for the entire group of plaintiffs amounts to approximately NIS 72 million.

   The request to authorize a class action lawsuit is based, principally, on the argument that the subsidiary's customers were obligated to have their vehicles serviced during the warranty period only at authorized garages because, it is alleged, there was a condition that warranty would only be provided if service was performed at authorized garages. Also, an argument was presented regarding the obligation of customers and garages to purchase original spare parts imported by the subsidiary for purposes of servicing the vehicles during the warranty period.

   In September 2004, the Court approved a wording for a compromise arrangement in the above procedure. The compromise agreement determines that during a one-year period the owners of vehicles which comply with certain criteria may be entitled to a discount when either buying a new vehicle or when having a periodical service. As a result of this compromise arrangement, the expected damage to the subsidiary is not expected to be material.

   In November 2004, the Israeli Consumer Council submitted an announcement to the Court whereby it is arguing against the arrangement and, therefore, the Court requested to receive the position of the attorney general as well. In February 2005, the attorney general delivered his response in which he supports the cancellation of the compromise arrangement. In March 2005, in a hearing which took place at Court, the Court requested that the parties strive to reach an understanding as to the compromise settlement during one month (up to mid-April 2005).

   It is the estimate of the subsidiary's management, based, among other things, on the advice of its legal counsel, that if it is agreed on revisions to the compromise settlement they are not expected to be material to the subsidiary and, alternatively, if the parties do not reach an understanding as to a compromise settlement, the Court will not cancel the judgment approving the current compromise settlement. In view of the aforesaid, no provision has been made in respect of this procedure in the financial statements.

4. Claims filed against a subsidiary, Gadot Biochemical Industries Ltd. ("Gadot") and others addressing the activities of Gadot in the area of the Kishon river:

   (a) Gadot and others were sued by 47 fishermen for compensation in respect of damages allegedly caused to them as a result of activity in the Kishon Fishing Basin. According to the plaintiffs who are fishermen in the Kishon Port, the river's condition, for which the defendants are responsible, resulted in the plaintiffs becoming ill with cancer. The amount of the claim reaches some tens millions of NIS. Gadot filed a statement of defense and has delivered third party notices.

NOTE 23:- CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

(b) Two claims against Gadot and others which were joined in a consolidation of hearing since they concerned like matters were filed by owners of fishing ships and yachts alleging property damage and loss of salary due to the condition of the Kishon river and the fact that the treated industrial waste water flows to the river.

The total amount sued by both claims together is placed at approximately NIS 9 million. Gadot filed a statement of defense and has delivered third party notices.

(c) A third party notice was delivered to Gadot and 22 other entities by Haifa Chemicals Ltd. which was sued directly by a former soldier of the navy for personal injury and becoming ill with cancer which is the outcome of his activity during military service in the Kishon river. Currently also fourth and fifth party notices have been delivered as a result of notices submitted by the respondents to third party notices, among which is the State of Israel. It is definite that the plaintiff's personal injury is considerable and that the amount of the claim will also consist of, besides personal injury, pain and agony, also loss of salary and a lot of expenses for medical treatment. Gadot filed a statement of defense.

(d) In May, July and August 2004, third party notices were delivered to Gadot and other entities by Haifa Chemicals Ltd. which was sued directly by 94 IDF soldiers and/or their inheritances for personal injury and becoming ill with diseases which, they argue, is the outcome of their activity during military service in the Kishon river, Haifa port, Shemen coast and the surrounding water. The amount of the claim reaches hundreds of millions of NIS. On September 2, 2004, Gadiv Petrochemical Industries Ltd. and Oil Refineries Ltd. (see also (g) below) delivered fourth party notices in this case against Gadot. The Company has not yet presented a statement of defense.

(e) A class action lawsuit was filed against Gadot and other entities, by virtue of the Law for the Prevention of Environmental Hazards, 1992, whose essence is the issuance of an injunction to immediately cease the flow of polluted waste water, as defined in the claim, to the river and to prohibit such flow of waste water in the future and mandatory injunction to restore the river to its previous condition. A statement of defense as well as a separate request to strike in limine were submitted. A hearing in these requests took place on January 20, 2005, however, it was not completed and the case was scheduled for a continued hearing.

(f) On January 15, 2004, Gadot and other entities were sued by Israel Shipyards alleging that pollution of the Kishon river by the defendants caused the plaintiffs various property damages. The amount of the claim is approximately NIS 21 million. Gadot filed a statement of defense in which it rejects the claim and delivered third party notices.

NOTE 23:- CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

(g) In connection with certain claims regarding the Kishon river, over the recent years Gadot received letters from Oil Refineries Ltd., a related party in Gadot ("ORL") and from Gadiv Petrochemical Industries Ltd. (owned by ORL, "Gadiv") in which ORL and Gadiv inform Gadot that Gadot will bear responsibility and cost of claims, in whole or in part, if and as far as Gadot is found liable in the above claims on a ground preceding January 31, 1994. Gadot's responsibility derives from the stated in an agreement from March 1994 between Gadot, ORL and other shareholders of Gadot at that time as to the sale of Gadiv from Gadot to ORL.

The above proceedings are in preliminary stages. In practice, part of the cases have not yet been heard and part are only in early proceedings. Hearings in the cases have not yet taken place and in most cases not all parties have submitted their opinions and affidavids. Moreover, the above claims contain difficult factual disputes and many of the facts in these cases that have to be decided upon are yet unknown to Gadot. In addition, the complexity and problematic character of the above procedures is extreme and it derives, among other things, from the fact that most of the claims address events which last for already many years, the number of entities involved is large, including the Government and local authorities, so that the responsibility and share of each party in the claim cannot be assessed and there is a scientific problem to determine the proximate cause between the flow of waste water and the damage claimed by the plaintiffs. Gadot's legal counsel is of the opinion that, at this stage, the risk to Gadot as a result of the above claims and proceedings cannot be assessed. Nonetheless, at this stage it seems that in relation to part of said claims and proceedings the chances that Gadot will be charged with a substantial amount is not probable. It is the opinion of Gadot's management that in view of all the uncertainty factors that exist in all of said claims and proceedings and due to their complexity and difficulties, at this stage the chances of these claims and procedures cannot be assessed and, accordingly, no provision has been made in respect thereof in the financial statements.

5. During the reported year, the Fuel Administration filed a comprehensive claim of approximately NIS 120 million (Delek's share is approximately NIS 50 million), against Delek, three other petroleum companies, ORL and Petroleum and Energy Infrastructures Ltd. ("PEI"). The Administration argues that the sued companies have allegedly neglected in treating reserve inventory of crude oil, which, as ORL claims has turned into "sludge" and that the Fuel Administration is entitled to be compensated for amounts paid to the defendants in connection with storage, financing and insurance of the inventory since 1989. It is the opinion of Delek management, based, among other things, on the advice of its legal counsels, that the main claims are against ORL and PEI and, therefore, the chances of the claim to prevail against Delek are remote and, accordingly, no provision has been made in respect of this lawsuit in the financial statements.

NOTE 23:- CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

6. In previous periods, several lawsuits, including requests to authorize part as class action lawsuits were filed against Matav and others which aggregate in significant amounts (hundreds of millions of NIS). Part of the claim addresses the amount of subscription fees that Matav has charged from its subscribers, not connecting residents of peripheral settlements to the cable networks, non-compliance with the conditions of the Council for Cable and Broadcasting as to broadcasting a certain channel, claims for alleged breach of copyrights of various producers and breach of agreements to purchase various transmission rights and etc.

   It is the opinion of Matav's management, based on the opinion of its legal counsel, that, at this stage, the chances of the above claims cannot be assessed and, accordingly, no provision has been made in respect of most of these lawsuits in the financial statements of Matav. As for additional details, see Note 15 to Matav's statements which are enclosed to this report.

7. Several lawsuits were filed against investees of Delek Real Estate in connection with projects in the field of real estate in which the investees participated. The amounts sued up to the date of filing the lawsuits total approximately NIS 115 million. It is the opinion of the management of the investees of Delek Real Estate, among other things, based on the advice of their legal counsel, that the amounts to be charged from the companies will not exceed the provisions made in the financial statements.

8. In previous years, the State of Israel filed against Delek third party notices regarding claims filed by owners and operators of gas stations for refunding investment in the establishment of the gas stations. The filed claims aggregate approximately NIS 80 million. In October 2002, the Jerusalem District Court dismissed the claims of the gas station operators against the State of Israel in this matter and, therefore, the third party notices may be deemed revoked. As a result of the decision of the District Court, the plaintiffs filed an appeal with the Supreme Court. It is the estimate of Delek management, based on the advice of its legal counsel, that the chances of the appeal to be accepted are remote and, accordingly, no provision has been made in respect thereof in the financial statements.

9. In the past, three foreign aviation companies filed claims against Aviation Services Ltd. and against its shareholders (Paz, Sonol and Delek) totaling approximately NIS 50 million (as of the date of filing). In 2000, Delek's share in Aviation Services Ltd. was sold (subject to the possibility to indemnify Aviation Services for claims relating to the period preceding the selling of holding therein, based on Delek's holding in Aviation Services at the eve of sale, 22.5%). It is the opinion of Delek management, based, among other things, on the advice of its legal counsel, that the plaintiffs will meet substantial difficulties at the stage of proof of damage and it estimates that the amounts that Delek will be required to pay in connection with this claim, if any, will not exceed the provision made in respect thereof.

NOTE 23:- CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

10. In August 2001, Petroleum and Energy Infrastructures Ltd. and Petroleum Products Line Ltd. ("the plaintiffs") filed a claim in the amount of approximately NIS 6.3 million against Delek and two other petroleum companies. The plaintiffs, which are engaged in the distribution of fuel through pipe, argue that they carry out a procedure for "fuel clearance" in favor of the defendants in such a manner that the defendants sell and buy through the plaintiffs excess/shortage of accrued fuels. The plaintiffs claim that in the past one of the defendants notified the cancellation of a transaction for excess of fuels and Delek and another sued company unlawfully offset from them amounts and, as a result, the plaintiffs suffered monetary damages. The amount of the above claim was filed against that defendants and, alternatively, Delek and the other defendant are required to refund amounts whereby the amount demanded from Delek is placed at approximately NIS 5.1 million. Considering the preliminary stages of the claim, it is the opinion of Delek's legal advisors that at this time its chances to prevail cannot be predicted. Nonetheless, Delek maintains valid defense arguments. Similarly, Delek filed a counter statement of defense and a third party notice to the defendant indicated above. In view of the aforesaid, no provision has been made in respect of this lawsuit in the financial statements.

11. In May 2002, an indictment was filed with the Tel Aviv Magistrate's Court against Delek and a former director of Delek who was Delek's CEO at the period relevant to the indictment. The indictment states that it was presented due to inclusion of misleading details in an immediate report and due to non-compliance with the requirement of the Israeli Securities Authority under section 36(f) of the Securities Law, infringements under section 53(a)(4) of the Securities Law.

    In September 2004, the Tel Aviv Magistrate's Court acquitted Delek and its former director from all infringements related to them in the indictment. The Court has convicted Delek and the director due to non disclosure of details and inaccurate details in an immediate report and has imposed on each of them a penalty of NIS 30 thousand.

12. In November 2002, Delek together with two other petroleum companies filed a comprehensive claim of approximately NIS 25 million against the Fuel Administration, ORL and Petroleum and Energy Infrastructures Ltd. ("PEI") relating to inventory of crude oil which the plaintiffs stored in the past with ORL and PEI in accordance with the instructions of the Fuel Administration and which ORL refuses to return to the plaintiff claiming that it is a sludge (unused sediment of crude oil). The suing companies demand to restore the crude inventory with the addition of financial expenses as from September 2000 or, alternatively, to compensate them in the amount of the monetary value of the inventory with the addition of financial expenses as above.

    It is the estimate of Delek management, based, among other things, on the advice of its legal counsel, that there are fairly good chances that the claim is accepted and, accordingly, no provision has been made in respect of the outstanding debt of the Fuel Administration for the above in the total of approximately NIS 11.3 million.

NOTE 23:- CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

13. In May 2003, another petroleum company filed a claim against a subsidiary and another party in an amount, for purposes of court fee, of approximately NIS 5 million in respect of alleged damages in the aggregate amount of approximately NIS 12 million. The plaintiff argues that the subsidiary illegally sold fuel products to a certain gas station. It is the estimate of the subsidiary, based on the advice of its legal counsel, that the chances of the claim are not great and, accordingly, no provision has been made in respect thereof in the financial statements.

14. The Group companies are parties to various claims that arise in the ordinary course of business. It is the opinion of the companies management that the provisions made in respect of said claims, as well as the existing insurance coverage, are adequate.

b. Guarantees:

The following guarantees were provided as of December 31, 2004:

	Consolidated	The Company
	Reported NIS in millions	
Guarantees in favor of subsidiaries (1)	-	426
Guarantees in favor of affiliates (3) (4) (5)	429	50
Guarantees in favor of others (6) (7)	798	68
	1,227	544

(1) As collateral for the liabilities of subsidiaries to banks and to third parties, the Company provided guarantees in unlimited amounts. Total liabilities in connection with these guarantees are approximately NIS 40 million as of December 31, 2004. In addition, the Company guarantees the liabilities of subsidiaries to banks and to third parties up to the amount of approximately NIS 779 million. Total liabilities in connection with these guarantees are approximately NIS 386 million as of December 31, 2004.

As for additional details about guarantees provided to secure amounts relating to debentures, see Notes 20b(2), 20b(3) and 20b(5).

(2) In the context of agreements relating to the establishment of the desalination facility in Ashkelon by a jointly controlled entity (Desalination Engineering), the Group has undertaken various covenants towards the State, the financing institutions, and VID in connection with the liabilities of Desalination Engineering, the contractor and the operator which include, among other things, the provision of guarantees. The guarantees that the Group provided as of December 31, 2004 total approximately NIS 139 million (of which NIS 103 million are Company guarantees in practice). Similarly, the Company provided in the place of a third party, which holds 25% of VID shares, a guarantee in the amount of approximately NIS 10 million, representing part of the guarantees that same third party is required to provide in the context of the financing agreements of the desalination facility.

NOTE 23:- CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

(3) The Company provided a guarantee in favor of Avner to secure the receipt of loans from a bank in the aggregate of approximately NIS 50 million. In addition, and besides the mentioned in this section and in (1) above, as collateral for loans received from a bank, the Company provided mutual guarantee in favor of Delek Drilling and Avner in the amount of approximately NIS 121 million. Subsequent to the balance sheet date, the above loans were repaid and the Company is acting to remove said guarantees.

(4) Delek Investments provided guarantees in favor of Avner to secure the receipt of loans from a bank in the aggregate of up to approximately NIS 253 million. The guarantees provided in favor of Avner as of December 31, 2004 total approximately NIS 239 million. Subsequent to the balance sheet date, the above loans were repaid and Delek Investments is acting to remove said guarantees.

(5) As collateral for the liabilities of Hof Hacarmel Recreation and Tourism 89 Ltd. to a bank, Delek Real Estate provided perpetual guarantee limited to the amount of up to $ 30 million and limited to 34.7% of the debt and to 78.32% of the interest and the hedging transactions. As of December 31, 2004, the balance of loans of Hof Hacarmel is NIS 311 million.

(6) The Company provided performance guarantees in favor of the Israel Electric Corporation Ltd. in the amount of approximately $ 16 million (approximately NIS 68 million) on behalf of the Israeli partners in the Yam Tethys transaction. In March 2005, the guarantees provided by the Company were repaid and, in their place, bank guarantees have been provided.

(7) Delek Real Estate provided guarantees in the amount of approximately NIS 584 million in accordance with the Sales Law (Apartments) (Securing the Investments of Apartment Buyers), 1974 and other guarantees in the amount of approximately NIS 60 million.

c. Commitments:

1. As of December 31, 2004, Delek Petroleum entered into the following commitments for the rent and lease of stations, facilities and buildings with third parties:

	Reported NIS in millions
2005	181
2006	166
2007	147
2008	129
2009	120
2010 and thereafter	1,139
	1,882

NOTE 23:- CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

2. Foreign investees own 12 real estate properties in the U.K. which are leased under long-term lease contracts as well as affiliates own additional commercial properties. The lease contracts of the properties are, in general, lease contracts type Full Repair and Insurance ("FRI") consisting of the lessees obligation to perform repairs and improvements in the leased property over the term of the lease and to repay expenses relating to current maintenance of the properties. Generally, the annual lease fees are updated each five years in such a manner that the lessee pays the higher of the annual payment paid until the day of update or the appropriate lease fees in the free market (as determined by an approved appraiser) under the assumption that the property is leased when it is vacated and the agreement is for a period of 15 years.

3. During 2003, Delek Investments entered into an agreement with a third party, whereby Delek Investments sold to the third party its holdings in certain marketable securities in consideration for approximately NIS 14.4 million payable in May 2004. It is agreed that close to May 2004 Delek Investments is entitled to inform the third party of its will to repurchase the above securities at same amount. During the reported year, Delek Investments realized the right conferred to it to repurchase these securities at the same price as paid by that third party.

   Further, Delek Investments exercised options into shares (included in the above securities) and purchased additional shares for the total consideration of approximately NIS 16 million. Subsequent to these purchases and since Delek Investments intends to hold these securities for the long term, the approximately NIS 64 million investment in these securities was presented as a long-term investment.

4. As for commitments of subsidiaries in connection with building a power station in Ashkelon and commitments in connection with oil and gas explorations, see Notes 9j(11) and 36.

5. As for additional commitments of the Group in connection with investments in investees, see Note 9j.

d. Indemnification and insurance of officers:

In July 2000, the annual general meeting and a special meeting of the Company approved the following:

1. To grant an advance indemnification to all authorized officers of the Company due to an action taken by virtue of serving as an officer of the Company in the past, present or future. The obligation to indemnify is limited to the type of events, conditions and amounts as specified in the indemnification letter approved by the meeting.
2. To exempt officers of the Company from their responsibility for prudence duty towards the Company as set in the third chapter of the sixth part of the Companies Law, 1999.
3. To issue liability insurance for officers of the Company. Accordingly, the Company insured the liability of the officers with the highest total liability of $ 36 million.

In August 2004, the general meeting of the Company approved amendments to the letter of indemnification and increased the sum of the insurance of officers to $ 40 million.

NOTE 24:- CHARGES

a. As collateral for loans from banks and others whose balance as of December 31, 2004 amounts to approximately NIS 7,545 million, the following securities were provided:

- The Company and its subsidiaries recorded fixed and floating charges on fixed and current assets, including inventory, specific charges on certain shares of investees and mortgages on all of the Company's rights to properties for which loans were received.
- Subsidiaries have undertaken to fulfill certain conditions, among which refraining from recording a charge in favor of others, or else they shall record a charge in favor of the lending banks.
- Loans amounting to NIS 2,038 million taken by a subsidiary in order to finance real estate properties overseas are non-recourse loans whose repayment is secured only by the pledged property.
- As for undertakings made in connection with the compliance with financial covenants, see Note 18c.

b. As for charges on issued debentures, see Note 20b.

c. As for charges in connection with investments in oil and gas assets, see Note 36.

NOTE 25:- SHARE CAPITAL

a. Composition:

	December 31, 2004		December 31, 2003	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Ordinary shares of NIS 1 par value each	15,000,000	9,733,735	15,000,000	9,731,774

The shares are listed for trade on the Tel Aviv Stock Exchange.

b. During 2004, 750,000 par value of debentures (series A1) were converted into 1,961 Ordinary shares of the Company of NIS 1 par value each.

c. On March 30, 2004, the Company declared the distribution of a dividend to its shareholders in the amount of approximately NIS 54 million. The dividend was paid on May 3, 2004.

d. On August 29, 2004, the Company declared the distribution of a dividend to its shareholders in the amount of approximately NIS 97 million. The dividend was paid on September 23, 2004.

e. Subsequent to the balance sheet date, the Company declared dividends in the amount of approximately NIS 104 million. Of the dividends, an amount of approximately NIS 78 million is payable on March 31, 2005.

f. As for debentures convertible into the Company's shares and issuance of stock options exercisable into the Company's shares, see Notes 19b and 20b(9).

NOTE 26:- COST OF REVENUES

	Consolidated		
	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Purchases of fuel, vehicles, products and raw materials	8,783	6,908	5,298
Salary and payroll accruals	95	85	83
Depreciation, depletion and amortization	131	116	98
Other manufacturing expenses	225	167	131
Changes in inventory	(26)	54	238
Transportation	24	31	48
Cost of sold real estate	110	34	7
Cost of oil and gas exploration	25	75	10
Reckoning with the Fuel Administration, net	(30)	(40)	(22)
	9,337	7,430	5,891

NOTE 27:- SELLING, MARKETING AND GAS STATION OPERATING EXPENSES

	Consolidated		
	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Salary and payroll accruals	273	228	236
Maintenance of gas stations	296	260	258
Advertisements and sales promotion	33	48	37
Depreciation and amortization	74	60	54
Commissions to agents	11	9	11
Commissions to credit card companies	37	25	23
Others	90	81	79
	814	711	698

NOTE 28:- GENERAL AND ADMINISTRATIVE EXPENSES

Salary and payroll accruals	123	107	111
Depreciation and amortization	40	40	42
Doubtful accounts and bad debts	46	21	30
Professional services	22	21	19
Others	77	67	74
	308	256	276

NOTE 29:- FINANCIAL EXPENSES (INCOME), NET

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2004	2003	2002	2004	2003	2002
	NIS in millions					
	Reported	Adjusted		Reported	Adjusted	
Expenses (income) in respect of:						
Loans from banks	315	246	158	-	-	-
Debentures	93	57	28	56	48	20
Gain from marketable securities	(31)	(19)	(2)	(12)	(18)	(1)
Forward transactions	(9)	(9)	(26)	-	(1)	(1)
Subsidiaries	-	-	-	(39)	(9)	(5)
Other (including erosion of monetary items), net	(14)	(41)	32	(7)	(14)	-
	354	234	190	(2)	6	13
Less - expenses capitalized to qualified assets	12	18	17	-	-	-
	342	216	173	(2)	6	13

NOTE 30:- OTHER EXPENSES, NET

	Consolidated		
	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Impairment loss of assets	(25)	(42)	(18)
Loss from decrease in value of debts and other investments	(13)	(11)	(6)
Gain from sale of fixed assets and properties for rent, net	1	3	1
Management fees from affiliates	1	1	1
Other income, net	8	2	1
	(28)	(47)	(21)

NOTE 31:- TAXES ON INCOME

a. Tax laws applicable to the Group companies:

1. The provisions of the Income Tax (Inflationary Adjustments) Law, 1985 apply to the Company and the Group companies in Israel. According to the law, the results for tax purposes are measured based on the changes in the Israeli CPI.

2. In 2003, the provisions of the Law for Amendment of the Income Tax Ordinance (No. 132), 2003, became effective ("the reform law") which deal with a comprehensive reform in certain aspects of the Israeli tax system. It is expected that the adoption of the law will result in a gradual decrease in the companies tax liabilities, since a certain portion of the companies income derives from profits which are subject to capital gains tax. According to the provisions of the reform law, tax at a reduced rate of 25% will apply on capital gains accrued after January 1, 2003, instead of the regular tax rate. In case of the sale of properties purchased before the adoption of the reform law, the reduced tax rate will apply only to the portion of the profit which accrued after the adoption of the law, as computed according to the law. Further, the reform law states that capital losses carried forward for tax purposes may be offset against capital gains for an indefinite period. The reform law also provides for the possibility to offset capital losses from sales of properties outside Israel against capital gains in Israel.

   It was further promulgated that, from 2003, companies' income from dividends and interest from investees will be subject to tax in Israel even if this income was not first earned in Israel. It was also promulgated that under certain circumstances, an Israeli resident who is a controlling shareholder in a foreign resident company whose income is substantially passive income (as defined in section 2a of the Income Tax Ordinance) will be subject to tax (at the rate of 25%) on such income as if it were distributed as a dividend in Israel, with a credit in respect of the tax liability abroad. Income from dividend of foreign company which originates from income on which foreign tax of over 20% was paid, will not be included in income as described above.

NOTE 31:- TAXES ON INCOME (Cont.)

3. On March 24, 2002, the Law for Amendment of the Real Estate Taxation Law (No. 50), 2002 ("the amendment") was enacted. The amendment begins on November 7, 2001 ("the effective date"). The amendment includes, among other things, changes in the rates of betterment tax so that tax rate applicable on the real betterment from sale of real estate earned after the effective date was reduced to 25% (instead of 36%). The rate of betterment tax on the real betterment earned before the effective date remained unchanged. The distribution of the real betterment over the period will be made pro-rata, based on the period of holding in the property.

b. Tax rates applicable to the income of the Group companies:

1. Companies in Israel:

Until December 31, 2003, the regular tax rate applicable to income of companies was 36%. In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament), which determines, among other things, that the corporate tax rate is to be gradually reduced to the following tax rates: 2004 - 35%, 2005 - 34%, 2006 - 32% and 2007 and thereafter - 30%.

2. Foreign subsidiaries:

- Rental income from real estate properties in the U.K. owned by foreign investees is subject to income tax at the rate of 22%. Sale of real estate in the U.K. which constitutes long-term investment is not liable to tax on capital gains.

- Lease of properties in Canada is made by companies whose assets are held in trust for a subsidiary. Rental income from real estate properties of these companies is subject to income tax at the rate between 39% and 46%, according to the physical location of the property and/or the place where the trust was registered. During 2004, as a result of change in the place where one of the Canadian trust was registered, the tax rate applicable to the income of the Canadian trust was reduced from 46% to 39%.

- The tax rate applicable to income of subsidiaries in the U.S. (Federal tax) is 35%. Similarly, these companies are also liable to state tax at the rate of 3%.

c. Tax assessments:

The Company received final tax assessments through 2000. Most of the subsidiaries received final tax assessments or assessments deemed final, through the years 2000 to 2002.

NOTE 31:- TAXES ON INCOME (Cont.)

d. Losses carried forward for tax purposes:

Carryforward tax losses and deductions of the Company total approximately NIS 31 million as of December 31, 2004. Carryforward tax losses of subsidiaries total approximately NIS 747 million as of that date. A subsidiary in the U.S. has federal operating loss carryforward of approximately $ 18 million. Deferred tax assets of approximately NIS 211 million relating to said losses were recorded in the financial statements.

The Company does not record tax assets in respect of the above losses in the Company and in certain subsidiaries.

e. Deferred taxes:

1. Composition:

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
In respect of depreciable non-monetary assets and inventory	(286)	(212)
Timing differences in accounting for expenses	25	47
Carryforward losses	211	203
	(50)	38

The deferred taxes are computed at tax rates applicable in the countries in which the Group companies operate (between 22% to 43%) and are presented in the balance sheet as follows:

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Among other accounts receivable	41	44
Among other assets	79	51
Among other accounts payable	-	(2)
Among other long-term liabilities	(170)	(55)
	(50)	38

The utilization of the benefit is pending the existence of taxable income at appropriate amounts in the future.

NOTE 31:- TAXES ON INCOME (Cont.)

2. The change in deferred taxes:

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Balance at beginning of year	38	42
Amounts carried to statement of income	(8)	(4)
Amounts carried to cumulative effect as of the beginning of the year of change in accounting principle, net	(20)	-
Amounts carried to equity in investees	(20)	-
Additions for newly consolidated company	(40)	-
	(50)	38

f. Taxes on income included in the statements of income:

	Consolidated		
	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Current taxes	190	157	104
Transfer of current taxes to capital surplus from translation adjustments	(5)	-	-
Deferred taxes (see also e above)	2	4	(5)
Update of deferred tax balances as a result of changes in tax rates	6	-	-
Taxes in respect of previous years	(4)	(8)	1
	189	153	100

NOTE 31:- TAXES ON INCOME (Cont.)

g. Below is a reconciliation between the tax expense assuming that all the income was taxed at the statutory tax rates applicable to the companies in Israel and the actual tax expense as reported in the statements of income:

	Consolidated		
	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Income before taxes on income	635	402	254
Statutory tax rate	35%	36%	36%
Taxes computed at the statutory tax rate	222	145	91
Increase (decrease) in the tax liability due to:			
Utilization of losses from previous years	(66)	(17)	(7)
Losses for which tax benefit was not recorded	37	48	23
Effect of change in tax rates	6	-	-
Share in losses of partnerships	1	(3)	(1)
Taxes in respect of previous years	(4)	(8)	1
Adjustment of the reports of foreign companies to changes in the purchasing power of foreign currency	-	(4)	(2)
Permanent differences for which deferred taxes were not provided	(4)	(4)	(7)
Differences in tax rates in Israel and abroad	(15)	(15)	(5)
Tax exempt income, non-deductible expenses and other adjustments, net	12	11	7
	189	153	100

h. The Company and certain subsidiaries are registered in the VAT as combined licensed trader (consolidation of traders).

NOTE 32:- EARNINGS PER SHARE

	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Number of shares and net income used in computing earnings per share:			
Income used in the computation before cumulative effect of change in accounting principle, net	423	183	101
Cumulative effect as of the beginning of the year of change in accounting principle, net	(20)	-	-
Net income	403	183	101
Weighted average outstanding share capital used in the computation (in millions)	9.733	9.702	9.690

Due to immateriality, diluted earnings per share have not been disclosed.

NOTE 33:- SEGMENTS

a. General:

The Group companies operate in the following six business segments:

- Fuel products in Israel - the main activity is marketing and selling of fuel products in gas stations and elsewhere.

- Fuel products in the U.S. - the main activity is maintenance and operation of gas stations and convenience stores in the U.S.

- Vehicles and parts - the main activity is importing and marketing of vehicles and parts of "Mazda" and "Ford".

- Real estate - the main activity is investing and managing investment properties in Israel and overseas and the construction of residential and commercial projects designated for sale.

- Oil and gas exploration - the main activity is preformed through a joint venture "Yam Tethys" acting to find oil and gas on Israel's continental shelf.

- Biochemistry - the main activity is manufacturing and marketing fructose, citric acid and salt for the food, pharmaceutical and detergents industries.

- Other - the main activity is investments in infrastructure including mainly the field of seawater desalination and the establishment of a power station for the production of electricity.

NOTE 33:- SEGMENTS (Cont.)

The Group holds several affiliates which operate in part of the above segments as well as in other fields (mainly in the field of communication through its holdings of Matav).

The Company's six business segments are preformed in several major geographic areas. In Israel, the residency of the Company and most of the subsidiaries, the activities of marketing vehicles and parts are performed as well as oil and gas explorations, part of the manufacturing and marketing of fuel products and investment and management of investment properties. In the U.S., the activities relating to the fuel products segment are preformed as well as the real estate segment and in the U.K. and Canada the activity relating to the real estate segment is preformed. Products of the biochemistry segment are marketed in Europe, the U.S. and in Israel.

b. Primary reporting on business segments:

1. Revenues, less excise, customs, purchase taxes and royalties:

	Consolidated		
	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Revenues from external parties (1):			
Segment of fuel products:			
Israel	3,711	3,551	2,702
The U.S.	4,025	2,647	2,555
Segment of vehicles and parts	2,421	2,048	1,439
Segment of real estate	503	371	284
Segment of biochemistry	343	273	237
Segment of oil and gas exploration	141	-	-
Others	220	140	83
Total, as per the statement of income	11,364	9,030	7,300

(1) Minority interest in revenues:

Segment of fuel products:			
Israel	-	-	-
The U.S.	-	-	-
Segment of vehicles and parts	881	659	468
Segment of real estate	45	30	23
Segment of biochemistry	99	79	69
Segment of oil and gas exploration	44	-	-
Others	-	-	-
Total	1,069	768	560

NOTE 33:- SEGMENTS (Cont.)

2. Attributed costs:

	Consolidated		
	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Segment of fuel products:			
Israel	3,655	3,491	2,622
The U.S.	3,955	2,592	2,535
Segment of vehicles and parts	2,016	1,676	1,251
Segment of real estate	261	164	114
Segment of biochemistry	277	242	226
Segment of oil and gas exploration	62	76	14
Others	220	143	96
	10,446	8,384	6,858

3. Segment's results and reconciliation to net income:

Segment of fuel products:			
Israel	56	60	80
The U.S.	70	55	20
Segment of vehicles and parts	405	372	188
Segment of real estate	242	207	170
Segment of biochemistry	66	31	11
Segment of oil and gas exploration	79	(76)	(14)
Others	-	(3)	(13)
	918	646	442
Expenses not allocated to segments	(13)	(13)	(7)
Operating income	905	633	435
Financial expenses, net	(342)	(216)	(173)
Gain from sale of investments in investees, net	100	32	13
Other expenses, net	(28)	(47)	(21)
Taxes on income	189	153	100
Equity in earnings (losses) of affiliates and partnerships, net (1)	136	20	(8)
Minority interest in earnings of subsidiaries, net	(159)	(86)	(45)
Income before cumulative effect of change in accounting principle	423	183	101
Cumulative effect as of the beginning of the year of change in accounting principle, net	(20)	-	-
Net income	403	183	101

NOTE 33:- SEGMENTS (Cont.)

(1) Equity in earnings (losses) of affiliates and partnerships, net:

	Consolidated		
	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Segment of fuel products - Israel	13	9	3
Segment of vehicles and parts	6	6	5
Segment of real estate	121	11	(11)
Segment of oil and gas exploration	22	(5)	(2)
Others, net *)	(26)	(1)	(3)
	136	20	(8)

*) In 2004, approximately NIS 26 million is mainly in respect of equity in losses of Matav.

4. Gross profit:

	Consolidated		
	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Segment of fuel products:			
Israel	497	467	508
The U.S.	581	446	416
Segment of vehicles and parts	466	446	254
Segment of real estate	267	220	184
Segment of biochemistry	111	66	45
Segment of oil and gas exploration	82	(68)	(8)
Others	23	23	10
	2,027	1,600	1,409

NOTE 33:- SEGMENTS (Cont.)

5. Assets used by the segment:

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Segment of fuel products:		
Israel	2,090	2,148
The U.S.	1,371	861
Segment of vehicles and parts	1,304	1,279
Segment of real estate	4,233	3,342
Segment of biochemistry	393	362
Segment of oil and gas exploration	923	887
Others	660	722
	10,974	9,601
Investments in affiliates:		
Segment of fuel products - Israel	122	120
Segment of vehicles and parts	31	25
Segment of real estate	442	269
Segment of oil and gas exploration	341	310
Others *)	443	10
	1,379	734
Assets not allocated to segments	535	399
Total consolidated assets	12,888	10,734

*) Including investment in Matav whose balance totals approximately NIS 406 million as of December 31, 2004.

6. Segment's liabilities:

	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Segment of fuel products:		
Israel	565	415
The U.S.	198	127
Segment of vehicles and parts	477	500
Segment of real estate	255	145
Segment of biochemistry	59	56
Segment of oil and gas exploration	12	18
Others	133	118
	1,699	1,379
Liabilities not allocated to segments	9,644	8,097
Total consolidated liabilities	11,343	9,476

NOTE 33:- SEGMENTS (Cont.)

7. Acquisition cost of long-term assets:

	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Segment of fuel products:			
Israel	80	15	94
The U.S.	135	55	54
Segment of vehicles and parts	49	53	58
Segment of real estate	478	64	120
Segment of biochemistry	25	10	22
Segment of oil and gas exploration	29	227	227
Others	667	64	4
	1,463	488	579

8. Depreciation and amortization:

Segment of fuel products:			
Israel	68	101	84
The U.S.	72	54	51
Segment of vehicles and parts	6	17	14
Segment of real estate	48	52	34
Segment of biochemistry	14	14	15
Segment of oil and gas exploration	37	54	-
Others	47	39	29
	292	331	227

NOTE 33:- SEGMENTS (Cont.)

c. Secondary reporting on geographic areas:

1. Revenues by geographic markets (based on the location of the customer):

	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Israel	6,995	5,810	4,272
U.S.	3,808	2,739	2,658
U.K.	153	131	125
Canada	195	198	148
Western Europe	213	152	97
	11,364	9,030	7,300

2. Carrying amounts for assets used by the segment and acquisition cost of long-term assets by geographic areas (based on the location of the asset):

	Segment's assets		Acquisition cost of long-term assets		
	December 31,		Year ended December 31,		
	2004	2003	2004	2003	2002
	NIS in millions				
	Reported	Adjusted	Reported	Adjusted	
Israel	6,633	5,943	1,298	403	438
U.S.	1,370	861	135	55	54
U.K.	1,691	1,561	6	25	78
Canada	1,280	1,236	6	5	9
	10,974	9,601	1,445	488	579

NOTE 34:- RELATED PARTIES

a. In January 2002, Tishluz Properties Ltd. ("Tishluz Properties") (a related company) which holds 49% of the issued and outstanding share capital of Tishluz Energy Ltd. ("Tishluz Energy") announced that it is exercising the put option granted to it according to an agreement dated November 28, 1999 with Delek ("the agreement") to sell to it all of its holdings in Tishluz Energy. Subsequent to said acquisition, Delek wholly owns and controls Tishluz Energy.

According to the agreement, the exercise price paid by Delek in February 2002 was approximately NIS 110 million (including linkage differences and interest as per the terms of the agreement). In addition, on the date of the above payment, Tishluz Properties repaid to Tishluz Energy its outstanding debt of approximately NIS 43 million.

NOTE 34:- RELATED PARTIES (Cont.)

Tishluz Energy wholly owned and controlled Gal Shoham Petroleum Company Ltd. The investment was recorded in Delek's books at the carrying amount of Tishluz Energy in Tishluz Properties' books close to the date of acquisition. The difference between the payment and the carrying amount amounting to approximately NIS 52 million was carried in 2002 to shareholders' equity.

b. A foreign investee of Delek Real Estate and a 50% owned investee of the Group's controlling shareholder entered into management agreements for the management of three buildings in Canada. The agreements are for a period of two years and they are renewed for additional periods unless one of the parties notifies the other as to the termination of the commitment.

Additionally, a company owned by the Group's controlling shareholder leases at arm's length terms offices in Canada from a foreign investee of Delek Real Estate.

c. As for additional information about transactions with related parties, see Notes 13a(2) and 9j(6).

d. Balances and transactions with related parties:

1. Balances:

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Other accounts receivable	5	3
Loans and long-term receivables	9	-
Other accounts payable	2	5
The highest balance of loans to related parties during the year	9	7

NOTE 34:- RELATED PARTIES (Cont.)

2. Transactions:

	Consolidated		
	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Revenues:			
Revenues	1	2	1
Other income	1	1	1
Expenses:			
Cost of revenues	2	2	2
General and administrative expenses	1	2	2

The Group companies conduct transactions with entities which are related parties in the ordinary course of business at arm's length terms and under regular credit terms.

e. Benefits to related parties:

	Consolidated		
	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
	Reported	Adjusted	
Fees for unemployed directors	0.2	0.2	0.2
Number of unemployed directors and related party	4	4	4
Salary of employed directors and related parties	4	5	4
Number of employed directors and related parties	3	3	2

f. During 2004, loans were provided to the Company's chairman and to the CEO in a total of approximately NIS 4 million each. During 2005, an additional loan was approved to the CEO in the amount of approximately NIS 3 million. The terms of the loans specify that the loans shall be linked to the Israeli CPI with the addition of annual interest at the rate of 4%. The loans will serve to purchase shares of companies of Delek Group, at the discretion of the chairman and the CEO. The shares will be pledged in favor of the Company and Delek Investments and will serve as collateral for repayment of the loans. Any amount received from the sale of shares will first serve to repay the loans.

NOTE 34:- RELATED PARTIES (Cont.)

g. Guarantees received from a controlling shareholder:

Companies owned by the controlling shareholder of the Company provided guarantees with specified amount in order to secure the liabilities of subsidiaries of Delek Real Estate to banks. As of the balance sheet date, the guarantee amounts to NIS 38 million. The guarantee was provided against loans in the amount of approximately NIS 126 million.

A subsidiary has undertaken to indemnify companies owned by the controlling shareholder in connection with any damage caused to them as a result of providing said guarantee.

NOTE 35:- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. Credit risks:

The Group companies derive revenues from a large number of customers. The management of the companies perform ongoing credit evaluations of their customers and the financial statements include allowances which, in managements' estimates, are adequate to cover potential losses from doubtful accounts.

b. Interest risks:

The Group is exposed to changes in cash flows as a result of the fluctuations in interest rates on loans bearing floating interest which finance the investment properties and properties under construction. For part of the loans with floating interest, the Group performed interest rate swap transactions (floating interest exchanged for fixed interest) and entered into hedging transactions which limit the maximum interest.

c. Currency risks:

As of December 31, 2004, the excess of monetary liabilities denominated in foreign currency (mainly U.S. dollars and Pound Sterling) in the Company's consolidated balance sheet over monetary assets in foreign currency totaled approximately NIS 4,911 million, including approximately NIS 1,574 million excess of current liabilities over current assets in foreign currency. The excess of unlinked monetary assets over unlinked monetary liabilities totaled approximately NIS 359 million, including approximately NIS 295 million excess of unlinked monetary current assets. The excess of linked monetary liabilities over linked monetary assets totaled approximately NIS 2,671 million, including approximately NIS 833 million of excess of linked monetary current liabilities.

d. Derivative financial instruments:

From time to time, the Group companies enter into transactions with certain derivative financial instruments which are, in part, designated to hedge the exposure to fluctuations in the exchange rates of foreign currencies, to changes in the value of inventory and of selling prices of gas and to changes in interest rates.

NOTE 35:- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

As of the balance sheet date, the subsidiaries have open commitments as detailed below:

1. Forward transactions:

Purchase of $ 109,000 thousand in exchange for NIS 483,798 thousand.
Purchase of JPY 398,351 thousand in exchange for $ 3,842 thousand.
Purchase of $ 10,000 thousand in exchange for JPY 1,070,430 thousand.
Purchase of AUD 3,000 thousand in exchange for CHF 2,620 thousand.
Purchase of $ 5,000 thousand in exchange for CHF 5,952 thousand.
Purchase of 3,941 thousand of the basket of currencies in exchange for NIS 20,000 thousand.
Purchase of $ 6,405 thousand in exchange for € 5,000 thousand.
Purchase of € 500 thousand in exchange for NIS 2,775 thousand.
Purchase of $ 4,595 thousand in exchange for £ 2,500 thousand.
Purchase of £ 2,000 thousand in exchange for CAD 4,400 thousand.
Purchase of £ 10,000 thousand in exchange for NIS 81,945 thousand.
Purchase of NIS 83,174 thousand in exchange for £ 10,000 thousand.
Purchase of 20,000 thousand of CPI units in exchange for $ 4,526 thousand.

Purchased foreign currency options:

Purchase of JPY 1,300,000 thousand in exchange for NIS 53,870 thousand.
Purchase of JPY 3,100,000 thousand in exchange for $ 29,952 thousand.
Purchase of $ 85,500 thousand in exchange for NIS 385,638 thousand.
Purchase of CAD 7,500 thousand in exchange for € 5,000 thousand.
Purchase of NIS 178,745 thousand in exchange for $ 40,500 thousand.
Purchase of € 5,500 thousand in exchange for $ 6,820 thousand.
Purchase of € 10,000 thousand in exchange for NIS 59,000 thousand.
Purchase of $ 4,500 thousand in exchange for CAD 6,000 thousand.
Purchase of £ 2,500 thousand in exchange for CAD 5,638 thousand.
Purchase of CHF 3,480 thousand in exchange for $ 3,000 thousand.
Purchase of CHF 5,000 thousand in exchange for CAD 5,000 thousand.

Writing of foreign currency options:

Purchase of NIS 125,220 thousand in exchange for JPY 3,100,000 thousand.
Purchase of JPY 500,000 thousand in exchange for NIS 21,750 thousand.
Purchase of $ 10,000 thousand in exchange for JPY 1,150,000 thousand.
Purchase of NIS 819,150 thousand in exchange for $ 187,000 thousand.
Purchase of $ 20,000 thousand in exchange for NIS 96,000 thousand.
Purchase of JPY 1,325,000 thousand in exchange for € 10,000 thousand.
Purchase of CHF 13,050 thousand in exchange for £ 6,000 thousand.
Purchase of NIS 53,850 thousand in exchange for € 10,000 thousand.
Purchase of € 5,000 thousand in exchange for NIS 29,700 thousand.
Purchase of CHF 14,850 thousand in exchange for $ 13,000 thousand.
Purchase of $ 5,034 thousand in exchange for CHF 5,978 thousand.
Purchase of € 15,000 thousand in exchange for JPY 2,085,000 thousand.
Purchase of JPY 399,000 thousand in exchange for AUD 5,000 thousand.

NOTE 35:- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

Purchase of € 23,500 thousand in exchange for $ 30,110 thousand.
Purchase of € 14,424 thousand in exchange for £ 10,000 thousand.
Purchase of $ 4,500 thousand in exchange for CAD 5,400 thousand.
Purchase of £ 7,500 thousand in exchange for CAD 17,313 thousand.
Purchase of CHF 15,000 thousand in exchange for CAD 15,000 thousand.
Purchase of CAD 6,000 thousand in exchange for $ 4,500 thousand.
Purchase of CAD 10,000 thousand in exchange for CHF 9,524 thousand.

Most of these transactions are for a period of one month up to 12 months.

2. In December 2001, a subsidiary purchased an option to exchange Libor interest for three months for fixed interest for the period from January 2004 to October 2007. As of December 31, 2004, the scope of the transaction is approximately NIS 78 million.

3. A subsidiary entered into interest rate swap transactions type "cap" and "floor", whereby the subsidiary is conferred the right to exchange floating interest on loans of $ 4 million for fixed interest. The transactions begin in January 2004 and terminate in January 2009.

4. In December 2004, Delek Investments, Delek Drilling and Avner entered into a transaction for the sale of option type "receiver" designated to hedge the increase in the dollar Libor interest for a period of 3 years beginning April 1, 2005 (option which confers upon the buyer of the option the right to pay fixed interest and to receive Libor interest for three months computed every 3 months over 3 years) on the amount of $ 60 million. The date for the monetary reckoning of the transactions is when the option expires, March 30, 2005.

As of December 31, 2004, the net fair value of the all of the transactions with derivatives reflects a liability of approximately $ 44 million.

e. In May 2004, Delek Investments, Delek Drilling and Avner entered into an agreement with a company related to a foreign investment bank for fixing the price for gas. The transaction in respect of which the agreements were signed was closed at the beginning of June 2004, according to which the price for gas for the years 2005 to 2010 was set at a fixed dollar value (the total price for the transaction is approximately $ 420 million). Likewise, the Company, Delek Drilling and Avner purchased an option with cost of approximately $ 2.6 million exercisable until October 29, 2004 to exchange said transaction for similar transaction with a longer period, for the years 2005 to 2014 (the total price for the transaction is approximately $ 630 million).

In October 2004, it was agreed to exchange the aforesaid transaction for the transaction for the period between 2005 to 2013 (the total price for the transaction is approximately $ 650 million).

According to the above transaction, if the quarterly price for gas is lower than the fixed price ($ 2.47 per million BTU), the investment bank shall pay to Delek Investments, Delek Drilling and Avner the difference between the actual price and the fixed price with respect to the predetermined quantity. If actual price is higher than the fixed price, Delek Investments, Delek Drilling and Avner shall pay the difference with respect to the agreed upon quantity.

NOTE 35:- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

The deferred charges of Delek Investments and Delek Drilling in respect of the purchase of the option designated to hedge the price for gas totaled as of December 31 2004, approximately NIS 6 million, included as deferred charges in other assets and amortized based on the pace of supply of gas.

Bank Hapoalim Ltd. and Bank Leumi Ltd. provided guarantees in the aggregate of approximately $ 37 million to secure the liabilities of Delek Investments, Delek Drilling and Avner. Concurrently, a guarantee to secure the liability of the foreign investment bank has been obtained.

Subsequent to the balance sheet date, in the context of agreements entered into in connection with the issuance of debentures (Note 36f below), the above hedging arrangement and guarantees were assigned to SPC (the issuing company). Concurrency, a back-to-back agreement was signed between Delek Investments, Delek Drilling and Avner according to which profit and loss from the hedging arrangement shall be transferred from SPC to the Company, Delek Drilling and to Avner.

f. A subsidiary in the U.S. entered into interest rate swap transactions for loans amounting to approximately $ 29.2 million, whereby the subsidiary exchanged floating interest (Eurodollar + 1.25% - 1.5%) for fixed interest ranging between 3.5% to 5.15%.

In addition, the subsidiary entered into interest rate swap transactions type "cap", whereby the subsidiary is conferred the right to exchange floating interest (as detailed above) on loans of $ 145 million for fixed interest ranging between 3.5% to 4%, subject to the highest interest rates determined in the agreements.

The transactions are for various periods terminating in 2006 - 2010.

As of December 31, 2004, the fair value of the above transactions totals approximately $ 2 million.

g. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term investments, trade receivables, other accounts receivable, short and long-term credit from banks and others, trade payables, other accounts payable and convertible and other debentures approximate their fair value.

NOTE 36:- INVESTMENTS IN PETROLEUM AND GAS EXPLORATION

Delek Investments and Delek Energy Systems hold the Yam Tethys venture directly and through Delek Drilling and Avner ("the limited partnerships"). Delek Investments also holds the Yam Tethys venture directly. The financial figures in the financial statements of the joint venture Yam Tethys are based on documents and accounting information conveyed to the joint venture by the American operator of the joint venture ("Noble Energy").

a. Composition:

	Consolidated	
	December 31,	
	2004	2003
	NIS in millions	
	Reported	Adjusted
Cost of the assets of the joint venture Yam Tethys (1)	857	838
Less - accumulated depreciation (2)	30	-
	827	838
Other investments	10	12
	837	850

(1) Cost of the assets of the joint venture Yam Tethys includes mainly capitalized drilling expenses and costs relating to the production and transmission array.

(2) The assets are depreciated to operations based on a percentage that is determined each year based on the relation of the volume of production to total proved reserves, as estimated by an expert (see Note 2o).

The Group also has an investment in Avner partnership which is included in the financial statements by the equity method of accounting and which totals as of December 31, 2004 and 2003 approximately NIS 341 million and NIS 310 million, respectively.

b. Marine drilling through Yam Tethys project:

During 1999 to 2001, the joint venture Yam Tethys performed several marine drillings, which included, among others, two drillings named Noa (Noa and Noa South I) and three drillings named Ashkelon (Mary I, Mary II and Mary III) in which gas at commercial quantities was discovered.

In 2003, the establishment of a production facility over the Mary gas area and laying the underwater pipe to Ashdod shore were completed. The transmission of natural gas to the Eshkol power station in Ashdod, according to the agreement signed with the Israel Electric Corporation Ltd. ("the IEC"), commenced on February 18, 2004.

NOTE 36:- INVESTMENTS IN OIL AND GAS EXPLORATION (Cont.)

According to an assessment of an independent foreign company, the proved gas reserves in Mary and Noa wells as of March 2001 were BCM 32.7 (of which about 26.5 BCM at Mary well and the remainder at Noa well). During the reported year, an updated report assessing the gas reserves of Mary well only has been received from an independent foreign company which states that the proved developed gas reserves in Mary well as of January 1, 2004 are about BCM 25.6, a decrease of BCM 0.9 (around 3.4%) compared to the former assessment. During the reported year, gas sales totaled about BCM 1.2. At December 31, 2004, the balance of proved developed gas reserves in Mary well total about BCM 24.4. This balance is the same as an updated assessment of the reserves as received from the above company in January 2005. It is indicated that in the financial statements of the parent company, Noble, it recorded in its books proved gas reserves in Mary and Noa wells (before production) in the total of BCM 29.9.

c. Commitments for delivery of natural gas:

1. An agreement with the Israel Electric Corporation for delivery of natural gas:

On June 25, 2002, the partners of Yam Tethys group and the Israel Electric Corporation Ltd. ("IEC") signed an agreement for the delivery of natural gas to the IEC ("the agreement").

According to the terms of the agreement, Yam Tethys group shall provide natural gas to the IEC for the earlier of 11 years or supply of approximately 18 billion cubic meters.

The monetary scope of the transaction (for all partners) is estimated at approximately $ 1.5 billion. The effective revenues of Yam Tethys group will be the outcome of several conditions, mainly world market prices of fuel, delivery terms and pace of establishing the inland natural gas transmission array, actual quantity taken by the IEC etc. and they might be significantly lower compared to the above estimates. According to the agreement, the gas price was determined in U.S. dollars per basic transmission unit (BTU) and it is linked to the basket of fuel and to the American Producer Price Index based on the mechanism fixed in the agreement with a maximal and minimal price (see also Note 35e regarding a transaction signed for the fixation of the price for gas).

As aforesaid, on February 18, 2004, the joint venture for delivery of natural gas to the facilities of the IEC in Eshkol Ashdod power station began.

2. An agreement with the Oil Refineries Ltd. for delivery of gas:

On September 3, 2004, the partners of Yam Tethys group and Oil Refineries Ltd. ("ORL") signed an agreement for the delivery of natural gas of BCM 0.8 - 1.3 to ORL refineries in Ashdod over a period of ten years at an estimated monetary scope of $ 75 million to $ 130 million.

The actual supply will begin after the establishment of an array for the transmission of gas from the gas station of Yam Tethys on Ashdod shore to the area of ORL in Ashdod.

NOTE 36:- INVESTMENTS IN OIL AND GAS EXPLORATION (Cont.)

3. Term sheets for delivery of gas:

The joint venture Yam Tethys signed term sheets with various entities (among which are Delek Ecology, an investee partnership and Dorad Energy Ltd.), whereby the joint venture shall deliver natural gas to these entities over a period of up to 15 years, at quantities which may range from BCM 105 to BCM 135. The monetary scope of these transactions ranges between $ 1 billion to $ 1.3 billion annually. The term sheet is pending the approval of a selling contract.

4. Term sheet for the investment in Dorad Energy Ltd.:

The partners of Yam Tethys and Dorad Energy Ltd. ("Dorad") also signed a term sheet for the investment in Dorad which intends to establish a power station in Ashkelon region to begin operating at the beginning of 2007 ("the power station"). According to the above term sheet, the partners of Yam Tethys group (or their related companies) would purchase a 15% to 25% interest in Dorad in consideration for a commitment to bear, pro-rata (in Yam Tethys project), the costs of Dorad from the date of incorporation of Dorad through financial closing of the project for the establishment of the power station. Additional investors are expected to join the investment in the power station. The total cost of the establishment of the power station is estimated at approximately $ 0.5 billion. The above term sheet was not approved by the general meetings of holders of participating units in Delek Drilling and in Avner, however, the Group's management decided that if and when the term sheet becomes binding, the investment will be performed by a company of Delek Group.

The transaction is pending the approval of a binding agreement between the parties. The binding agreement is subject to the receipt of all regulatory approvals from the authorized entities of the parties as well as any additional approval that may be required, including approvals under the law. Further, the term sheet for investment in Dorad is pending the approval of a contract for the sale of gas to Dorad.

d. Establishment of inland transmission array for natural gas:

The cabinet for social and economy affairs of the Government of Israel approved in its decision principles for financing, building and operating an inland transmission array for natural gas since the tender for selecting the contractor failed. The principles approved, as above, determined the sections of the array which will be built by the IEC and the conditions for this approval and the establishment of a Government gas company to be responsible for implementing, planning, supervising and building of the array and its operation.

The Government company that was established (Israel Natural Gas Routes Ltd.) commenced its operations just recently and, therefore, the procedures for implementing the ground route have not been advanced. The ability of the partners of Yam Tethys project to sell the gas that they own to other potential consumers and to increase the quantity of gas supplied to the IEC is dependent, among other things, on settling the issue of the establishment of inland transmission array for natural gas. As of the date of preparation of these financial statements, the date for completion of the array cannot be determined with certainty.

NOTE 36:- INVESTMENTS IN OIL AND GAS EXPLORATION (Cont.)

e. Royalties to the State and to others:

The commissioner in charge of oil affairs at the Ministry of National Infrastructures informed the joint venture that the State has decided not to receive in kind the royalties to which it is entitled from gas discoveries but to receive the market value of the royalties per well in U.S. dollars.

According to the commissioner's announcement dated July 19, 2004, and a summary of meeting held with the commissioner, it was agreed on the method of computing royalties to the State. The final monetary computation is expected to take place in the near future. Based on the agreed upon method of computation, as above, royalties accrued, representing about 10.5% of sales, were included in the financial statements.

The method of computation of royalties, as described above, is also used to compute the market value based on the super royalties payable to the Group companies and others.

f. Capital raising subsequent to the balance sheet date:

On March 10, 2005, Delek Investments, Delek Drilling and Avner announced a financing round for a project, whereby Delek and Avner - Yam Tethys Ltd. (see below) issued debentures at a total scope of $ 275 million ("the debentures"), of which $ 175 million with fixed interest of 5.326% per annum and $ 100 million with floating interest at the rate of Libor for three months plus a margin of 1.1% per annum. The debentures are redeemable in each quarter until August 1, 2013, based on the determined amortization schedule.

For the above round, the Company, Delek Drilling and Avner (the Israeli partners of Yam Tethys project), established a special target company, named Delek and Avner - Yam Tethys Ltd. in which their holdings are pro-rata to the holdings in Yam Tethys project ("the SPC"). The SPC issued dollar debentures ("the debentures") to institutional investors in the U.S. which comply with the requirements of the American Law under Rule 144a. The amount raised will be given as separate loans to the Company, Delek Drilling and Avner. The above loans will be in terms similar to the terms of the debentures. As collateral for the redemption of the debentures, Delek Investments, Delek Drilling and Avner independently agreed to pledge their share in the assets of the project which refer to the contract with the IEC and, principally, Ashkelon drilling, the contract with the IEC, the joint operating contract among all the partners of Yam Tethys project, the project's facilities, the hedge contract on the prices of gas etc. such that all of the collaterals for the redemption of the debentures are related to the project with no external guarantees or securities for the project. It is emphasized that Delek Investments, Delek Drilling and Avner have no mutual guarantees and that each is responsible for the repayment of the loan taken by it individually.

A total of approximately $ 102 million of the issuance proceeds (net of raising expenses) was used to repay loans of Delek Investments, Delek Drilling and Avner from Israeli banks, approximately $ 64 million were used to provide guarantees required under the hedging transactions for the prices of gas and under the contract with the IEC, approximately $ 28 million were used as a "security cushion" required for rating and financing and the balance to finance the expected continued investments in Yam Tethys project.

NOTE 37:- CONDENSED FINANCIAL DATA IN NOMINAL HISTORICAL VALUES FOR TAX PURPOSES

a. The Company provides nominal historical data for income tax purposes only.

b. The financial statements have been prepared in accordance with generally accepted accounting principles based on the historical cost convention, without taking into consideration the changes in the general purchasing power of the Israeli currency.

c. Balance sheets - the Company:

	December 31,	
	2004	2003
	NIS in millions	
ASSETS		
CURRENT ASSETS	296	558
INVESTMENTS IN INVESTEES	1,280	1,050
LONG-TERM LOANS	597	327
DEFERRED CHARGES	4	5
	2,177	1,940
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES	185	48
LONG-TERM LIABILITIES	832	981
SHAREHOLDERS' EQUITY	1,160	911
	2,177	1,940

NOTE 37:- CONDENSED FINANCIAL DATA IN NOMINAL HISTORICAL VALUES FOR TAX PURPOSES (Cont.)

d. Statements of income - the Company:

	Year ended December 31,		
	2004	2003	2002
	NIS in millions		
Revenues, net:			
Equity in earnings of investees, net	419	206	29
Management fees	5	7	5
	424	213	34
Expenses:			
General and administrative expenses	4	5	6
Management fees	1	1	1
Financial expenses (income), net	(2)	3	21
	3	9	28
Net income	421	204	6

NOTE 37:- CONDENSED FINANCIAL DATA IN NOMINAL HISTORICAL VALUES FOR TAX PURPOSES (Cont.)

e. Statements of changes in shareholders' equity:

	Share capital	Capital surplus	Retained earnings	Dividend declared subsequent to balance sheet date	Company's shares held by subsidiary	Total
	NIS in millions					
Balance as of January 1, 2002	10	604	214	-	(11)	817
Purchase of Company's shares by subsidiary	-	-	-	-	(1)	(1)
Capital surplus from transaction with controlling shareholder	-	-	(63)	-	-	(63)
Foreign currency translation adjustments for investees	-	7	-	-	-	7
Contributions from revaluation of fixed assets in investee, net	-	9	-	-	-	9
Net income	-	-	6	-	-	6
Dividend declared subsequent to balance sheet date	-	-	(50)	50	-	-
Balance as of December 31, 2002	10	620	107	50	(12)	775
Sale of Company's shares by subsidiary	-	2	-	-	12	14
Unrealized losses on interest rate swap transaction of an affiliate	-	(9)	-	-	-	(9)
Foreign currency translation adjustments for investees	-	13	-	-	-	13
Dividend	-	-	(36)	(50)	-	(86)
Net income	-	-	204	-	-	204
Dividend declared subsequent to balance sheet date			(54)	54	-	-
Balance as of December 31, 2003	10	626	221	54	-	911
Conversion of debentures into Company's shares	-	1	-	-	-	1
Unrealized losses on interest rate swap transaction of an affiliate	-	(2)	-	-	-	(2)
Capital surplus from transaction with controlling shareholder	-	(52)	-	-	-	(52)
Foreign currency translation adjustments for investees	-	32	-	-	-	32
Dividend	-	-	(97)	(54)	-	(151)
Net income	-	-	421	-	-	421
Dividend declared subsequent to balance sheet date	-	-	(104)	104	-	-
Balance as of December 31, 2004	10	605	441	104	-	1,160

LIST OF PRINCIPAL INVESTEES AND PARTNERSHIPS

Holding company	Name of company	Ownership and control by the holding company December 31, 2004 %	Manner of presentation
Delek Group Ltd.			
	Delek Petroleum Ltd.	100	Subsidiary
	Delek Real Estate	90.9	Subsidiary
	Delek Investments and Properties Ltd.	100	Subsidiary
Delek Petroleum Ltd.			
	Delek - The Israel Fuel Corporation Ltd.	100	Subsidiary
	Delek Hungary Holding Ltd.	100	Subsidiary
	Held by Delek - The Israel Fuel Corporation Ltd.:		
	Delkol Ltd.	100	Subsidiary
	Gal-Shoham Fuel Corporation Ltd.	100	Subsidiary
	Bitom Petrochemical Industries Ltd.	60	Subsidiary
	Delek Heating Ltd.	51	Subsidiary
	Shall-Dal Fuel Transportation Services Ltd.	100	Subsidiary
	Tashluz Energy Ltd.	100	Subsidiary
	Sha'arei Delek - Development and Management Registered Partnership	100	Subsidiary
	Delek Belski Registered Partnership for Marketing of Fuels and Oil		
	Delek Argaman Development and Management a registered Partnership - 1994	100	Subsidiary
	Delek Manta Roads Ltd.		
	The Consolidated Company for Oil Exports Ltd.	75	Subsidiary
	Tanker Services Ltd.	75	Subsidiary
	The American-Israeli Gas Co. Ltd.	39	Affiliate
	Orpak Industries Ltd. (*)	10	Affiliate
	P. Glilot Oil Terminals and Pipes Ltd.	15.3	Cost
	Basic Oils Haifa Ltd.	11.5	Cost
	Held by Gal-Shoham Fuel Co. Ltd.		
	Shoham - Stations and Assets Ltd.	100	Subsidiary
	Gal Fuel Co. Ltd.	100	Subsidiary
	Held by Delek Hungary Holding Ltd.		
	Delek US Holdings, Inc.	100	Subsidiary
	Held by Delek US Holding, Inc.		
	MAPCO Express, Inc.	100	Subsidiary
	MAPCO Family Centers	100	Subsidiary
	MAPCO Fleet Inc.	100	Subsidiary

(*) There is a joint voting agreement with another stockholder.

Holding company	Name of company	Ownership and control by the holding company (1) December 31, 2004 %	Manner of presentation
Delek Real Estate Ltd.			
	Delek Poleg	100	Subsidiary
	Delek Real Estate Hod Hasharon (Shamtan) Ltd.	100	Subsidiary
	Delek Investments Ltd.	100	Subsidiary
	Delek Bellron International Ltd.	100	Subsidiary
	Ein Yahav - Delek Ltd.	50	Jointly controlled
	Orhan Megido Waters Ltd.	50	Jointly controlled
	Delson Investments and Property (1994) Ltd	50	Jointly controlled
	Trading Center Delek Corporation - B.L.G. Ltd.	50	Jointly controlled
	Delek Lapid Partnership	50	Affiliate
	Delek Saadon - Initiation Corporation	50.1 (3)	Affiliate
	Birnit Galil-Tahton Tveria Ltd.	45	Affiliate
	Hof Carmel Recreation and Tourism 89 Ltd.	17.3	Affiliate
	Hof Hacarmel 88 Ltd.	17.3	Affiliate
	Held by Delek Bellron International Ltd.		
	Bellron Hexagon Limited	100	Subsidiary
	Bellron Assets (1993) Ltd.	100	Subsidiary
	Bellron Mint Limited	100	Subsidiary
	Bellron Croydon Limited	100	Subsidiary
	City Centre Atrium Limited	100	Subsidiary
	Bel Finance Limited	100	Subsidiary
	Oxenford Holdings Limited	100	Subsidiary
	Anglo Properties Holdings Limited	100	Subsidiary
	Held by Bellron Hexagon Limited:		
	Gimmel Investments Limited	100	Subsidiary
	Held by Gimmel Investments Limited:		
	Hexagon Properties Limited	100	Subsidiary
	Held by Prospect Holdings Limited:		
	Mint House Properties Limited	100	Subsidiary
	Held by Bellron Croydon Limited:		
	Gyron Finance Limited	100	Subsidiary
	Flush Investments Limited	20	Subsidiary
	Held by Gyron Finance Limited:		
	Flush Investments Limited	80	Subsidiary
	Romford Properties Limited	99.8	Subsidiary
	Held by City Center Atrium Limited:		
	Sooti Holdings Limited	100	Subsidiary
	Bel Finance (BVI) Limited	100	Subsidiary

(1) Ownership and control held directly and indirectly.
(2) The Company's assets are held by Trust for Bel Finance (BVI) Limited.
(3) Ownership held by the Company

Holding company	Name of company	Ownership and control by the holding company (1) December 31, 2004 %	Manner of presentation
	Held by Sooti Holdings Limited:		
	Shatto Holdings Limited	100	Subsidiary
	Held by Bel Finance (BVI) Limited:		
	The Navigator Trust	(2)	Subsidiary
	The Corsa Trust	(2)	Subsidiary
	The Mondego Trust	(2)	Subsidiary
	The Orion Trust	(2)	Subsidiary
	Held by Oxenford Holdings Limited:		
	Old Forge Investments Limited	100	Subsidiary
	Ragdale Properties Limited	100	Subsidiary
	Dovenport Properties Limited	100	Subsidiary
	Padwick Properties Limited	100	Subsidiary
	Right Angle Limited	100	Subsidiary
	West Meath Limited	100	Subsidiary
	Property Investment Holdings Limited	100	Subsidiary
	Frenchay Holdings Limited	75	Subsidiary
	Botley Properties Limited	70	Subsidiary
	Elmtree Limited	62.5	Subsidiary
	Anglo Properties Holding Limited		
	Held by Frenchay Holdings Limited		
	Rickdown Investments Limited	100	Affiliate
	Held by Right Angle Limited		
	Carnwood Holdings Limited	40	Affiliate
	Held by West Meath Limited		
	Kristwood Holdings Limited	49	Affiliate
	Held by Elmtree Limited		
	Roundwood Properties Limited	40	Affiliate
	Held by Anglo Properties Holdings Limited		
	Rosmore Ltd.	40	Affiliate
	Romesfielled Properties	45	Affiliate
	Linchfield Limited	40	Affiliate
	Held by Bellron Mint Limited		
	Romford Properties Limited	0.2	Subsidiary
	Prospect Holdings Limited	50	Subsidiary
	North Ring Limited	49	Affiliate

(1) Ownership and control held directly and indirectly.
(2) The Company's assets are held by Trust for Bel Finance (BVI) Limited.
(3) Ownership held by the Company

Holding company	Name of company	Ownership and control by the holding company (1) December 31, 2004 %	Manner of presentation
Delek Investments and Properties Ltd.			
	Delek Infrastructures Ltd.	100	Subsidiary
	Mishor Rotem - Delek Water Treatment Ltd.	75	Subsidiary
	Delek Ecology - Limited Partnership	75	Subsidiary
	Delek Automotive Systems Ltd.	61.5	Subsidiary
	Gadot Biochemical Industries Ltd.	71	Subsidiary
	Commutech Holdings & Investments Ltd.	100	Subsidiary
	Delek Energy Systems Ltd.	89.4	Subsidiary
	Yam Tethys Joint Venture	4.4	Jointly controlled
	Avner Oil Exploration - Limited Partnership	13.2	Affiliate
	Delek Drilling - Limited Partnership	6.5	Subsidiary
	Matav Cable Systems Media Ltd.	40	Affiliate
	Held by Delek Infrastructures Ltd.:		
	IDE Technologies Ltd.	50	Jointly controlled
	Mishor Rotem - Delek Water Treatment Ltd.	25	Subsidiary
	Delek Ecology - Limited Partnership	25	Subsidiary
	Held by Delek Ecology - Limited Partnership:		
	I.P.P. Delek Ashkelon Ltd.	100	Subsidiary
	Held by Delek Automotive Systems Ltd.:		
	Delek Motors Ltd.	100	Subsidiary
	Delek Automobile Spare Parts (1987) Ltd.	100	Subsidiary
	Damar Properties (1985) Ltd.	100	Subsidiary
	D.S.R. - Delek Automobile Agencies 1994 - Limited Partnership	100	Subsidiary
	Delek Lapid Partnership	50	Subsidiary
	Shagrir Towing Services Ltd.	33.3	Affiliate
	Held by Delek Energy Systems Ltd.:		
	Delek Drilling Management (1993) Ltd.	100	Subsidiary
	Delek Drilling Trusts Ltd.	100	Subsidiary
	Delek Energy (Vietnam) LLC.	100	Subsidiary
	Delek Energy Debentures Ltd.	100	Subsidiary
	Delek Drilling - Limited Partnership	62.27	Subsidiary
	Avner Oil Exploration - Limited Partnership (1)	39.04	Affiliate
	Avner Trusts Ltd.	50	Affiliate
	Avner Oil and Gas Ltd.	50	Jointly controlled
	Held by Delek Drilling - Limited Partnership -		
	Yam Tethys Joint Venture	25.5	Jointly controlled
	Held by Avner Oil Exploration - Limited Partnership		
	Yam Tethys Joint Venture	23	Jointly controlled

(1) Ownership and control held directly and indirectly.

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