

DELEK GROUP LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2005

IN NIS

UNAUDITED

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Delek Group Ltd.
Netanya

Dear Sirs,

The accompanying condensed consolidated balance sheets of Delek Group Ltd. ("the Company") as of March 31, 2005 and 2004, and the related condensed consolidated statements of income, changes in shareholders' equity and cash flows for the three months then ended are derived from the unaudited financial statements of the Company. The accompanying condensed consolidated balance sheet of the Company as of December 31, 2004 and the related condensed consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended are derived from the audited financial statements of the Company.

The abovementioned financial statements are prepared in reported amounts. Reported amounts relating to non-monetary items are a combination of the adjusted amounts as of December 31, 2003 (historical cost adjusted for changes in the general purchasing power of the Israeli currency as measured by changes in the Consumer Price Index through December 2003) and transactions in nominal values that occurred after December 31, 2003. Reported amounts relating to monetary items are presented in nominal values.

The accompanying financial statements are condensed financial statements and do not include disclosures regarding claims submitted against investees and other disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the accompanying financial statements, they might influence the user's conclusions about the consolidated financial position, results of operations and cash flows of the Company. Accordingly, the accompanying financial statements are not designed for those who are not informed about such matters.

Tel-Aviv, Israel
May 30, 2005

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

CONSOLIDATED BALANCE SHEETS

	March 31,		December 31,
	2005	2004	2004
	Unaudited		Audited
	Reported NIS in millions		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	601	546	545
Short-term investments	555	255	201
Trade receivables	1,791	1,651	1,830
Other accounts receivable	404	341	299
Inventories	815	918	1,046
Real estate held for sale	65	19	62
	<u>4,231</u>	<u>3,730</u>	<u>3,983</u>
LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES:			
Investment in investees and other companies	1,754	1,033	1,532
Real estate for rent	2,884	2,961	3,066
Land held for construction	402	166	403
Loans, deposits and long-term receivables	410	306	313
Investments in petroleum and gas exploration	826	887	837
	<u>6,276</u>	<u>5,353</u>	<u>6,151</u>
FIXED ASSETS, NET	<u>2,031</u>	<u>1,635</u>	<u>2,013</u>
OTHER ASSETS AND DEFERRED CHARGES, NET	<u>750</u>	<u>489</u>	<u>741</u>
	<u><u>13,288</u></u>	<u><u>11,207</u></u>	<u><u>12,888</u></u>

CONSOLIDATED BALANCE SHEETS

	March 31,		December 31,
	2005	2004	2004
	Unaudited		Audited
	Reported NIS in millions		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	2,513	3,222	3,399
Trade payables	837	789	1,088
Other accounts payable	579	504	594
Dividend payable	26	54	-
	<u>3,955</u>	<u>4,569</u>	<u>5,081</u>
LONG-TERM LIABILITIES:			
Long-term loans from banks and others	4,574	3,626	4,409
Convertible debentures	604	621	603
Other debentures	1,964	684	637
Accrued severance pay, net	13	17	14
Deferred taxes	172	85	170
Other liabilities	78	52	67
	<u>7,405</u>	<u>5,085</u>	<u>5,900</u>
MINORITY INTEREST	<u>407</u>	<u>270</u>	<u>362</u>
SHAREHOLDERS' EQUITY	<u>1,521</u>	<u>1,283</u>	<u>1,545</u>
	<u><u>13,288</u></u>	<u><u>11,207</u></u>	<u><u>12,888</u></u>

CONSOLIDATED STATEMENTS OF INCOME

	Three months ended		Year ended
	March 31,		December 31,
	2005	2004	2004
	Unaudited		Audited
	Reported NIS in millions		
	(except per share amounts)		
Revenues	3,595	3,211	14,893
Less - customs, purchase taxes, excise and royalties	776	845	3,529
Cost of revenues	2,819	2,366	11,364
	2,364	1,924	9,337
Gross profit	455	442	2,027
Selling, marketing and gas station operating expenses	199	179	814
General and administrative expenses	65	66	308
Operating income	191	197	905
Financial expenses, net	98	65	342
	93	132	563
Gain on sale of investments in investees, net	9	-	100
Other income (expenses), net	23	4	(28)
Income before taxes on income	125	136	635
Taxes on income	39	55	189
Income after taxes on income	86	81	446
Equity in net earnings of associated companies and partnerships	52	19	136
Minority interest in earnings of subsidiaries, net	(52)	(27)	(159)
Income before the cumulative effect of a change in accounting principle, net	86	73	423
Cumulative effect as of the beginning of the period of a change in accounting principle, net	-	(20)	(20)
Net income	86	53	403
Net earnings per NIS 1 par value of share capital (in reported NIS):			
Income before the cumulative effect of a change in accounting principle	8.79	7.55	43.50
Cumulative effect	-	(2.10)	(2.10)
Net earnings	8.79	5.45	41.40

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Capital reserves			Retained earnings		Total
	Share capital	Share premium	Additional paid-in capital	Unappropriated retained earnings	Dividend declared subsequent to the balance sheet date	
Unaudited						
Reported NIS in millions						
Balance as of January 1, 2005 (audited)	11	771	90	569	104	1,545
Decrease in unrealized losses on interest rate swap transaction of an associated company	-	-	2	-	-	2
Foreign currency translation adjustments for investees	-	-	(8)	-	-	(8)
Dividend	-	-	-	-	(104)	(104)
Net income	-	-	-	86	-	86
Dividend declared subsequent to the balance sheet date	-	-	-	(43)	43	-
Balance as of March 31, 2005	<u>11</u>	<u>771</u>	<u>84</u>	<u>612</u>	<u>43</u>	<u>1,521</u>
Balance as of January 1, 2004 (audited)	11	770	50	373	54	1,258
Decrease in unrealized losses on interest rate swap translation adjustment for investees	-	-	1	-	-	1
Foreign currency translation adjustments for investees	-	-	25	-	-	25
Dividend	-	-	-	-	(54)	(54)
Net income	-	-	-	53	-	53
Balance as of March 31, 2004	<u>11</u>	<u>770</u>	<u>76</u>	<u>426</u>	<u>-</u>	<u>1,283</u>

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Capital reserves			Retained earnings		Total
	Share capital	Share premium	Additional paid-in capital	Unappropriated retained earnings	Dividend declared subsequent to the balance sheet date	
	Audited					
	Reported NIS in millions					
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 for transaction with a 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
Divided	-	-	-	(97)	(54)	(151)
Net income	-	-	-	403	-	403
Dividend declared subsequent to the balance sheet date	-	-	-	(104)	104	-
Balance as of December 31, 2004	11	771	90	569	104	1,545

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2005	2004	2004 *)
	Unaudited		Audited
	Reported NIS in millions		
<u>Cash flows from operating activities:</u>			
Net income	86	53	403
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	42	(74)	102
Net cash provided by (used in) operating activities	128	(21)	505
<u>Cash flows from investing activities:</u>			
Purchase of fixed and other assets	(59)	(90)	(376)
Proceeds from sale of fixed assets and real estate	111	5	111
Investment in real estate and real estate for rent	(6)	(7)	(40)
Realization (purchase) of marketable securities, net	(11)	58	65
Collection of long-term loans granted	33	14	82
Withdrawal of (investment in) deposits, net	(410)	(10)	33
Increase in joint ventures for oil and gas exploration	-	(19)	(29)
Proceeds from sale of investments in investees and others	30	39	136
Investment in investees and partnerships	(276)	(197)	(283)
Acquisition of businesses and newly consolidated subsidiaries (b)	-	-	(384)
Loans granted to others	(6)	(30)	(50)
Net cash used in investing activities	(594)	(237)	(735)
<u>Cash flows from financing activities:</u>			
Short-term credit from banks and others, net	(767)	50	(10)
Receipt of long-term loans	540	228	1,102
Repayment of long-term loans	(544)	(398)	(1,108)
Issuance of shares to minority in subsidiary	-	-	12
Dividend paid	(78)	-	(151)
Dividend paid to minority in subsidiary	-	(56)	(128)
Sale of debentures held by subsidiary	-	-	7
Issuance of debentures and convertible debentures, net	1,417	386	509
Repayment of debentures and convertible debentures	(46)	-	(48)
Net cash provided by financing activities	522	210	185
Translation differences with respect to cash balances in autonomous investee companies	-	6	2
Increase (decrease) in cash and cash equivalents	56	(42)	(43)
Cash and cash equivalents at the beginning of the period	545	588	588
Cash and cash equivalents at the end of the period	601	546	545

*) Reclassified.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31,		December 31,
	2005	2004	2004 *)
	Unaudited		Audited
	Reported NIS in millions		
(a) <u>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</u>			
Income and expenses not involving cash flows:			
Depreciation, depletion, amortization and write-down of assets	69	57	295
Deferred taxes, net (1)	2	23	48
Decrease in accrued severance pay, net	(3)	-	-
Increase in value of loans granted, net	(6)	(2)	(2)
Gain on sale of fixed assets, real estate and investments, net	(26)	(10)	(139)
Equity in undistributed earnings of associated companies and partnerships, net (2)	(6)	(18)	(148)
Increase in value of securities and deposits, net	(3)	(29)	(30)
Erosion (increase in value) of long-term liabilities	2	(6)	(6)
Minority interest in earnings of subsidiaries, net	52	27	159
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	40	(51)	(215)
Increase in other accounts receivable	(36)	(9)	(30)
Decrease (increase) in inventories	241	1	(63)
Increase (decrease) in trade payables	(256)	(103)	166
Increase (decrease) in other accounts payable	(28)	46	67
	<u>42</u>	<u>(74)</u>	<u>102</u>
(1) Including cumulative effect as of the beginning of the period of a change in accounting principle	<u>-</u>	<u>20</u>	<u>20</u>
(2) Net of dividend received	<u>46</u>	<u>1</u>	<u>8</u>

*) Reclassified.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2005	2004	2004 *)
	Unaudited		Audited
	Reported NIS in millions		
(b) <u>Acquisition of businesses and newly consolidated subsidiaries:</u>			
Working capital deficiency, net (except cash)	-	-	226
Fixed assets, real estate, investments and other assets	-	-	(900)
Goodwill	-	-	(255)
Long-term liabilities	-	-	545
	-	-	(384)
(c) <u>Significant non-cash activities:</u>			
Sale of real estate on credit	71	-	-
Purchase of fixed assets on credit	2	12	-
Investment in oil and gas exploration on credit	-	31	-
Dividend declared	26	54	-

*) Reclassified.
