

**DELEK GROUP LTD.**

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2003**

**ADJUSTED TO THE NIS OF DECEMBER 2003**

**INDEX**

	<u>Page</u>
<b>Auditors' Letter</b>	<b>2</b>
<b>Condensed Consolidated Financial Statements :</b>	
<b>Consolidated Balance Sheets</b>	<b>3 - 4</b>
<b>Consolidated Statements of Income</b>	<b>5</b>
<b>Statements of Changes in Shareholders' Equity</b>	<b>6</b>
<b>Consolidated Statements of Cash Flows</b>	<b>7 - 9</b>

-----

Delek Group Ltd.  
Netanya

We have audited, in accordance with generally accepted auditing standards in Israel, the consolidated balance sheets of Delek Group Ltd. (the Company) and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003.

We did not audit the financial statements of subsidiaries, whose assets constitute 41% and 46% of consolidated total assets as of December 31, 2003 and 2002, respectively, and whose revenues constitute 6%, 10% and 9% of consolidated total revenues for the years ended December 31, 2003, 2002 and 2001, respectively. We also did not audit the financial statements of investee companies in which the Company's investment at equity amounted to NIS 614 million and NIS 322 million as of December 31, 2003 and 2002, respectively, and in which the Company's equity in their gains amounted to NIS 14 million for the year ended December 31, 2003, and the Company's equity in their losses amounted to NIS 4 million and NIS 14 million for the years ended December 31, 2002 and 2001, respectively. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for those subsidiaries and companies, was based solely on the reports of the other auditors.

Based on our audits and the reports of other auditors, in our report dated March 30, 2004, we expressed an unqualified opinion on the abovementioned financial statements, and included an explanatory paragraph regarding contingent liabilities of an associated company and requests to authorize class action lawsuits against subsidiaries.

The financial statements referred to above were prepared on the basis of historical cost adjusted for the changes in the general purchasing power of the Israeli currency as measured by changes in the Consumer Price Index, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

The accompanying financial statements are condensed financial statements and do not include disclosures regarding contingent liabilities of an associated company and requests to authorize class action lawsuits against subsidiaries and other disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the consolidated financial position, results of operations, and cash flows of the Company and subsidiaries. Accordingly, the accompanying financial statements are not designed for those who are not informed about such matters.

Tel-Aviv, Israel  
March 30, 2004

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

**CONSOLIDATED BALANCE SHEETS****Adjusted to the NIS of December 2003**

	December 31,	
	2003	2002
	Adjusted NIS in millions	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	588	438
Short-term investments	272	181
Trade receivables	1,625	1,385
Other accounts receivable	244	246
Inventories	925	872
Real estate held for sale	20	6
	<u>3,674</u>	<u>3,128</u>
<b>INVESTMENTS AND LONG-TERM RECEIVABLES:</b>		
Investment in investees and other companies	801	541
Real estate	2,856	2,581
Land held for construction	171	191
Loans, deposits and long-term receivables	222	264
Investments in petroleum and gas exploration	850	683
	<u>4,900</u>	<u>4,260</u>
<b>FIXED ASSETS:</b>		
Cost	2,818	2,631
Less - accumulated depreciation	1,120	966
	<u>1,698</u>	<u>1,665</u>
<b>OTHER ASSETS AND DEFERRED CHARGES, NET</b>		
	<u>479</u>	<u>493</u>
	<u>10,751</u>	<u>9,546</u>

**CONSOLIDATED BALANCE SHEETS****Adjusted to the NIS of December 2003**

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>Adjusted NIS in millions</b>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term credit from banks and others	2,703	2,873
Trade payables	881	454
Other accounts payable	476	436
	<u>4,060</u>	<u>3,763</u>
<b>LONG-TERM LIABILITIES:</b>		
Long-term loans	4,082	3,828
Convertible debentures	620	161
Other debentures	325	313
Accrued severance pay, net	17	19
Other liabilities	93	61
	<u>5,137</u>	<u>4,382</u>
<b>MINORITY INTEREST</b>	<u>296</u>	<u>277</u>
<b>SHAREHOLDERS' EQUITY</b>	<u>1,258</u>	<u>1,124</u>
	<u><u>10,751</u></u>	<u><u>9,546</u></u>

**CONSOLIDATED STATEMENTS OF INCOME****Adjusted to the NIS of December 2003**

	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in millions		
Revenues	12,105	9,837	*) 8,604
Less - excise, customs and purchase taxes	3,075	2,537	2,483
	9,030	7,300	6,121
Cost of revenues	7,430	5,891	4,889
Gross profit	1,600	1,409	1,232
Selling, marketing and gas station operating expenses	711	698	*) 545
General and administrative expenses	256	276	225
Operating income	633	435	462
Financial expenses, net	216	173	222
	417	262	240
Gain from sale of investments in investees, net	32	13	13
Other income (expenses), net	(47)	(21)	13
Income before taxes on income	402	254	266
Taxes on income	153	100	88
Income after taxes on income	249	154	178
Equity in net earnings (losses) of associated companies and partnerships	20	(8)	*) (4)
Minority interest in earnings of subsidiaries, net	(86)	(45)	(46)
Net income	183	101	128
Net income per NIS 1 par value of share capital (in Shekels)	18.9	10.4	13.2

\*) Reclassified.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of December 2003

	Capital reserves			Retained earnings		Shares of company held by subsidiary	Total
	Share capital	Premium on shares	Additional paid-in capital	Unappropriated retained earnings	Dividend declared subsequent to the balance sheet date		
	Adjusted NIS in millions						
Balance as of January 1, 2001	11	768	(4)	184	-	(4)	955
Shares of Company sold by subsidiary	-	-	-	-	-	1	1
Shares of Company acquired by subsidiary	-	-	-	-	-	(8)	(8)
Foreign currency translation adjustments for investees	-	-	7	-	-	-	7
Dividend	-	-	-	(34)	-	-	(34)
Net income	-	-	-	128	-	-	128
Balance as of December 31, 2001	11	768	3	278	-	(11)	1,049
Shares of Company acquired by subsidiary	-	-	-	-	-	(1)	(1)
Additional paid-in capital for transaction with a controlling shareholder	-	-	-	(51)	-	-	(51)
Foreign currency translation adjustments for investees	-	-	26	-	-	-	26
Net income	-	-	-	101	-	-	101
Dividend declared subsequent to the 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 the balance sheet date	-	-	-	(54)	54	-	-
Balance as of December 31, 2003	11	770	50	373	54	-	1,258

**CONSOLIDATED STATEMENTS OF CASH FLOWS****Adjusted to the NIS of December 2003**

	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in millions		
<u>Cash flows from operating activities:</u>			
Net income	183	101	128
Adjustments to reconcile net income to net cash provided by operating activities (a)	546	587	4
Net cash provided by operating activities	<u>729</u>	<u>688</u>	<u>132</u>
<u>Cash flows from investing activities:</u>			
Purchase of fixed and other assets	(210)	(246)	(254)
Proceeds from sale of fixed assets and real estate	15	17	124
Investment in real estate and real estate for rental	(64)	(106)	(1,203)
Realization (purchase) of marketable securities, net	(127)	(81)	23
Collection of long-term loans granted	55	107	34
Short-term deposits, net	41	(2)	(54)
Increase in joint ventures for oil and gas exploration	(227)	(227)	(98)
Proceeds from sale of investments in investees and others	47	-	1
Proceeds from sale of formerly - consolidated subsidiaries (c)	-	-	20
Investment in investees and partnerships	(261)	(235)	(129)
Acquisition of businesses and newly consolidated subsidiaries (b)	(54)	(7)	(947)
Loans granted to others	(28)	(40)	(54)
Net cash used in investing activities	<u>(813)</u>	<u>(820)</u>	<u>(2,537)</u>
<u>Cash flows from financing activities:</u>			
Short-term credit from banks and others, net	(245)	(916)	1,874
Receipt of long-term loans	882	1,347	901
Repayment of long-term loans	(747)	(398)	(208)
Issuance of shares to minority in subsidiary	17	24	5
Dividend paid	(84)	-	(137)
Acquisition of Company shares by subsidiary	-	(1)	(8)
Dequision of Company shares by subsidiary	14	-	1
Dividend paid to minority in subsidiary	(99)	(30)	(34)
Sale of debentures held by subsidiary	29	-	-
Issuance of debentures and convertible debentures, net	472	212	180
Repayment of debentures	(12)	(12)	(7)
Net cash provided by financing activities	<u>227</u>	<u>226</u>	<u>2,567</u>
Translation differences with respect to cash balances in autonomous investee companies	<u>7</u>	<u>23</u>	<u>2</u>
Increase in cash and cash equivalents	150	117	164
Cash and cash equivalents at the beginning of the year	<u>438</u>	<u>321</u>	<u>157</u>
Cash and cash equivalents at the end of the year	<u><u>588</u></u>	<u><u>438</u></u>	<u><u>321</u></u>

**CONSOLIDATED STATEMENTS OF CASH FLOWS****Adjusted to the NIS of December 2003**

	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in millions		
(a) <u>Adjustments to reconcile net income to net cash provided by operating activities:</u>			
Income and expenses not involving cash flows:			
Depreciation, amortization and writedown of assets	331	227	149
Deferred taxes, net	2	(5)	(21)
Increase (decrease) in accrued severance pay, net	(1)	-	2
Increase in value of loans received	(25)	(43)	(17)
Gain on sale of fixed assets, real estate and investments, net	(34)	(14)	(21)
Equity in losses (undistributed earnings) of associated companies and partnerships, net *)	1	21	13
Erosion (increase in value) of securities and deposits, net	(11)	2	(1)
Erosion (increase in value) of long-term liabilities	(41)	(39)	19
Minority interest in earnings of subsidiaries, net	86	45	46
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	(243)	(12)	15
Decrease (increase) in other accounts receivable	33	58	(9)
Decrease (increase) in inventories	(20)	235	(58)
Increase (decrease) in trade payables	420	66	(78)
Increase (decrease) in other accounts payable	48	46	(35)
	<u>546</u>	<u>587</u>	<u>4</u>
*) Net of dividend received	<u>21</u>	<u>13</u>	<u>9</u>

**CONSOLIDATED STATEMENTS OF CASH FLOWS****Adjusted to the NIS of December 2003**

	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in millions		
<b>(b) <u>Acquisition of businesses and newly consolidated subsidiaries:</u></b>			
Working capital deficiency (working capital), net (except cash)	(4)	5	(60)
Goodwill	(6)	(3)	(279)
Fixed assets, real estate, investments and other assets	(44)	(40)	(642)
Long-term liabilities	-	2	21
Loans to shareholders in newly-consolidated subsidiaries	-	(5)	-
Minority interest	-	7	-
Investment at equity on date of acquisition (formerly - associated companies)	-	27	13
	<u>(54)</u>	<u>(7)</u>	<u>(947)</u>
<b>(c) <u>Proceeds from sale of formerly consolidated subsidiaries</u></b>			
Working capital (except cash)	-	-	(3)
Fixed assets, other assets and deferred charges	-	-	113
Long-term liabilities	-	-	(91)
Minority interest	-	-	(8)
Gain on sale	-	-	9
	<u>-</u>	<u>-</u>	<u>20</u>
<b>(d) <u>Significant non-cash activities:</u></b>			
Purchase of fixed assets on credit	<u>6</u>	<u>1</u>	<u>5</u>
Investments in oil and gas exploration on credit	<u>26</u>	<u>35</u>	<u>-</u>
Sale of investment in associated company for credit	<u>-</u>	<u>-</u>	<u>8</u>
Receivables for sale of marketable securities	<u>14</u>	<u>-</u>	<u>-</u>