

ISRAEL OIL & GAS: E&P

Ratio is our top pick as the catalysts just keep coming

We change the top-end tax in our model to 50%: On 3 January the Sheshinski Committee submitted its final recommendations to the government for a new tax on oil and gas natural resources. The tax is a sliding tax that begins with a 20% levy once the partners reach a return on initial capex of 1.5x and tops out at 50% once the profits are 2.3x capex. Specific concessions were set aside for projects that come on line by 2014. We leave the 20-50% tax in our model, which we believe is the worst-case scenario outcome.

Changes to our Tamar model: We have made some changes to our Tamar model, the most significant of which was to lower the demand curve in Israel that has stretched our model from 20 years to 25 and also lowered our long-term natural gas price for the Israeli market to \$4.5 from \$5.1 to account for increased competition from Egyptian gas. We lower our PT for Isramco, which is a pure play on Tamar, to ILS 0.33.

Future catalysts are plentiful: Over the next few months we expect the additional drills of Leviathan 1 to further confirm size and quality of the natural gas reserve. Moreover, we expect the two oil prospects (Lower Oligocene and Lower Cretaceous), to reveal initial results during 1H 2011. The partners in Leviathan (Ratio, Delek Drilling and Avner Oil) are also expected to announce the results of the 3D seismic results from the Hanna and David licences that are situated near Leviathan. Lastly, for Ratio the 3D results from the Gal licence are also expected in 2011.

Uncertainty still reigns: Although the recommendations are now final, the discussion in the government will continue, likely leading to continued volatility in the sector. Among the most significant uncertainties are the timing of Tamar and the final government take percentages.

The new super royalty tax leads to lower PTs for Delek Group and Delek Energy: The committee recommended taxing the super royalties that Delek Energy gets from Delek Drilling and Avner, which has a negative cILS600m impact on our NAV for Delek Energy. The impact flows through to Delek Group, which holds 79.73% of Delek Energy.

Liquidity makes Ratio our top pick: Ratio trades over \$20m/day which makes it one of Israel's five most heavily traded stocks. In our view, this makes it the best option for exposure to Israeli E&P with the caveat being that it is a pure play on Leviathan.

PRICE TARGET CHANGE

Israel Oil & Gas: E&P

2-NEUTRAL

Unchanged

Israel Power & Utilities

2-NEUTRAL

Unchanged

For a full list of our ratings, price target and earnings changes in this report, please see table on page 2.

Israel Oil & Gas: E&P

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Summary of our Ratings, Price Targets and Earnings Changes in this Report (all changes are shown in bold)

Company	Rating		Price		Price Target			EPS FY1 (E)			EPS FY2 (E)		
	Old	New	05-Jan-11	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg	
Israel Oil & Gas: E&P	2-Neu		2-Neu										
Avner Oil Exploration - LP (AVNRL IT / AVNRp.TA)	2-EW	2-EW	2.55	2.98	2.89	-3	0.02	0.02	-	0.03	0.03	-	
Delek Drilling - LP (DEDRL IT / DEDRp.TA)	2-EW	2-EW	14.21	14.55	16.17	11	0.12	0.12	-	0.21	0.21	-	
Delek Energy Systems Ltd. (DLEN IT / DLEN.TA)	1-OW	1-OW	1376.00	1805.00	1682.00	-7	-10.93	-10.93	-	-27.90	-27.90	-	
Isramco Negev 2 LP (ISRAL IT / ISRAp.TA)	3-UW	3-UW	0.45	0.48	0.33	-31	0.00	0.00	-	0.00	0.00	-	
Ratio Oil Exploration (RATIL IT / RATIp.TA)	1-OW	1-OW	0.55	0.80	0.80	-	0.00	0.00	-	-0.01	-0.01	-	
Israel Power & Utilities	2-Neu		2-Neu										
Delek Group Ltd. (DLEKG IT / DELKG.TA)	1-OW	1-OW	918.50	1242.00	1113.00	-10	74.72	74.72	-	78.15	78.15	-	
Oil Refineries Ltd. (ORL IT / ORL.TA)	2-EW	2-EW	2.69	2.20	2.20	-	0.03	0.03	-	0.01	0.01	-	
Ormat Industries Ltd. (ORMT IT / ORMT.TA)	2-EW	2-EW	30.59	36.00	36.00	-	0.32	0.32	-	0.41	0.41	-	

Source: Barclays Capital Share prices and target prices are shown in the primary listing currency and EPS estimates are shown in the reporting currency.

FY1(E): Current fiscal year estimates by Barclays Capital. FY2(E): Next fiscal year estimates by Barclays Capital.

Stock Rating: 1-OW: 1-Overweight 2-EW: 2-Equal Weight 3-UW: 3-Underweight RS: RS-Rating Suspended

Sector View: 1-Pos: 1-Positive 2-Neu: 2-Neutral 3-Neg: 3-Negative

Ratio is our top pick

Ratio is our top pick in the Israel E&P sector, supported by a series of short-term potential positive catalysts. Among those catalysts are the results from two additional wells that will further confirm the amount and quality of the well at Leviathan. We believe that there is potential for the 16tcf estimate to be adjusted upwards, just as it was at Tamar. When Tamar was first discovered it was reported as a 5tcf discovery, which was updated in June of 2010 to 8.4tcf after a number of further drills and tests.

Beyond the additional drills for Leviathan two oil prospects are being drilled at the site that have the potential to yield 4.2bbl of oil, albeit with a low chance of success (17% of 3bbl and 8% of 1.2bbl, according to reports by Delek).

While both Delek Energy and Delek Group offer a more diverse portfolio (both are rated 1-OW), we prefer Ratio because of its trading volumes (Figure 4 below), which make it the easiest stock to trade in the group.

Figure 1: Ratio - NAV

Assets	Country/ Licence	WI %	Hydroc. Fluid	Gross CAPEX \$mn	CoS %	Risky Reserv./Resour.		NPV/boe \$/boe	NPV \$mn	Risky			Unrisk NPV p/sh
						Gross mmboe	Net (WI) mmboe			NPV ILSmn	NPV p/sh	% Tot NAV	
Cash/(Net Debt)									50	175	0.03	3.19	0.03
Core NAV													
Contingent Developments									0	0	0.13	15.81	0.25
Leviathan Export	Israel	15%	LNG		50%	1732	260	1.9	246	865	0.13	15.81	0.25
Exploration/Appraisal													
Leviathan Oil #1	Israel	15%	Oil/Gas		8%	1413	212	7.2	122	430	0.06	7.87	0.79
Leviathan Oil #2	Israel	15%	Oil/Gas		4%	1132	170	5.3	36	126	0.02	2.30	0.46
Leviathan	Israel	15%	Gas		100%	2692	404	2.7	1101	3874	0.57	70.83	0.57
E&A upside									1101	3874	0.77	96.81	2.07
Total NAV									1150	4049	0.80	100	2.09

Source: Barclays Capital

Isramco is our 3-Underweight call

Isramco is a pure play on the Tamar well. Tamar is likely to come online by 2014 and is expected to be sanctioned at \$3,000m. We believe that there may be some risk to both of these numbers. Moreover, we believe that the market is already giving Isramco credit for a potentially lighter tax burden. If a scenario were to play out where the top end of the tax was 40% and not 50%, it would only add ILS 0.01 to our price target; a change to a tax structure similar to that of Mari B would add ILS 0.02 to our PT, which leads us to believe that the market is pricing an unlikely result, which excludes Tamar entirely from any new tax which, would add ILS 0.07 to our PT and put us in line with the market.

Figure 2: Isramco - NAV

Assets	Country/ Licence	WI %	Hydroc. Fluid	Gross CAPEX \$mn	CoS %	Risky Reserv./Resour.		NPV/boe \$/boe	NPV \$mn	Risky			Unrisk NPV p/sh
						Gross mmboe	Net (WI) mmboe			NPV ILSmn	NPV p/sh	% Tot NAV	
Under development													
Tamar	Israel	29%	Gas		100%	860	247	3.6	902	3175	0.28	84.59	0.28
Cash/(Net Debt)									164	578	0.05	15.41	0.05
BS adj.									-	-	-	-	-
Core NAV									1066	3753	0.33	100.00	0.33
E&A upside									0	0	0	0	0
Total NAV									1066	3753	0.33	100.00	0.33

Source: Barclays Capital

Update on Leviathan

Partners confirm 16tcf of gas

On 29 December Noble Energy, Delek Drilling, Avner Oil and Ratio (the "Partners") announced that the Leviathan 1 well is now a natural gas discovery, updated from a prospect prior to the results. Following the announcement, we are updating our models and raising the chance of success at the Leviathan Gas prospect to 100%.

The next stages for Leviathan are:

- Two additional wells to evaluate the full scope and quality of the reserves
- Drilling of the Lower Oligocene prospect (Leviathan Oil #1 in our model) which, according to the partners, has a 17% geological probability of having 3bbl of oil
- Drilling of the Lower Oligocene prospect (Leviathan Oil #1 in our model) which, according to the partners, has an 8% geological probability of having 1.2bbl of oil

We expect the results from all of the drills during 1H 2011.

Update on taxes

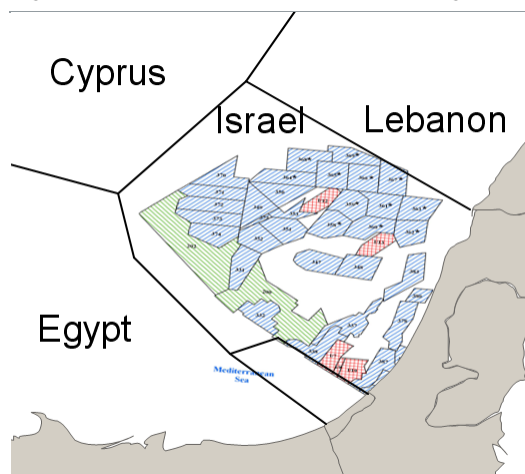
The Sheshinski Committee submitted its final recommendations to the government on 3 January. The main points and changes of the recommendations are:

- Gradual increase of the special tax on profits to range from 20% to 50% as opposed to the original 20% to 60% for all projects that come online after 1 January 2014.
 - R factor for the above tax range from 1.5x invested capital (20%) and caps out at 2.3x IC (50%) – no change
- Mari B (Yam Tethys) will be taxed on a gradually increasing scale of 10% to 25%.
 - R factor for the above tax range from 1.5x invested capital (20%) and caps out at 2.3x IC (50%) – no change

- Projects brought online prior to 1 January 2014 will be taxed a gradually increasing scale of 20% to 50% but...
 - R factor for the above tax range from 2.0x invested capital (20%) and caps out at 2.8x IC (50%)
- Super Royalties paid to Delek Energy and others will be taxed at the R factor.

There is still uncertainty around the finality of the recommendations. We believe that modelling in the most recent data limits the downside surprise from any government decision, which we believe will either accept in full the Sheshinski recommendations or potentially reduce the tax impact.

Figure 3: Gas fields – illustration of the region*



* For illustration purpose only; locations approximate. Source: Barclays Capital

Figure 4: Trading Statistics

	Price	Price Target	Upside/Downside	Rating	Market Cap, ILSm	Volume, \$m	Free Float
Ratio	0.53	0.80	51%	1-OW	3,629	31,795,719	77%
Avner	2.49	2.89	16%	2-EW	8,297	8,807,048	39%
Isramco	0.45	0.33	-27%	3-UW	5,140	7,696,362	71%
Delek Energy	1360.00	1682	24%	1-OW	6,822	2,827,765	21%
Delek Drilling	13.99	16.17	16%	2-EW	7,652	5,612,167	29%
Delek Group	925.00	1113	20%	2-EW	10,524	7,599,395	35%

Source: Tel Aviv Stock Exchange (data as of close 4 January 2011)

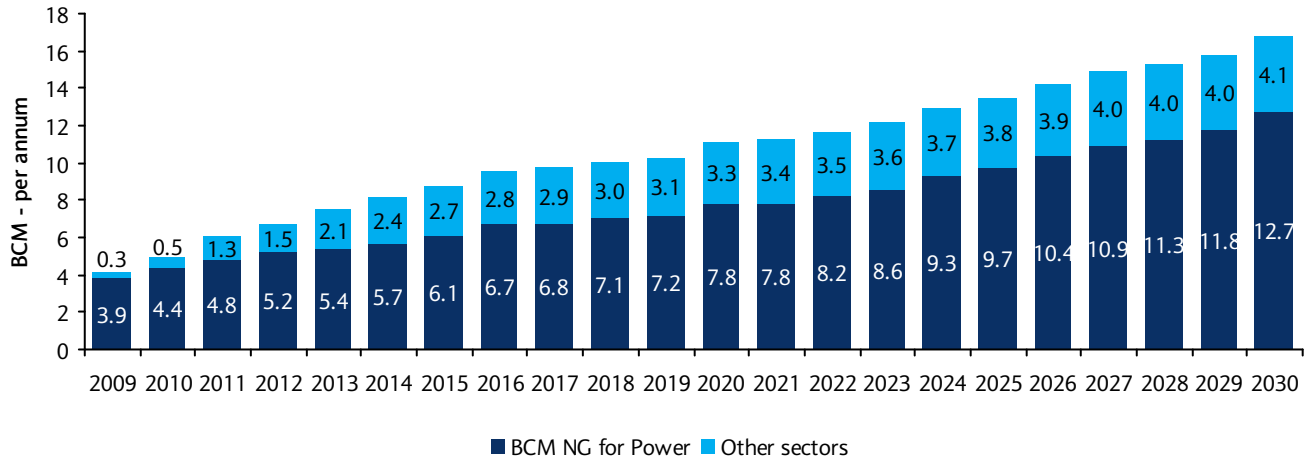
Israeli gas demand

How the Israeli demand curve grows is the most important factor for the future of Israeli E&P. It also is important to recall that natural gas is a new resource for the Israeli market and prior to the Egyptian gas beginning to flow in 2010 and the Mari B which will be dry by 2014 there are no other constant sources of natural gas. With the discovery of Tamar in 2009 the facts on the ground changed.

In an environment where there are no energy natural resources, an argument can be made that the mix of fuels for electricity and industry be spread across the range to ensure supply. In an environment where the natural resource belongs to the same country, an argument

can be made that the mix of fuels be weighted towards that resource. Clearly, in Israel's case that would be an argument to lean on natural gas as the major fuel source. While this argument may make sense, the Israeli government and private industry have not yet made that decision. The clearest example of that is that the Israel Electric company still runs its base load on coal. There are two projects still in discussion in the government – one to convert a plant to base load gas and the other is a green field project which is still undecided if it will be a coal or gas base load.

Figure 5: Forecasted Natural Gas Demand



Source: Ministry of Infrastructure

Figure 6: Mari and Noa Field - NPV

	Total	units	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Gas Production												
Gas production	1,002.6	Bcf	164.6	222.4	270.8	338.5	280.5	319.2	367.5	367.5	367.5	48.4
Gross Revenues			179.3	221.8	274.4	381.9	350.5	500.9	591.2	606.0	606.6	79.9
Opex			(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(194.0)	(20.0)	(20.0)	(20.0)	(20.0)
Royalties			(18.1)	(24.5)	(29.8)	(37.2)	(30.9)	(35.1)	(40.4)	(40.4)	(40.4)	(5.3)
Super Royalties									(23.8)	(24.4)	(24.5)	(3.2)
Cash-Flow Analysis												
Gross Revenues	3,792.5	\$mm	179	222	274	382	350	501	591	606	607	80
Net Royalties			(18.1)	(24.5)	(29.8)	(37.2)	(30.9)	(35.1)	(64.3)	(64.9)	(64.9)	(8.5)
Net Revenues			161.2	197.3	244.6	344.6	319.6	465.8	527.0	541.1	541.7	71.4
<i>Entitlement Production</i>			24.67	32.98	40.23	50.91	42.63	49.46	54.59	54.70	54.70	7.20
Opex	(374.0)	\$mm	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(194.0)	(20.0)	(20.0)	(20.0)	(20.0)
Capex	(287.2)	\$mm	(81.0)	(95.0)	(103.1)	(1.1)	(1.1)	(1.1)	(1.2)	(1.2)	(1.2)	(1.2)
Tax	(601.5)	\$mm	-	-	-	(58.3)	(74.9)	(68.0)	(126.7)	(130.3)	(130.4)	(12.8)
TOTAL	2,151.7	\$mm	60.2	82.3	121.6	265.2	223.6	202.7	379.1	389.7	390.1	37.3
NPV	985.2	\$mm										

Source: Barclays Capital

Figure 7: Tamar field - NPV

	Total	units	2013	2014	2015	2016	2017	2018	2019-2033
Gas Production									
Gas production	11,828.8	[MMScf/d]	354.5	389.3	435.8	470.7	511.4	552.0	11,430.2
Gas production		[bbl/d]	59.1	64.9	72.6	78.4	85.2	92.0	1,905.0
Royalty Gas		[%]	39.0	42.8	48.0	51.8	56.3	60.8	1,257.9
After Royalty Production	10,527.2	[MMScf/d]	315.5	346.5	387.9	418.9	455.1	491.3	10,172.3
Total royalty		[%]	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Revenues									
Gross Revenues - Gas	21,030.5	[\$mm]	585.1	643.3	720.8	779.3	847.4	915.8	19,128.3
<i>Super Royalties</i>		[boe/d]	6.98	7.68	8.60	9.30	10.12	23.32	487.2
Net Revenues - Gas	18,198.4	[\$mm]	513.7	564.8	632.9	684.2	744.1	791.7	16,536.1
Cash-Flow Analysis									
Net revenues	48,424.6	[\$mm]	514	565	633	684	744	792	16,536.1
Opex	(2,276.7)	[\$mm]	(50.0)	(50.1)	(50.3)	(50.4)	(50.5)	(50.6)	(774.8)
Capex	(3,054.2)	[\$mm]	(301.1)	(301.1)	(301.1)	(301.1)	(1.2)	(1.2)	(21.8)
ST Tax		[\$mm]	-	-	-	-	-	-	(7,709.6)
TOTAL	21,490.8	[\$mm]	162.7	213.6	281.5	332.7	692.4	739.8	8,029.9
NPV	3,136.9								

Source: Barclays Capital

Figure 8: Leviathan field - NPV

	<i>Year</i>		2016	2017	2018	2019	2020	2021	2022-2049
Gas Production									
Gas production	29,906.1	[MMScf/d]	677.9	677.9	677.9	677.9	677.9	1,840.1	39,030.3
Gas production		[bbl/d]	113.0	113.0	113.0	113.0	113.0	306.7	6,505.0
Royalty Gas		[%]	78.0	78.0	78.0	78.0	78.0	211.7	4,491.1
After Royalty Production	26,464.9	[MMScf/d]	599.9	599.9	599.9	599.9	599.9	1,628.4	34,539.1
Total royalty		[%]	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%
Revenues									
Gross Revenues - Gas	50,116.5	[\$mm]	1,119.0	1,120.1	1,121.3	1,122.4	1,123.5	3,052.6	65,472.9
<i>Entitlement Production</i>		[boe/d]	99.99	99.99	99.99	99.99	99.99	271.40	5,756.5
Net Revenues - Gas	44,349.7	[\$mm]	990.3	991.2	992.2	993.2	994.2	2,701.3	57,939.1
Cash-Flow Analysis									
Net revenues	123,540.7	[\$mm]	990	991	992	993	994	2,701	57,939.1
Opex	(3,666.6)	[\$mm]	(50.0)	(51.3)	(52.5)	(53.8)	(55.2)	(56.6)	(1,673.6)
Capex	(3,112.6)	[\$mm]	(262.0)	(262.0)	(262.0)	(262.0)	(262.1)	(301.1)	(28.2)
ST Tax		[\$mm]	-	-	-	-	-	(521.3)	(27,710.5)
TOTAL	61,294.0	[\$mm]	678.3	678.0	677.7	677.4	677.0	1,822.4	28,526.8
NPV	7,337.4								

Source: Barclays Capital

Figure 9: Delek Energy - NAV Model

Israel E&P	Methodology	Value of Holding (ILS m)	% of Gross NAV	Total
Delek Drilling	Sum of the parts	4,112	38.2%	
Avner Oil	Sum of the parts	6,033	56.1%	
Total Israel				10,145
US E&P	Methodology	Value of Holding (ILS m)	% of Gross NAV	
Elk	Book Value	460	4.3%	
Aries	Book Value	60	0.6%	
Total US				520
Other	Methodology	Value of Holding (ILS m)	% of Gross NAV	
Matra	Market Price	72	0.7%	
Nexus	Book Value	22	0.2%	
Total Other				94
Total Gross sum of the parts				10,759
Net Debt				1,234
NPV of future tax				580
Total Net sum of the parts				8,945
Current market value				7,088
Discount				21%
PT				1,682
Current Price				1,413

Source: Barclays Capital

Figure 10: Delek Energy – Income Statement

NIS '000	2007	2008	2009	2010e	2011e	2012e	2013e	2014e	2015e
Revenues	302	394	384	795	924	936	1,499	778	733
COGS	166	190	183	151	416	421	634	361	344
Gross Profit	136	205	201	151	416	421	634	361	344
G&A	23	36	43	89	104	105	168	87	82
EBIT	113	169	158	62	313	316	466	273	262
Finance Expense	-123	-165	-164	0	0	0	0	0	0
Finance Income	30	97	5	11	12	12	20	10	10
Share in earnings of JVs, net	31	-42	19	19	19	19	19	19	19
EBT	52	58	18	92	344	347	505	303	291
Income Tax Benefit (Payment)	1	-5	11						
Post-tax Earnings continuing ops	52	53	29	92	344	347	505	303	291
Post-tax Earnings dis-continued ops	-0	-48	-6						
Attributions									
Company Shareholders	58	64	56	147	473	442	613	356	334
Minority Interest	-6	-59	-34	-55	-129	-95	-108	-53	-44
Net Income	52	5	23	92	344	347	505	303	291
Currency translation	-44	10	-5						
Equity gains (losses)	8	-42	-5						
Tax expense (benefit) in currency translation	7	-1	2						
Other			1						
Comprehensive Net Income	23	-28	15	92	344	347	505	303	291
Company Shareholders	-24	-94	-39	-66	-144	-103	-115	-56	-46
Minority Interest	48	66	54	158	489	450	620	359	336
Diluted EPS	-1.21	-12.85	-7.23	-10.93	-25.65	-18.85	-21.54	-10.65	-8.68

Source: Company data, Barclays Capital

Figure 11: Ratio – Income Statement

\$mn	2008A	2009A	2010F	2011F	2012F	2013F	2014F	2015F
Oil price, Brent, \$/bl	96.9	61.6	80.0	90.0	100.0	100.0	100.0	100.0
Net Wl production, k boe/d	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales revenue	0	0	0	0	0	0	0	0
Cost of sales	0	0	0	0	0	0	0	0
Gross (loss)/profit	0	0	0	0	0	0	0	0
Depreciation	0	0	0	0	0	0	0	0
\$/bbl	-1	-	3.8	3.8	3.8	3.8	3.8	3.8
Exploration Expenses/Write-offs	(4)	(10)	(15)	(15)	(15)	(15)	(15)	(15)
Administration Expenses	(1)	(2)	(2)	(2)	(2)	(2)	(3)	(3)
Impairments	0	0	0	0	0	0	0	0
Operating (loss)/profit	(5)	(12)	(17)	(17)	(17)	(17)	(17)	(18)
Finance Income	2	1	21	0	0	0	0	0
Finance costs	1	(59)	(2)	0	0	0	0	0
Other Non-operating Income	(0)	(0)	(7)	0	0	0	0	0
Profit/(Loss) before tax	(2)	(70)	(5)	(17)	(17)	(17)	(17)	(18)
Income Tax Expense	0	0	0	0	0	0	0	0
Tax rate, %	0%	0%	0%	0%	0%	0%	0%	0%
Profit for the year	(2)	(70)	(11)	(17)	(17)	(17)	(17)	(18)
Minority Interest	0	0	0	0	0	0	0	0
Equity Holders of parent	(2)	(70)	(11)	(17)	(17)	(17)	(17)	(18)
Eps (Basic, c\$/sh)	-11.917	-0.034	-0.005	-0.008	-0.008	-0.008	-0.008	-0.008

Source: Company reports, Barclays Capital

Figure 12: Delek Group - NAV

Public	Methodology	Value of Holding (ILS m)	% of Gross NAV	Total
Energy				
<i>Significant Energy Holdings</i>				
Delek US	Barcap	1,028	5.3%	
Delek Energy	SOTP	7,129	37.1%	
Delek Israel Fuel	Market Price	1,183	6.1%	
Other Energy Holdings	DCF	1,899	9.9%	
Total Public Energy Holdings				11,239
Insurance and Financial Holdings				
<i>Significant Insurance and Financial Holdings</i>				
Phoenix	Market Price	1,468	7.6%	
Total Public Insurance and Financial Holdings				1,468
Automotive/Other				
Delek Automotive	Market Price	3,122	16.2%	
Other Holdings	Market Price & Barcap	80	0.4%	
Total Public Automotive and Other Holdings				3,202
Sub-total				15,908
Private	Methodology	Value of Holding (ILS m)	% of Gross NAV	
Energy				
IDE (Desalinization)	18x annualized '10 estimated net income	900	4.7%	
Delek Europe	Purchase price	664	3.5%	
Other Energy Holdings	Market Price	397	2.1%	
Total Private Energy Holdings				1,961
Other Holdings	Market Price	177	0.9%	177
Insurance and Financial Holdings	1x BV at 1Q 10	1,192	6.2%	1,192
Sub-total				3,331
Gross Asset Value				19,239
Net Debt (Cash)				4,341
Net Asset Value				14,898
NAV per Share				1,309
DELKG price				943
Discount to NAV				28%

Source: Barclays Capital

Figure 13: Delek Group – Income Statement

	2007	2008	2009	2010e	2011e	2012e	2013e	2014e	2015e
Total Revenues	39118	46240	43447	44872	46352	47887	49511	51200	52956
Cost of Revenue	32989	40651	37032	39449	40749	42099	43527	45011	46555
Gross Profit	6129	5589	6415	5424	5603	5788	5984	6189	6401
Sales, Marketing and gas station operating expense	2391	3157	3426						
G&A	1067	1476	1768						
Other Income	-35	40	311						
EBIT	2636	996	1532	1597	1664	1733	1824	1919	2021
Finance Expense, net	-870	-1458	-840	-850	-850	-850	-850	-850	-850
Gain from sale of investments in investees, net	367	69	518						
Share in earnings of JVs, net	174	-12	191						
EBT	2307	-405	1401	747	814	883	974	1069	1171
Tax	607	-37	215	115	125	136	149	164	180
Post-tax Earnings continuing ops	1700	-368	1186	632	689	748	824	905	991
Post-tax Earnings discontinued ops	536	-1945	17	0					
Attributions									
Company Shareholders	1297	-1809	864	439	478	519	573	629	688
Minority Interest	939	-504	339	193	210	228	252	276	302
Net Income	2236	-2313	1203	632	689	748	824	905	991
Comprehensive income from cont ops	-311	-1648	399						
Comprehensive Attributions									
Company Shareholders	1079	-2818	1113	439	478	519	573	629	688
Minority Interest	846	-1143	489	193	210	228	252	276	302
Comprehensive Net Income	1925	-3961	1602	632	689	748	824	905	991
Diluted EPS	110.64	-163.49	74.93	37.59	40.97	44.48	49.02	53.84	58.94

Source: Company reports, Barclays Capital

Figure 14: Delek Drilling - NAV

Assets	Country/ Licence	WI %	Hydroc. Fluid	Gross CAPEX \$mn	CoS %	Risky Reserv./Resour.		NPV/boe \$/boe	NPV \$mn	Risky			Unrisk NPV p/sh
						Gross mmboe	Net (WI) mmboe			NPV ILSmn	NPV p/sh	% Tot NAV	
Producing													
Mari and Noa	Israel	26%	Gas		100%	167	43	5.9	251	884	1.62	10.00	1.62
Under development													
Tamar	Israel	16%	Gas		100%	860	134	3.6	490	1725	3.15	19.51	3.15
Cash/(Net Debt)									-	-	-	0.00	0.00
BS adj.									-	-	-	0.00	0.00
Core NAV									741	2610	4.77	29.51	4.77
Contingent Developments													
Leviathan Export	Israel	23%	LNG		50%	1732	393	1.9	371	1307	2.39	14.78	4.78
Exploration/Appraisal													
Leviathan Oil #1	Israel	23%	Oil/Gas		8%	1413	320	7.2	185	650	1.19	7.35	14.86
Leviathan Oil #2	Israel	23%	Oil/Gas		4%	1132	257	5.3	54	190	0.35	2.15	8.69
Leviathan	Israel	23%	Gas		100%	2692	610	2.7	1663	5855	10.70	66.21	10.70
E&A upside									2035	8002	14.63	80.99	15.48
NPV of Royalties paid									503	1769	3.23	20.01	3.23
Total NAV									2273	8843	16.17	100.00	20.25

Source: Barclays Capital

Figure 15: Delek Drilling – Income Statement

\$mn	2008A	2009A	2010F	2011F	2012F	2013F	2014F	2015F
Oil price, Brent, \$/bl	96.9	61.6	80.0	90.0	100.0	100.0	100.0	100.0
Net Wl production, k boe/d	14.4	11.9	13.6	15.6	15.6	24.8	12.2	11.3
Sales revenue	97	89	128	151	155	246	121	113
Cost of sales	(26)	(26)	(32)	(35)	(35)	(56)	(28)	(26)
\$/bbl	5.0	6.1	6.4	6.1	6.2	6.2	6.2	6.3
Gross (loss)/profit	71	63	96	116	119	190	93	87
Depreciation	(17)	(14)	(17)	(19)	(19)	(21)	(4)	(2)
\$/bbl	3.5	3.6	3.8	3.8	3.8	3.8	3.8	3.8
Exploration Expenses/Write-offs	(2)	(6)	(7)	0	0	0	0	0
Administration Expenses	(1)	(1)	(3)	(3)	(3)	(4)	(4)	(4)
Impairments	0	0	0	0	0	0	0	0
Operating (loss)/profit	51	42	68	93	97	165	85	81
Finance Income	3	1	0	0	0	0	0	0
Finance costs	(7)	(4)	(3)	0	0	0	0	0
Other Non-operating Income	0	0	0	0	0	0	0	0
Profit/(Loss) before tax	47	38	66	93	97	165	85	81
Income Tax Expense	0	0	0	0	0	0	0	0
Tax rate, %	0%	0%	0%	0%	0%	0%	0%	0%
Profit for the year	47	38	66	93	97	165	85	81
Minority Interest	0	0	0	0	0	0	0	0
Equity Holders of parent	47	38	66	93	97	165	85	81
N. share fully diluted	546,967	546,967	546,967	546,967	546,967	546,967	546,967	546,967
Eps (Basic, c\$/sh)	0.087	0.070	0.120	0.170	0.177	0.302	0.156	0.148

Source: Company reports, Barclays Capital

Figure 16: Avner Oil - NAV

Assets	Country/ Licence	WI %	Hydroc. Fluid	CoS %	Risky Reserv./Resour.			Risky				Unrisk.
					Gross mmboe	Net (WI) mmboe	NPV/boe \$/boe	NPV \$mn	NPV ILSmn	NPV p/sh	% Tot NAV	NPV p/sh
Producing												
Mari and Noa	Israel	23%	Gas	100%	167	38	5.9	227	798	0.24	8.29	0.24
Under development												
Tamar	Israel	16%	Gas	100%	860	134	3.6	490	1725	0.52	17.93	0.52
Cash/(Net Debt)								-	-	-	0	0
BS adj.								-	-	-	0	0
Core NAV								717	2523	0.76	26.22	0.76
Contingent Developments								371	1307	0.39	13.58	0.78
Leviathan Export	Israel	23%	LNG	50%	1732	393	1.9	371	1307	0.39	13.58	0.78
Exploration/Appraisal												
Leviathan Oil #1	Israel	23%	Oil/Gas	8%	1413	320	7.2	185	650	0.19	6.76	2.44
Leviathan Oil #2	Israel	23%	Oil/Gas	4%	1132	257	5.3	54	190	0.06	1.98	1.43
Leviathan	Israel	23%	Gas	100%	2692	610	2.7	1663	5855	1.76	60.85	1.76
E&A upside								2273	8002	2.40	83.17	6.40
NPV of Royalties paid								257	903	0.27	9.39	0.27
Total NAV								2734	9622	2.89	100.00	7.16

Source: Barclays Capital

Figure 17: Avner – Income Statement

\$mn	2008A	2009A	2010F	2011F	2012F	2013F	2014F	2015F
Oil price, Brent, \$/bl	96.9	61.6	80.0	90.0	100.0	100.0	100.0	100.0
Net Wl production, k boe/d	13.0	10.8	12.2	14.1	14.1	23.3	12.0	11.3
Sales revenue	88	81	115	136	139	231	119	113
Cost of sales	(19)	(19)	(21)	(25)	(25)	(42)	(22)	(21)
\$/bbl	3.9	4.8	4.8	4.8	4.9	4.9	4.9	5.0
Gross (loss)/profit	69	62	94	111	114	189	97	92
Depreciation	(14)	(12)	(16)	(17)	(17)	(19)	(4)	(2)
\$/bbl	3.4	3.5	3.8	3.8	3.8	3.8	3.8	3.8
Exploration Expenses/Write-offs	(2)	(6)	(7)	0	0	0	0	0
Administration Expenses	(1)	(3)	(3)	(3)	(3)	(4)	(4)	(4)
Impairments	0	0	0	0	0	0	0	0
Operating (loss)/profit	51	40	68	91	94	167	90	86
Finance Income	3	1	1	1	1	1	1	1
Finance costs	(6)	(4)	(2)	(2)	(2)	(2)	(2)	(2)
Other Non-operating Income	0	0	0	0	0	0	0	0
Profit/(Loss) before tax	48	38	66	89	92	165	88	84
Income Tax Expense	0	0	0	0	0	0	0	0
Tax rate, %	0%	0%	0%	0%	0%	0%	0%	0%
Profit for the year	48	38	66	89	92	165	88	84
Minority Interest	0	0	0	0	0	0	0	0
Equity Holders of parent	48	38	66	89	92	165	88	84
N. share fully diluted	3,335	3,335	3,335	3,335	3,335	3,335	3,335	3,335
Eps (Basic, c\$/sh)	14.3	11.3	19.8	26.6	27.5	49.4	26.3	25.3

Source: Company reports, Barclays Capital

Figure 18: Isramco – Income Statement

\$mn	2008A	2009A	2010F	2011F	2012F	2013F	2014F	2015F
Oil price, Brent, \$/bl	96.9	61.6	80.0	90.0	100.0	100.0	100.0	100.0
Net Wl production, k boe/d	0.0	0.0	0.0	0.0	0.0	17.0	18.7	20.9
Sales revenue	0	0	0	0	0	592	651	729
Cost of sales	0	0	0	0	0	(11)	(12)	(14)
\$/bbl	-	-	-	-	-	1.8	1.8	1.8
Gross (loss)/profit	0	0	0	0	0	581	639	716
Depreciation	0	0	0	0	0	(1)	(1)	(1)
\$/bbl	-	-	3.8	3.8	3.8	3.8	3.8	3.8
Exploration Expenses/Write-offs	(2)	(2)	(12)	0	0	0	0	0
Administration Expenses	(3)	(6)	(12)	(13)	(14)	(14)	(15)	(16)
Impairments	0	0	0	0	0	0	0	0
Operating (loss)/profit	(4)	(8)	(25)	(13)	(14)	566	623	699
Finance Income	36	167	64	0	0	0	0	0
Finance costs	(202)	(3)	(32)	0	0	0	0	0
Other Non-operating Income	0	0	0	0	0	0	0	0
Profit/(Loss) before tax	(170)	156	8	(13)	(14)	566	623	699
Income Tax Expense	0	0	0	0	0	0	0	0
Tax rate, %	0%	0%	0%	0%	0%	0%	0%	0%
Profit for the year	(171)	215	8	(13)	(14)	566	623	699
Minority Interest	0	0	0	0	0	0	0	0
Equity Holders of parent	(171)	215	8	(13)	(14)	566	623	699
N. share fully diluted	4,251	9,352	9,352	9,352	9,352	9,352	9,352	9,352
Eps (Basic, c\$/sh)	-0.040	0.017	0.001	-0.001	-0.001	0.061	0.067	0.075

Source: Company reports, Barclays Capital

Valuation Methodology and Risks

Israel Oil & Gas: E&P

Avner Oil Exploration - LP (AVNRL IT / AVNRp.TA)

Valuation Methodology: We use a sum of the parts valuation which values each of the reserves individually using a 10% discount rate. We model Mari and Noa at \$940m, Tamar at \$2.5b and then multiply the NPV by the working interest. Leviathan is divided into four projects a) Leviathan gas whose NPV is \$7.3 and on which we apply a 100% chance of success b) Leviathan LNG's NPV is \$3.2b and chance of success is 50% c) Leviathan Oil Well 1's NPV is \$9.6b and COS is 8% and d) Leviathan Oil Well 2's NPV is \$5.3b and COS is 4%.

Risks which May Impede the Achievement of the Price Target: Changes to the local tax regime, international disputes over the location of Leviathan and volatility of the natural gas market may have a negative impact on our forecasts.

Delek Drilling - LP (DEDRL IT / DEDRp.TA)

Valuation Methodology: We use a sum of the parts valuation which values each of the reserves individually using a 10% discount rate. We model Mari and Noa at \$940m, Tamar at \$2.5b and then multiply the NPV by the working interest. Leviathan is divided into four projects a) Leviathan gas whose NPV is \$7.3 and on which we apply a 100% chance of success b) Leviathan LNG's NPV is \$3.2b and chance of success is 50% c) Leviathan Oil Well 1's NPV is \$9.6b and COS is 8% and d) Leviathan Oil Well 2's NPV is \$5.3b and COS is 4%.

Risks which May Impede the Achievement of the Price Target: Changes to the local tax regime, international disputes over the location of Leviathan and volatility of the natural gas market may have a negative impact on our forecasts.

Delek Energy Systems Ltd. (DLEN IT / DLEN.TA)

Valuation Methodology: We use a sum of the parts valuation which values each of the reserves individually using a 10% discount rate. We model Mari and Noa at \$940m, Tamar at \$2.5b and then multiply the NPV by the working interest. Leviathan is divided into four projects a) Leviathan gas whose NPV is \$7.3 and on which we apply a 100% chance of success b) Leviathan LNG's NPV is \$3.2b and chance of success is 50% c) Leviathan Oil Well 1's NPV is \$9.6b and COS is 8% and d) Leviathan Oil Well 2's NPV is \$5.3b and COS is 4%.

Risks which May Impede the Achievement of the Price Target: Changes to the local tax regime, international disputes over the location of Leviathan and volatility of the natural gas market may have a negative impact on our forecasts.

Isramco Negev 2 LP (ISRAL IT / ISRAp.TA)

Valuation Methodology: We use a sum of the parts valuation which values each of the reserves individually using a 10% discount rate. We value Tamar at \$2.5b and then multiply the NPV by the working interest.

Risks which May Impede the Achievement of the Price Target: Changes to the local tax regime and volatility of the natural gas market may have a negative impact on our forecasts.

Ratio Oil Exploration (RATIL IT / RATIp.TA)

Valuation Methodology: We use a sum of the parts valuation which values each of the reserves individually using a 10% discount rate. Leviathan is divided into four projects a) Leviathan gas whose NPV is \$7.3 and on which we apply a 100% chance of success b) Leviathan LNG's NPV is \$3.2b and chance of success is 50% c) Leviathan Oil Well 1's NPV is \$9.6b and COS is 8% and d) Leviathan Oil Well 2's NPV is \$5.3b and COS is 4%.

Risks which May Impede the Achievement of the Price Target: Changes to the local tax regime, international disputes over the location of Leviathan and volatility of the natural gas market may have a negative impact on our forecasts.

Israel Power & Utilities

Delek Group Ltd. (DLEKG IT / DELKG.TA)

Valuation Methodology: We use a sum-of-the-parts model to value the Delek Group. We use market cap for most of the publicly traded assets as well as DCF for the E&P and US retail fuel business, which comes to ILS 15,785m and various methodologies including price-to-book of 1x Republic insurance, 18x annualized earnings for IDE, purchase price less debt for Delek Europe to arrive at a value of ILS 3,331m for the privately held subsidiaries. We then subtract ILS 4,341m in net debt and apply a 15% discount to arrive at our ILS 12,558m valuation. There are 11.7 million shares outstanding; on a diluted basis we derive our ILS1,104 price target.

Risks which May Impede the Achievement of the Price Target: A worsening of the credit markets, a further slowdown in the local car market, lower volumes of natural gas at the existing resources than expected and weak capital markets affecting the insurance business may prevent Delek from achieving our price target.

Source: Barclays Capital

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Primary Stocks (Ticker, Date, Price)

Avner Oil Exploration - LP (AVNRp.TA, 05-Jan-2011, ILS 2.55), 2-Equal Weight/2-Neutral

Delek Drilling - LP (DEDRp.TA, 05-Jan-2011, ILS 14.21), 2-Equal Weight/2-Neutral

Delek Energy Systems Ltd. (DLEN.TA, 05-Jan-2011, ILS 1376.00), 1-Overweight/2-Neutral

Delek Group Ltd. (DEKGT.TA, 05-Jan-2011, ILS 918.50), 1-Overweight/2-Neutral

Isramco Negev 2 LP (ISRAp.TA, 05-Jan-2011, ILS 0.45), 3-Underweight/2-Neutral

Ratio Oil Exploration (RATIp.TA, 05-Jan-2011, ILS 0.55), 1-Overweight/2-Neutral

Risk Disclosure(s)

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Below is the list of companies that constitute the "sector coverage universe":

Israel Oil & Gas: E&P

Avner Oil Exploration - LP (AVNRp.TA)

Delek Drilling - LP (DEDRp.TA)

Delek Energy Systems Ltd. (DLEN.TA)

IMPORTANT DISCLOSURES CONTINUED

Iramco Negev 2 LP (ISRAp.TA)

Ratio Oil Exploration (RATIp.TA)

Israel Power & Utilities

Delek Group Ltd. (DELKG.TA)

Oil Refineries Ltd. (ORL.TA)

Ormat Industries Ltd. (ORMT.TA)

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