Emerging Europe Israel
Oil & Gas

Deutsche Bank

25 May 2011

Israel Energy Sector

Waiting for the oil (or not)

Richard Gussow
Research Analyst
(+972) 3 710-2046
richard.gussow@db.com

Jonathan Copus
Research Analyst
(+44) 20 754-51202
jonathan.copus@db.com

Buys on Delek Energy, Delek Drilling and Avner; initiating on Ratio with Buy
A discovery of oil at Leviathan would change the face of the Israeli energy sector. We favor stocks with interests in Leviathan. Our top sector picks are Delek Group (target price ILS1,080) and Delek Energy (TP ILS1,700), where the downside risk/upside reward to our valuation is skewed to the upside. We also have Buys on Delek Drilling (TP ILS16.7), Avner (TP ILS3.0) and Ratio (TP ILS0.58), which have higher potential return if oil is discovered, but more downside risk if not. We downgrade Isramco to Hold due to limited upside following its share performance.

Share prices of Delek Group and its subsidiaries reflect only the value of gas
We see triple-digit upside potential for the Israeli Leviathan partners if oil is discovered. Nevertheless, the likelihood is not high; based on seismic scans, there is a 17% chance of success (equal to DB's calculated global average) of finding 3bn barrels of oil at 5,800 meters, and an 8% chance of finding 1.2bn barrels of oil at 7,200 meters. With the exception of Ratio, we believe the market has not significantly priced in an oil discovery. That said, we believe a failure to discover oil would drive share prices lower on sentiment, creating buying opportunities.

Pricing power shifts to producers due to Egyptian unrest
Egypt, the only other source of natural gas to Israel, provided about 40% of that country's natural gas needs in 2010. The Egyptian gas disruption has materially increased the pricing power of the Israeli gas partnerships, which now have the ability to raise prices that could offset at least part of the impact from the Sheshinski tax measures. As a result, we believe the value of the Israeli natural gas assets, particularly Tamar, has increased. We have assumed that Egyptian natural gas will continue to flow. Should there be a complete cutoff or significant reduction in the Egyptian gas supply, it would provide upside to our valuations.

Further discoveries would add to upside potential
We have not placed any value on unconfirmed reserves. We note that the US Geological Survey estimates that the Leviathan basin may hold as much as 122 tcf of gas, much of it in Israeli territorial waters. We expect Ratio to announce the results of 3D seismic scans of its wholly owned Gal prospect in mid-July. A positive result would add to the potential upside of Ratio; we see little downside risk with a negative result, as we do not believe the market has priced this in. The Delek companies own other licenses, including an option on prospects in Cyprus, while Isramco is exploring the Shimshon prospect.

Valuations based on NAV and DCF methodologies
We value the shares using an NAV model, which we view as the most appropriate methodology. We assess the value of the reserves using a DCF, then apply each company's share of the project to its NAV. We then deduct corporate-level net debt to reach NAV. We use a discount rate of 10%, standard for the industry. We value the oil assets, using a risk factor equivalent to the geological likelihood of success. Risks include delays in the gas projects, a failure to discover oil at Leviathan, volatility in energy prices and challenges in commercializing the Tamar and/or Leviathan offshore well, technical, logistical and bureaucratic challenges in the construction of an LNG facility, and geopolitical disputes.

This report changes ratings, price targets, and/or estimates for several companies under coverage. It also contains an initiation (Ratio) and three reinstatements of rating/TP (Avner, Delek Drilling, Delek Energy). For details, see Table 1 on page 5.

Coverage Change

Companies featured

Delek Group (DELKG.TA),ILS813.00			**Buy**
	2010A	2011E	2012E
DB EPS (ILS)	136.59	60.16	66.72
P/E (x)	6.4	13.5	12.2
EV/EBITDA (x)	10.9	9.1	9.2
Avner Oil Exploration (AVNRp.TA),ILS2.14			**Buy**
	2010A	2011E	2012E
DB EPS (USD)	0.01	0.01	0.01
P/E (x)	35.6	72.2	99.2
EV/EBITDA (x)	26.3	21.4	22.5
Delek Drilling (DEDRp.TA),ILS12.05			**Buy**
	2010A	2011E	2012E
DB EPS (USD)	0.09	0.09	0.09
P/E (x)	33.4	38.6	38.6
EV/EBITDA (x)	23.7	15.6	17.0
Delek Energy (DLEN.TA),ILS1,165.00			**Buy**
	2010A	2011E	2012E
DB EPS (ILS)	11.32	18.21	18.21
P/E (x)	100.5	64.0	64.0
EV/EBITDA (x)	22.9	17.9	17.9
Isramco Negev 2 (ISRAp.TA),ILS0.42			**Hold**
	2010A	2011E	2012E
DB EPS (ILS)	-0.0011	-0.0136	-0.0136
P/E (x)	–	–	–
EV/EBITA (x)	–	–	–
Ratio Oil Exploration (RATIp.TA),ILS0.40			**Buy**
	2010A	2011E	2012E
DB EPS (ILS)	-0.00	-0.01	-0.01
P/E (x)	–	–	–
EV/EBITDA (x)	–	–	–

Deutsche Bank AG/London

Table of Contents

Executive summary

Oil discovery at Leviathan would be a game changer

According to 3D seismic surveys, there is a possibility that Leviathan contains a large quantity of oil. Results from exploratory drilling had been expected in May, but have now been delayed to 2H11 due to the wearing down of a key drill part. We see triple-digit upside potential for the Israeli Leviathan partners if oil is discovered. Nevertheless, the chances are not high; based on seismic scans, there is a 17% chance of success (this is the same level as Deutsche Bank's calculated global average) of finding 3bn barrels of oil at 5,800 meters, and an 8% chance of finding 1.2bn barrels of oil at 7,200 meters. With the exception of pure-play Ratio, we believe the market has not significantly priced in the likelihood of an oil discovery. That said, we believe a failure to discover oil would drive share prices lower on sentiment, creating buying opportunities.

Pricing power shifts to the Israeli providers

Egypt provided approximately 40% of the natural gas used by Israel in 2010 through EMG, a company jointly owned by Egyptian and Israeli investors. During the recent unrest in Egypt, the pipeline was sabotaged twice, halting the flow of gas for extended periods. These disruptions have materially increased the pricing power of the Israeli gas partnerships, which now have the ability to raise prices that could offset at least part of the impact from the Sheshinski tax measures. We have already witnessed the beginning of this trend, with the recent sale of gas to industrial customers at more than US$8/mmBTU. As a result, we believe the value of the Israeli natural gas assets, particularly Tamar, has increased.

Upside potential from further disruptions with Egyptian gas supply

Egyptian officials have recently been calling for an increase in the price of gas sold to Israel, an event that cannot be ruled out as Egyptian gas has been historically cheaper than Israeli gas, and Egypt does not have enough natural gas to power its own electricity plants. We believe a price rise is the best-case scenario for natural gas customers; there remains the possibility of continued disruptions to the flow of Egyptian gas to Israel, if not a total cutoff. Recent events highlight the geopolitical risks inherent in imported Egyptian gas and, in our view, increase the value of Tamar. We believe that a near-term cutoff of Egyptian gas would result in the quicker depletion of Yam Tethys, possibly by the end of 2012 instead of early 2014, and a likely temporary shift to more expensive forms of energy such as fuel oil and coal. In our models, we have assumed that Egyptian gas will continue to flow; if gas flow is cut off or reduced significantly, this would raise Israeli natural gas prices and accelerate demand for Israeli gas, providing upside potential to our valuations.

Leviathan discovery would likely be used for export, probably via LNG

At current consumption estimates, the supply from the Tamar reserve and imports from Egypt (assuming they continue uninterrupted), Leviathan gas would likely be designated for the export market. We believe the likely target markets would be Asia, particularly Japan, and Europe, which we believe would like to reduce its reliance on Russian gas. The recent earthquake and nuclear disaster in Japan further enhance the long-term value of LNG, in our view. LNG to Asia would require a heavy and lengthy investment, while shipping to Europe could be done by LNG or, less likely, in our view, via a pipeline to Turkey or Greece. We also believe that Israel would prefer the LNG facility be built in Israel. Possible locations might be Acre in northern Israel or Eilat at the southern tip of the country. Under this scenario, gas would be piped from Leviathan to Israel and distributed to the LNG plant through Israel's gas pipeline network. However, in the wake of the protests and subsequent cancellation of the planned land-based natural gas receiving terminal in Israel, the Leviathan partners have expressed preference for the construction of LNG facilities in Cyprus, which they believe would be supportive of the plan. Gas would be piped directly from Leviathan to Cyprus for processing. This could set the table for a battle between the government and the Leviathan partners, possibly delaying the project.

LNG a lengthy and costly process; global partner will likely be needed

The fact that Leviathan gas will most likely be exported increases the complexity of the Leviathan project. Assuming exports are based on LNG, as we believe is likely, it would entail high capex and, even under ideal conditions, would require a minimum of six to seven years to complete. Heavy bureaucracy as well as objections from residential and environmental groups to an LNG facility would likely mean that the LNG facility would be built in Cyprus, and not in Israel. In addition, a partner with significant experience in LNG is needed to guarantee LNG supply to customers, particularly in the Far East. None of the current partners has this experience. With Asian LNG customers in particular focused on reliable and secure supply, we believe the best course is for the consortium to align itself with a global LNG player that would provide credibility and assure customers of sustainable supply.

More discoveries could be on the way

The US Geological Survey calculations indicate a mean estimate of 122 tcf of gas in the Levant basin, most of which is located in the Israeli exclusive economic zone. According to the USGS, the Levant Basin is comparable to some of the other larger reserves in the world, with gas resources larger than anything assessed in the United States. Energy consultant Wood Mackenzie refers to the Israeli offshore exploration as "one of the world's exciting new plays." Should there be further discoveries, these too would likely have to be exported.

Delek Group and its subsidiaries are the most diversified; highest relative risk/return at Delek Group and Delek Energy

Delek Energy (through its subsidiaries), Delek Drilling and Avner each own stakes in Yam Tethys, Tamar and Leviathan, and thus are the most diversified of the Israeli gas stocks. We view these shares as the most diversified of those under coverage, with holdings in all three natural gas reserves. Due to their stakes in Leviathan, their share prices are likely to be volatile with developments in the oil exploration. Based on our sensitivity analysis, Delek Group and Delek Energy have the highest relative risk/return in the sector. We reinstate our ratings and targets on Delek Energy (TP ILS1,700), Delek Drilling (target price ILS16.7), Avner (target price ILS3.0) at Buy, and we maintain our Buy recommendation on Delek Group with a target price of ILS1,080 (up slightly from ILS1,040).

Ratio a pure play on Leviathan

With a 15% stake in Leviathan and no other proven reserves, we see Ratio as a virtual pure play on Leviathan. As such, we view it as the riskiest of the shares, with the greatest potential upside. Ratio's share price is likely to be volatile with developments in the oil exploration at Leviathan. Unlike the other partners in Leviathan, Ratio has no other income-generating assets, and thus will likely have to do further equity offerings, creating dilution. As such, we have applied a 5% discount to Ratio's valuation. We initiate coverage on Ratio with a Buy and a target price of ILS0.58.

Isramco a pure-play on Tamar

Isramco's only proven discovery is the Tamar field, and with a 28.75% stake, we view Isramco as a pure play on Tamar. As such, we view it as the least volatile of the sector, as Tamar is a proven discovery and Isramco has no stake in Leviathan, where the valuation can have significant upside or downside depending on whether there is an oil discovery. Share dilution has largely offset the increased value of Tamar, and following recent share price performance there is limited upside potential. We downgrade Isramco to Hold, with an unchanged target price of ILS0.45.

Please see Figure 7 on page 8 for holding structure details.

Valuation

We value the shares using NAV methodology. Our valuation is based on a DCF of the energy assets using a discount rate of 10%, standard for the industry, and apply this over the useful life of the asset. We risk the asset when necessary using a risking factor. We then allocate each asset based on each company's ownership stake, less net financial debt. We show our recommendation summary in Figure 1.

Figure 1: Recommendation summary

Company	Ticker	Mkt cap (ILSm)	Share price (ILS)	Previous rec	Current rec	Previous TP	Current TP
Isramco	ISRAp.TA	5,054	0.42	Buy	Hold	0.45	0.45
Delek Energy	DLEN.TA	5,904	1,177	n/a	Buy	n/a	1,700
Delek Drilling	DEDRp.TA	6,646	12.2	n/a	Buy	n/a	16.7
Avner	AVNRp.TA	7,233	2.2	n/a	Buy	n/a	3.0
Ratio	RATIp.TA	2,970	0.40	n/a	Buy	n/a	0.58
Delek Group*	DELKG.TA	9,495	835	Buy	Buy	1,040	1,080

Source: Deutsche Bank

**We have lowered our EPS estimates for 2011 and 2012 from ILS119.02 and ILS324.71 to ILS60.16 and ILS70.72 respectively to account for sales of holdings and other estimate adjustments*

Sensitivity analysis of Leviathan oil discovery: Delek Group and Delek Energy have the most attractive risk/reward

We note that the greatest sensitivity to our target prices would come from an oil discovery (or failure) at Leviathan. We note that as a pure play on Leviathan, Ratio would have the greatest upside potential to our target price from an oil discovery at Leviathan, but with the most risk, as indicated by having the highest downside from a failure to discover oil. Delek Group and Delek Energy, in our view, have the most attractive risk/reward from a Leviathan oil discovery.

Figure 2: Target price sensitivity to an oil discovery at Leviathan

	Delek Energy	Avner	Delek Drilling	Ratio	Isramco	Delek Group
No oil	-30%	-29%	-31%	-44%	0%	-17%
1.2 billion barrels	66%	52%	57%	80%	0%	37%
3.0 bn barrels	150%	118%	128%	180%	0%	83%
4.2bn barrels	216%	171%	184%	260%	0%	120%

Source: Deutsche Bank

Price sensitivity

The share prices would also be significantly impacted by changes in gas pricing. We see potential for upside from the disruption in Egyptian gas, as well as rising oil prices. Downside could result from a decline in energy prices and a resumption of regular flow of Egyptian gas. That said, we believe the greater likelihood is for gas prices to increase.

Figure 3: Target price sensitivity to gas prices

Gas price from base	Delek Energy	Avner	Delek Drilling	Ratio	Isramco	Delek Group
10% change	21%	19%	20%	21%	14%	13%
20% change	42%	39%	40%	43%	28%	26%

Source: Deutsche Bank

Upstream valuation models

Based on our methodology, our DCF valuations for Yam Tethys, Tamar and Leviathan are shown in Figure 4.

Figure 4: Reserve valuation summary

Field	Estimated reserves (TCF) As of y/e 2010	Price assumption (US$/mmBTU)	Production life	Capex (US$bn)	Unrisked NPV US$m	Risked NPV US$m
Yam Tethys	0.4		Until 2014	n/a	993	993
Tamar	8.7	6.25	2013-2039	3.0	6,094	6,094
Leviathan (LNG only)	15.9	11.2	2017-2050	13.5	7,441	4,985
Leviathan - level 1 oil	1.2 bn barrels	$6 NPV/BOE	n/a	n/a	7,200	576
Leviathan - level 2 oil	3 bn barrels	$6 NPV/BOE	n/a	n/a	18,000	3,060
Total Leviathan					32,641	8,621

Source: Deutsche Bank

Valuation assumptions

We have made the following assumptions in our project valuations.

- **Gas demand**: We assume that gas demand will continue to increase in the long term, driven by increased usage by the Israel Electric Corporation (due to increased electricity consumption and the conversion to natural gas), the construction of independent power plants (IPPs) and the industry conversion to natural gas. We have assumed that gas demand will reach c10BCM by 2015.
- **Gas supply**: We have assumed that Yam Tethys will deplete in 2014, and that Tamar will not begin production until 2013, and will supply gas through 2039.
- **Gas price**: We have assumed a long-term natural gas price for Tamar of US$6.25/mmbtu, based on the most recent agreements with the Israel Electric Corporation, rising oil prices and the risk to the Egyptian gas supply. For Leviathan, we assume that all gas will be sold as LNG to export markets at an average price of US$11.2/mmBTU.
- **Oil**: Based on initial estimates of Leviathan following seismic scanning, there is a 17% chance of success of finding 3bn barrels of oil at a depth of 5,800 meters, and an 8% chance of finding 1.2bn barrels of oil at a depth of 7,200 meters. We note that based on our research, 17% is the average global success rate. We have valued the oil at US$6/boe at NPV10, based on countries with similar tax regimes.
- **Capex**: Based on company guidance, we have assumed that Tamar will incur capex of US$3.0bn in phase one. We have assumed that Leviathan will incur capex of US$4bn for the E&P phase, and an additional US$9.5bn for the investment in LNG infrastructure. No formal investment plan has been presented as of yet.
- **Discount rate**: We use a 10% discount rate, standard for the industry.
- **Risking**: We have risked the Leviathan gas project using a factor of 67%, due to the fact that it is still in the appraisal stage and a development plan is yet to be approved. We use 67% as a risk factor as it is greater than the original 50% geological chance of success announced after seismic scanning, but we cannot completely de-risk Leviathan due to the factors mentioned above. We believe that 67% represents a reasonable mid-point risk factor for the gas portion. We risk the oil using the geological probability of success. Based on the above methodology, our valuation detail for Leviathan is summarized in Figure 5.

Figure 5: Leviathan valuation breakdown

	Barrels (bn)	Probability	Unrisked value @ NPV $6 (US$m)	Risk factor	Risked value @ NPV $6 (US$m)	Upside if unrisked (US$m)	Upside if unrisked (%)
Value of natural gas (US$m)	n/a	100%	7,441	67%	4,985	2,455	49%
Oil:							
Level 1	3.0	17%	18,000	17%	3,060	14,940	488%
Gas + Level 1			25,441		8,045	17,395	216%
Level 2	1.2	8%	7,200	8%	576	6,624	1150%
Leviathan NPV (US$m)	4.2		32,641		8,621	24,019	279%

Source: Deutsche Bank

The gas discoveries

The three proven gas discoveries in Israel are Yam Tethys (Mari-B), which was discovered in 1999, began producing gas in 2004 and is expected to deplete in 2014; Tamar, which was discovered in January 2009 and we expect to begin producing gas in 2013; and Leviathan, discovered in December 2010. We note that the infrastructure for Tamar has yet to be built, so the two sources of natural gas for the Israeli market are currently Yam Tethys and EMG, which sells gas imported from Egypt. While Yam Tethys was a relatively small reserve (initial reserves of 32 bcm), Tamar was the largest natural gas discovery globally in 2009, with proven reserves of 170 bcm and another 49 bcm in probable reserves. Noble Energy updated the estimate on Tamar's reserves to 8.7 tcf, or about 247 bcm.

Figure 6: Israeli gas reserves (TCF) as of 31 December 2010

BCM

	1P	2P	3P	1C	2C	3C
Mari-B	0.36	0.38	0.40			
Noa				0.12	0.12	0.13
Tamar				6.5	8.7	10.4
Leviathan (total reservoirs)				11.4	15.9	21.1

Source: Delek Energy

Figure 7: Holding structures of Israeli gas reserves

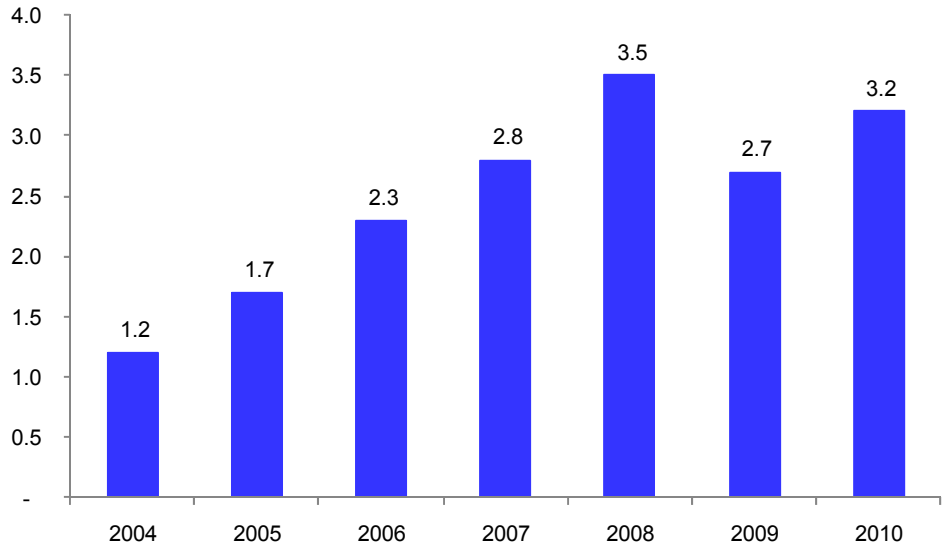
	Yam Tethys (Mari-B + Noa)	Tamar	Leviathan
Noble Energy (operator)	47.1%	36.0%	39.7%
Delek Drilling	25.5%	15.6%	22.7%
Avner	23.0%	15.6%	22.7%
Isramco	0.0%	28.8%	0.0%
Ratio	0.0%	0.0%	15.0%
Delek Group	4.4%	0.0%	0.0%
Dor Gas	0.0%	4.0%	0.0%
Total	100.0%	100.0%	100.0%

Source: Companies, Deutsche Bank

Yam Tethys (Mari-B + Noa)

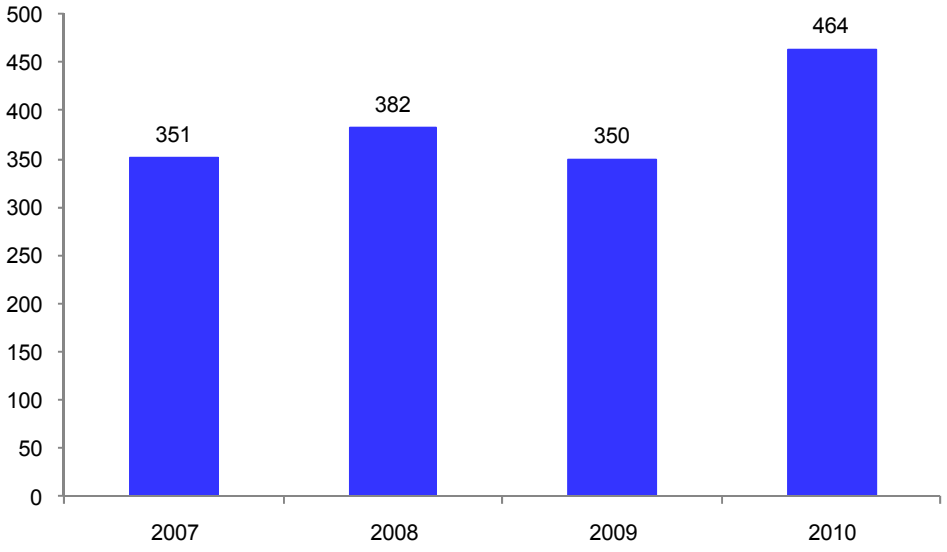
Yam Tethys, discovered in 1999, was the first sizeable natural gas field in Israel with proven reserves before production of 32 bcm. It comprises two fields: Mari-B, which is active, and Noa, which has yet to be developed. The reserves at Yam Tethys are characterized by a high flow of high-quality gas. The field is located off the Israeli southern coastal city of Ashkelon, and is currently the largest source of natural gas for the Israeli market. The platform is located at a depth of 236 meters, and has a theoretical capacity of up to 6 bcm annually. Pumping began in 2004, and at the end of 2010, Mari-B had 10.8 bcm 2P reserves remaining. In 2010, Mari-B produced 3.2 bcm of gas, and is likely to rise in 2011 due to the disruption of Egyptian gas supply. We note that in 1Q11, while Egyptian gas supply was largely disrupted, Yam Tethys sold 0.9 BCM of gas, an 80% increase over the 0.5 BCM sold in 1Q11.

Figure 8: Yam Tethys – Natural gas sales (bcm)



Source: Company data

Figure 9: Yam Tethys – Natural gas sales (US$m)



Source: Delek Group

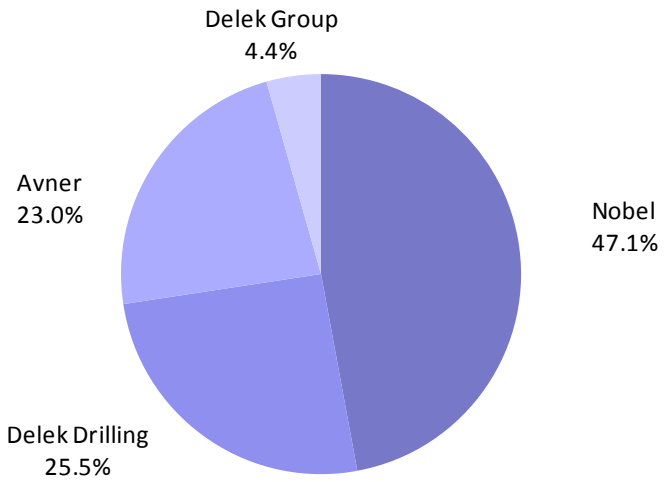
Noa field could be developed as a stopgap

There is concern among some of the larger gas consumers, such as Israel Corp., that if Tamar is delayed, Yam Tethys' supply may run out before Tamar begins production. The consortium is considering the possibility of developing the Noa well as a stopgap measure to reassure these customers that the gas supply would be uninterrupted. Capex estimates for this project are up to US$200m. At estimated 2C reserves of 3.5BCM, we believe that this field will be worth developing only if the IEC or another large customer enters into development as a JV with the gas partnerships, or in some other structure that makes development of Noa worthwhile.

Yam Tethys to be used as a storage facility when reserves are exhausted

The IEC plans to store 2 bcm of natural gas to use as an emergency reserve. When the Yam Tethys reserves are exhausted later this decade, the plan is to use the infrastructure as a storage facility, which could accommodate emergency reserves. We estimate capacity at about 6 bcm. The consortium has not provided any assessments as to capex requirements for this, but we believe they are not likely to be significant. We have not allocated any value for this to our models.

Figure 10: Yam Tethys – Ownership structure



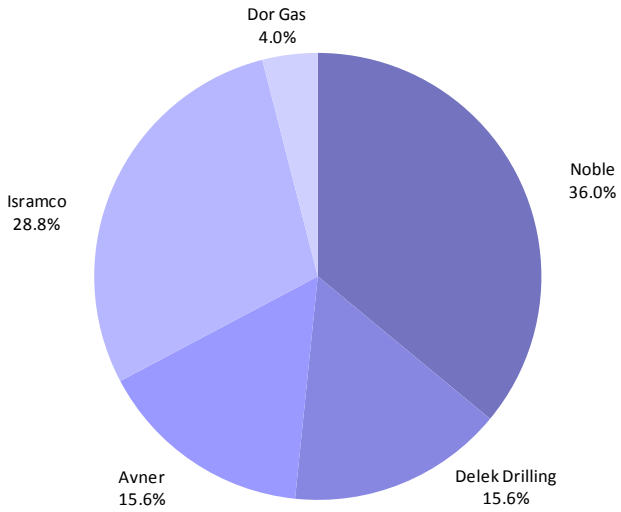
Source: Companies

Tamar – the largest deep-water global discovery in 2009

For several years, gas exploration occurred only off Israel's southern coast. The northern coast was believed to be too deep for exploration, given the existing technology at the time. However, over the last few years, technology has improved and the exploration of deep wells became possible, leading to the discovery of the Tamar reserve 90 km off the coast of Haifa at a water depth of 1,700 meters and a total depth of about 5,000 meters. With reserves of 8.7 tcf, Tamar was the largest gas discovery in Israel's history (since exceeded by Leviathan) and the largest discovery globally in 2009.

Although production was targeted to begin in 2012, we have conservatively assumed production is likely to begin in 2013. There are numerous technical and logistical hurdles to overcome that could jeopardize the planned production date. This is one of the deepest projects that Noble Energy, an experienced operator, has ever drilled. That said, we believe the State of Israel sees it as a vital interest that the domestic gas supply is not interrupted, with Yam Tethys likely depleting in 2014 and with Egyptian supply now uncertain.

Figure 11: Tamar and Dalit – Ownership structure



Source: Companies

Negotiations with IEC

In December 2009, the Tamar consortium signed letters of intent with IEC to supply at least 2.7 bcm of natural gas annually for 15 years for a cumulative minimum of c.41 bcm, representing approximately 16% of Tamar's 2C reserves. The consortium estimates annual revenues generated by the agreement to be US$400m-750m, with the total value of the contract estimated at US$9.5bn. Gas prices would be determined by prevailing global energy prices, primarily Brent crude. In addition, IEC would enter into negotiations to build a strategic inventory of natural gas and storage services, to be supplied by the Tamar project. A final contract based on these letters of intent has not been concluded, and we believe this was initially due to the IEC awaiting developments at Tamar. The delay may prove costly to the IEC, as now the Tamar partners are in a much stronger position due to the increase in energy prices, as well as our expectations that the Tamar partnership will attempt to pass along at least part of the new Sheshinksi taxes to customers.

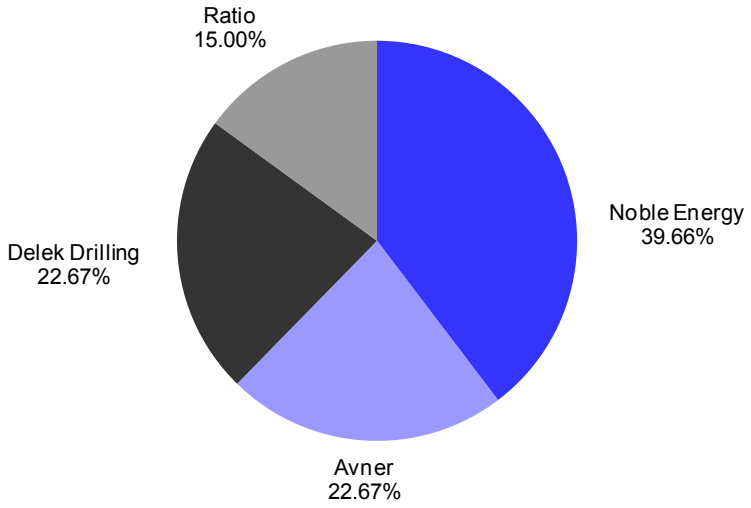
Dalit

Dalit was found 60 km off Israel's shore, with estimated 2C reserves of 7.6 bcm. The Dalit 1 well has been drilled to a depth of 3,700 meters, and due to its relatively small size in comparison to Tamar, it is not clear if and when it will be developed.

Leviathan – The largest deep water global discovery in a decade

The Leviathan reserve is a newly discovered reserve off Israel's northern coast, and at a similar depth to Tamar. The rights are owned by Noble Energy (39.66%), Avner (22.67%), Delek Drilling (22.67%) and Ratio (15%).

Figure 12: Leviathan – Ownership



Source: Companies

In December 2010, Noble Energy announced that exploratory drilling at the Leviathan prospect confirmed the pre-drill gross mean resource estimate of 16 tcf of natural gas, making it the largest discovery in a decade, and nearly double the size of Tamar. Due to the size of the field (325 sq km), it likely will be necessary to drill at least two more appraisal wells, with results expected in 2011. However, the Leviathan 2 drilling was stopped at a depth of 4,570 meters when water flow was identified in the well hole behind the casing in the seabed. Noble Energy believes that this does not have any impact on the geology of the find, and the drill is moving to a different location. The additional costs are covered by insurance, but the moving of the drill will result in a short delay in the assessment drilling, as well as the exploratory drilling for oil.

Chance of oil discovery at Leviathan

Drilling at Leviathan 1 was planned for two more levels, as seismic scans showed a 17% geological chance of success of 3bn barrels of oil at a depth of 5,800 meters, and an 8% geological chance of success of 1.2bn barrels at 7,200 meters. However, drilling was halted due to the wearing down of a key drill part, and resumption of drilling could take several months or more.

Exports would be done through LNG and/or a pipeline

The consortium will now have to determine how best to monetize the well, as domestic demand likely will be supplied by Tamar and Egyptian imports for the next two to three decades. Possibilities include LNG, which would require high capex, and/or a pipeline, which entails geopolitical risk. We believe Asia could be a target market due to the current high prices there, and we believe the Atlantic market could also be targeted due to Europe's desire to reduce its reliance on Russian gas. LNG costs vary by project, but we believe a project that could liquify c.8-10m tons of LNG annually could cost over US$9bn for the LNG facilities alone. This is in addition to the estimated US$c4bn in exploration costs necessary to retrieve the gas.

Will global demand and prices be favorable when LNG starts flowing?

Delek management has identified Asia as an attractive market, saying the company would like to penetrate Asia with LNG due to the higher prices there. However, we believe it would be a minimum of six years before LNG could begin to be processed, assuming an aggressive timetable with no bureaucratic delays – something that would seem unlikely in Israel, in our opinion. By the time the Israeli companies are ready to produce LNG, we believe the market is likely to be different. Australian producers have several projects in various stages that should be ready well before any Israeli LNG is produced. The natural market for Australia would be the Pacific, and the higher supply could pressure prices. The European market is also likely to be attractive, as it may wish to reduce its reliance on Russian suppliers. That said, the recent nuclear disaster in Japan is likely to lead to increased demand for natural gas due to reduced production of electricity by nuclear power stations.

Pipeline hookup an unlikely option

The Leviathan partners have discussed the option of a pipeline to Europe, but this has several drawbacks. Technical and cost issues exist due to the depth of the pipeline. In addition, a pipeline would have to go through several countries, and geopolitical issues could lead to the shutdown of the pipeline. While at one point Turkey would have seemed the most likely choice for a pipeline due to its proximity to Israel, recent diplomatic tensions between the two countries have increased the geopolitical risk of this option. Greece has been mentioned as an alternative, but due to distance and depth this would be more costly and challenging than Turkey. Due to both geopolitical and technical difficulties, we see LNG as the more likely option.

Part of Leviathan gas could be sold domestically

Given Egyptian instability and gas disruption, the expected lives of Mari-B and Tamar may be shortened considerably, with Tamar supplying Israel with considerably less than the two to three decades of gas previously envisioned. Thus, we believe that the State of Israeli will want part of the Leviathan gas reserve to be sold to the domestic market, and if the LNG facility is built in Israel, then this would not require any extra capex, as the gas could be transferred from Leviathan to a pipeline in Israel. If the LNG facility is built in Cyprus, then a pipeline would have to be constructed, leading either to Tamar's offshore facility or to a receiving terminal onshore in Israel.

Possible government intervention could delay or limit Leviathan

There appears to be a dispute brewing between the Leviathan partners, which have expressed a clear preference for building an LNG facility in Cyprus, and government officials, who have indicated a strong desire to have the facilities built in Israel. In addition, according to the Israeli Petroleum Law, the Ministry of Infrastructure has the right to limit energy exports, which in theory could happen should the ministry feel that gas supply is in jeopardy, particularly if Egyptian supply is cut off. This could put a Leviathan LNG project at risk, but it is also likely that the partners would then demand that the government buy the gas.

Other discoveries and prospects

Reservoir quality in the Israeli fields is believed to be very good in the fields discovered to date, and the number of wells likely to be projected for recovery of reserves is low, making development costs in the basin highly competitive. Based on experience with similar types of basins, such as the Nile Delta, there is a possibility of further discoveries. Furthermore, based on seismic scans, Noble Energy estimates that there could be a total of 30 tcf in its Eastern Mediterranean acreage.

Main competition: Egyptian gas

Besides the natural gas discoveries off Israel's coastal waters, there is currently one other source of natural gas for the country – imports from Egypt. Egyptian gas supplied about 40% of Israeli consumption in 2010. However, the recent tensions in Egypt and the sabotage of the gas pipeline to Israel highlight the geopolitical risk involved with Egyptian gas, and support a higher valuation for Tamar. Even if Egyptian gas continues to flow, we believe the price of Egyptian gas will likely increase, allowing price increases for the Israeli gas.

Gas from Egypt could provide up to 7 bcm annually for 20 years

East Mediterranean Gas (EMG) currently has several contracts with Israeli companies to provide 65 bcm of Egyptian natural gas over periods ranging from four to 18 years. The company was founded in 2000 and received a mandate from the Egyptian government to supply Israel with up to 7 bcm annually for a 20-year period for a total of 140 bcm. This was formalized in 2005 with an agreement between Egypt and Israel, and later that year EMG signed a contract with IEC to supply it with 2.1 bcm for 20 years. In 2007, work began on the 100-km pipeline between El Arish in Egypt and Ashkelon in Israel, as well as the necessary infrastructure, and in 2008, the first gas began to flow through the facilities. In 2009, the first gas flowed to ICL and the Nesher cement company. EMG has a back-to-back agreement for the gas, in that the gas is not purchased until it is sold. Egypt has 3,600 bcm of probable reserves, of which 1,860 is proven.

We note that EMG prices tend to be lower than the memorandums signed with the Tamar gas project, which we estimate at US$5.2/mmbtu. We believe that following the overthrow of the previous Egyptian government, we expect the new government to demand higher prices for the natural gas sold to Israel, putting it more in line with the prices of Israeli gas.

Figure 13: EMG – Natural gas contracts

Customer	Quantity (bcm)	Contract term (years)	Initiation of supply
IEC	42.50	20	May-2008
IEC additional	1.20	4	June-2009
Nesher Cement	0.84	15	October-2009
Dorad	13.60	18	January-2013
Ashdod Energy	1.05	18	June-2012
Ramat Negev	3.06	18	June-2012
Solbar	2.52	18	June-2012
Haifa Chemicals	0.35	8	July-2010
Makhteshim Agan	0.20	5	July-2010
Israel Corporation	28.0	20	January 2011

Source: Company data, Deutsche Bank

Agreement signed with Israel Corporation, but leaves room for Tamar

In December, Israel Corporation announced that several of its subsidiaries had signed an agreement for natural gas delivery with EMG. A total of five agreements were signed for the supply of 1.4 bcm annually for 20 years, with an option to increase the total to 2.9 bcm annually. The total value of the contracts is US$5bn-10bn, depending on the price, which is set by a formula. The first deliveries are expected in early 2011. However, the contracts cover only about half of the requirements of the Israel Corporation subsidiaries, and there are options in the EMG contract for additional deliveries, which are exercisable during 2011. This option was apparently intended to allow for clarity on Tamar as the Israel Corp would undoubtedly prefer not to rely on a single supplier, particularly given the current situation in Egypt.

Sheshinski tax law sharply increases government take

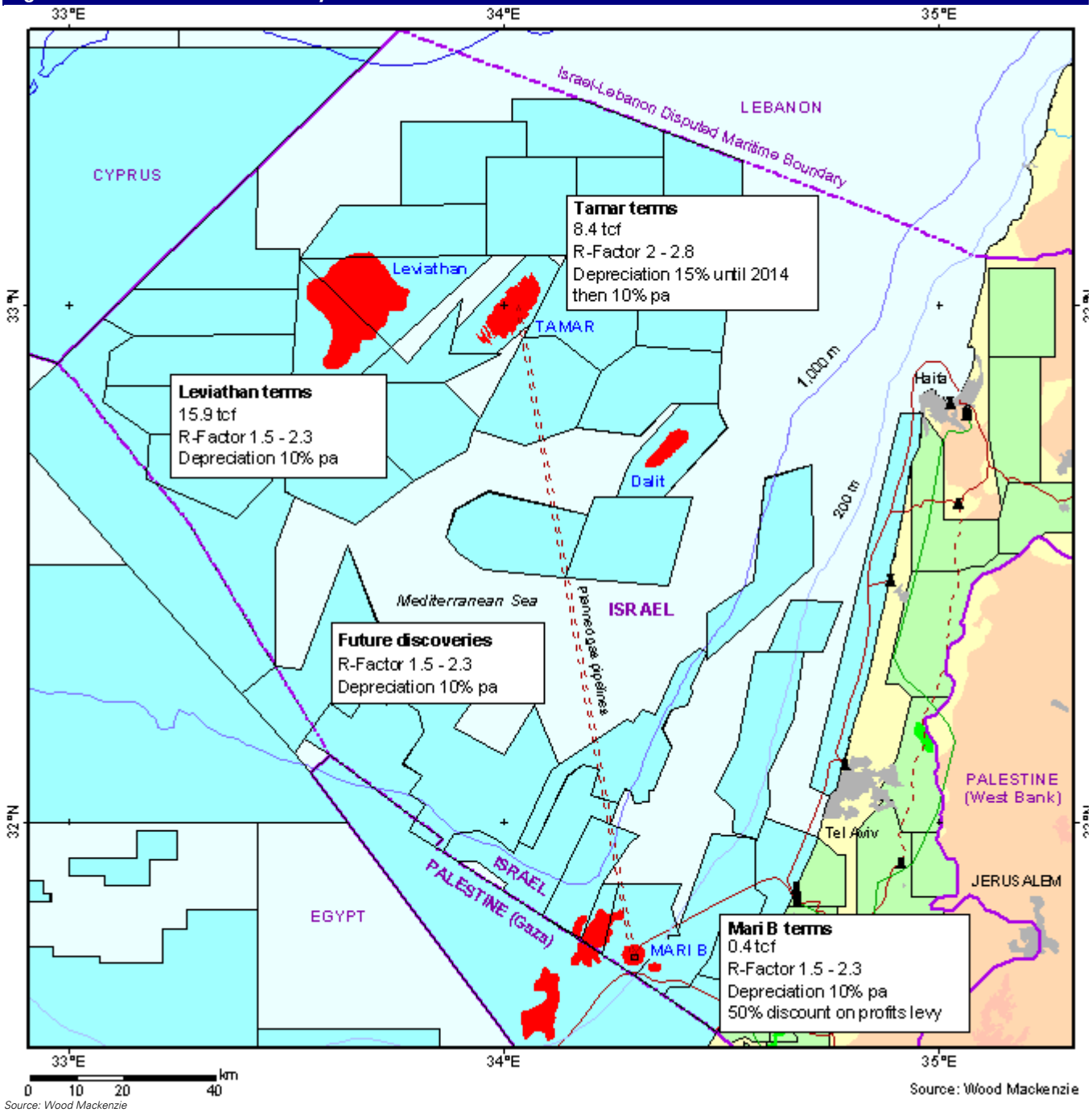
In April, the Knesset approved the final proposal of the Sheshinski Committee, appointed by the Israeli Finance Minister to make recommendations regarding the taxation of the energy sector. The committee explored tax regimes globally, and found that the Israeli government's take from energy profits was one of the lowest, if not the lowest, globally. The new tax law increases the government take from about 30% to a range of 52-62%, with special benefits for Tamar if it begins production by the beginning of 2014.

Royalties left intact; imposition of progressive "ring-fenced" tax

According to the final Sheshinski proposal announced in early January, the government's take would be 52-62% (lower than the 67% indicated in the initial proposal). Taxes would begin at a 20% rate when cumulative net income reaches 1.5x capex (the R factor). The maximum tax rate of 50% would be paid when the R factor is 2.3. The Tamar project would, however, get special treatment, assuming production begins by 2014. The R factors for the minimum and maximum tax would be 2.0 and 2.8, respectively. Based on the US$3bn capex estimate, Tamar would not pay taxes until cumulative net profit reaches US$6bn and the maximum tax rate of 50% would be incurred when cumulative net profit reaches US$8.4bn.

Other concessions from the initial proposal include the recognition of finance expenses and management royalties as expenses. Government royalty rates would remain at 12.5%, but the 27.5% depletion allowance would be eliminated.

Figure 14: New Israeli tax terms by reserve



Source: Wood Mackenzie

The following is a summary of the key changes in energy taxes as a result of the Sheshinski Committee:

- **Progressive tax on net profit on a project basis.** The committee proposed that each project would pay a progressive income tax that begins at 20% and peaks at 50%. The 20% rate would kick in when new income from a project reaches 1.5 times the initial investment (the R factor), and the maximum 50% tax would kick in when the R factor reaches 2.3. However, Tamar would get special treatment (assuming it begins production by the beginning of 2014); the R factors for Tamar would be 2.0 and 2.8, respectively. The committee estimates that cash flows for the first 10 years of Tamar's production would not be significantly impacted, and would therefore not be an impediment to financing. Yam Tethys (Mari-B), the only field in Israel already producing gas, would pay half the proposed tax rate through 2015 (we expect depletion in 2014), and for the R factor calculation, net income prior to 2011 would not be included.
- **Royalties to general partners would be deductible for tax calculation, but taxes would be payable by general partners.** Both Avner and Delek Drilling pay royalties to Delek Energy and Delek Group. Under the original proposal, this would not have been deductible by the limited partnerships; under the final proposal, the limited partnerships can deduct these royalties, and the general partners would pay taxes on these royalties.
- **Royalty rate would remain at 12.5%.** Producers currently pay 12.5% royalties (at the wellhead) to the State of Israel; however, after deductions, this is effectively reduced to c.10.9%. The Sheshinski Committee proposes to leave royalties at the current rate.
- **Elimination of the depletion allowance.** The elimination of the depletion allowance, currently 27.5% of revenues, would in effect raise royalty rates by c.6% at current tax rates. However, with corporate tax rates decreasing gradually to 18% in 2016, the value of the allowance falls to c.5% of revenues. The committee argued that in Israel the exploration companies do not pay for the reserve, only the license; therefore, there is no need for a depletion allowance.

LNG portion will not be subject to the new tax

Royalties and taxes for LNG would be charged at the transfer price and not the LNG price, and the costs of LNG production would not be a deduction for the new tax. In addition, the investment in LNG facilities would not be included as part of the calculation for the R factor. This would be applicable at Leviathan, which by our estimates would mostly be exported, likely in the form of LNG. The big questions here are how the transfer price would be set and how much it would be.

Financing through share offerings and bank loans

The Israeli E&P companies have recently been conducting financing rounds for the development of the reserves. Ratio raised approximately ILS260m through a share and warrants offering. Proceeds are to be used for development of the Leviathan reserve, and exploration of Gal, a prospect located adjacent to Leviathan. Isramco announced that it plans to raise ILS133m through a share offering, with the proceeds to be used for the development of the Tamar reserve, as well as the exploration of the Shimshon and Daniel prospects. In the meantime, the company has closed on a financing package for the development of Tamar, which includes a US$350m bridge loan and an additional loan for US$400m. We believe the closure of this financing was delayed due to the Sheshinski proposal, but with the bill's passage, uncertainties have been removed. Delek Drilling and Avner each plan to raise ILS200m, either through bank loans or through a share offering. We note that unlike the other partners, Delek Drilling and Avner are generating cash flows from their holdings in Yam Tethys, and thus a bank loan is a viable option. The companies have already secured a bank loan for development of Tamar for US$380m of credit through foreign banks.

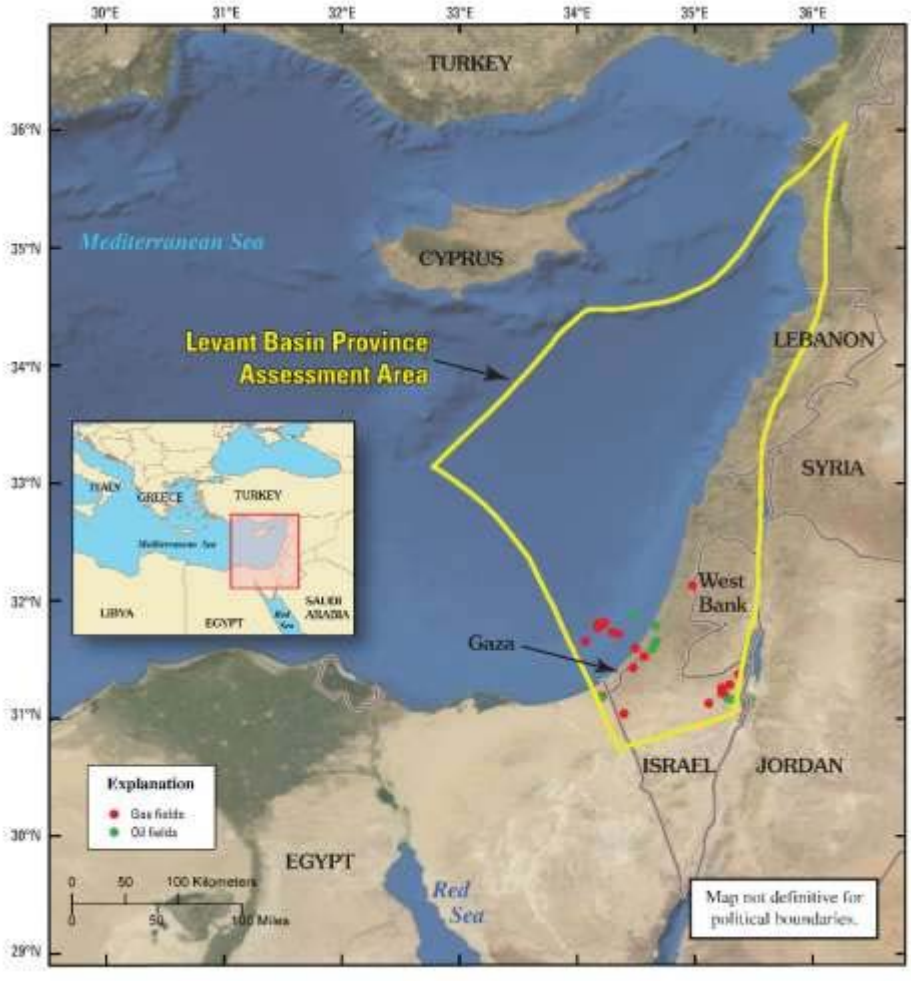
Possible merger of Delek subsidiaries would ease an offering and improve liquidity

Delek Drilling and Avner are essentially the same company, with the same management and similar holdings, but under different general partner ownership. Excluding the relatively small overseas investments, Delek Energy also has the same holdings and same management as Delek Drilling and Avner. We believe that with the heavy capex required for the Leviathan project, the Delek subsidiaries would have to do an equity offering, most likely overseas. We believe the current structures are too complicated and too illiquid for such an offering, and we view a merger of the entities as a possibility. This would improve liquidity, which should significantly increase the chances of a successful equity offering.

The potential: USGS estimates 122 tcf of recoverable gas in Levant Basin

Using geology-based assessment methodology, the US Geological Survey (USGS) issued a report that estimates that a mean of 122 tcf (50-227 tcf) of recoverable gas exists in the Levant Basin, mostly in Israeli territorial waters. According to the USGS, the Levant Basin is comparable to some of the other larger provinces in the world, with gas resources larger than anything assessed in the United States.

Figure 15: Levant Basin



Source: US Geological Survey

Only the beginning

Until the discovery of Yam Tethys in 1999, demand for natural gas, along with the necessary infrastructure, was virtually non-existent in Israel. With the discovery of Yam Tethys, investment in natural gas infrastructure began, and has only accelerated with the discovery of the much larger Tamar field. The Tamar discovery should ensure a reliable supply of natural gas for Israel for the next two to three decades, and therefore should encourage the use of natural gas as well as spark investment in gas exploration, distribution and conversion. In this report, we have analyzed supply (gas discoveries and imports), demand and further discoveries.

The opportunity: Sharp increase in gas demand by IEC and industry

Sometimes supply creates its own demand, and we believe this is the case with these gas discoveries. Natural gas is generally cheaper and cleaner than other fossil fuels, and the abundant local reserves make gas very attractive for heavy energy users such as electricity generation and other industries. The Israel Electric Corporation (IEC) should become the largest consumer of natural gas by far, and it plans to increase the amount of electricity generated by natural gas to more than 48% in 2015 from 37% in 2010. More gas consumption will likely come from independent power plants. In addition, companies such as ICL have switched or are in the process of switching to natural gas.

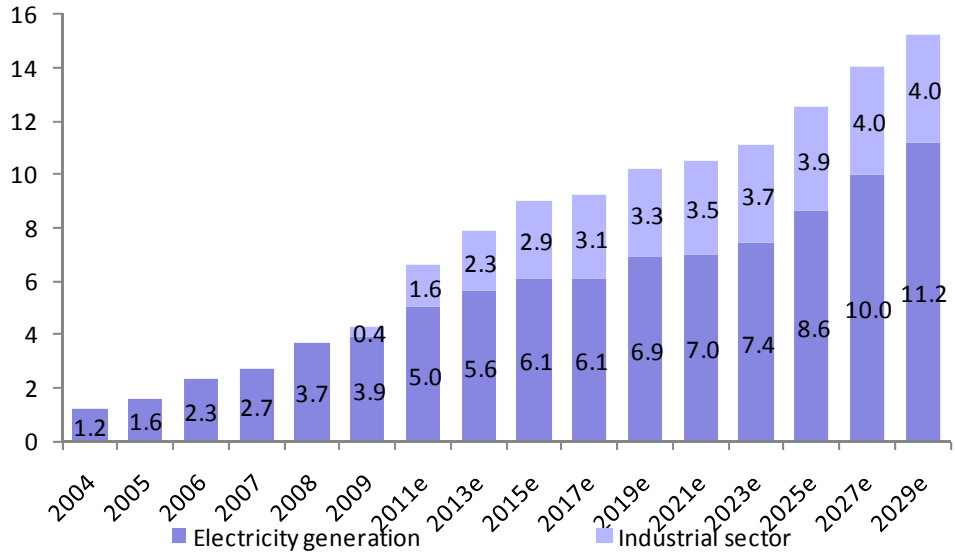
Figure 16: Change in Israeli natural gas demand and infrastructure in 2010 vs. 2003

	2003	2010
Electricity production from natural gas (%)	0%	37%
Cumulative consumption (bcm)	0	16
Distribution infrastructure (km)	0	400

Source: Israeli Ministry of National Infrastructures

The Israeli Ministry of National Infrastructure estimates that annual natural gas consumption will rise to 9 bcm in 2015, more than 6 bcm of which is likely to be for electricity consumption. This compares with consumption of 4.3 bcm in 2009, nearly all of which was used for electricity production. That said, the first significant purchase by industry resulted in 0.4 bcm being purchased in 2009. The Israeli Ministry of National Infrastructure forecasts natural gas consumption to rise to more than 15 bcm in 2029, but we believe the growth rate could be faster, based on current growth rates.

Figure 17: Natural gas demand in Israel (in bcm)

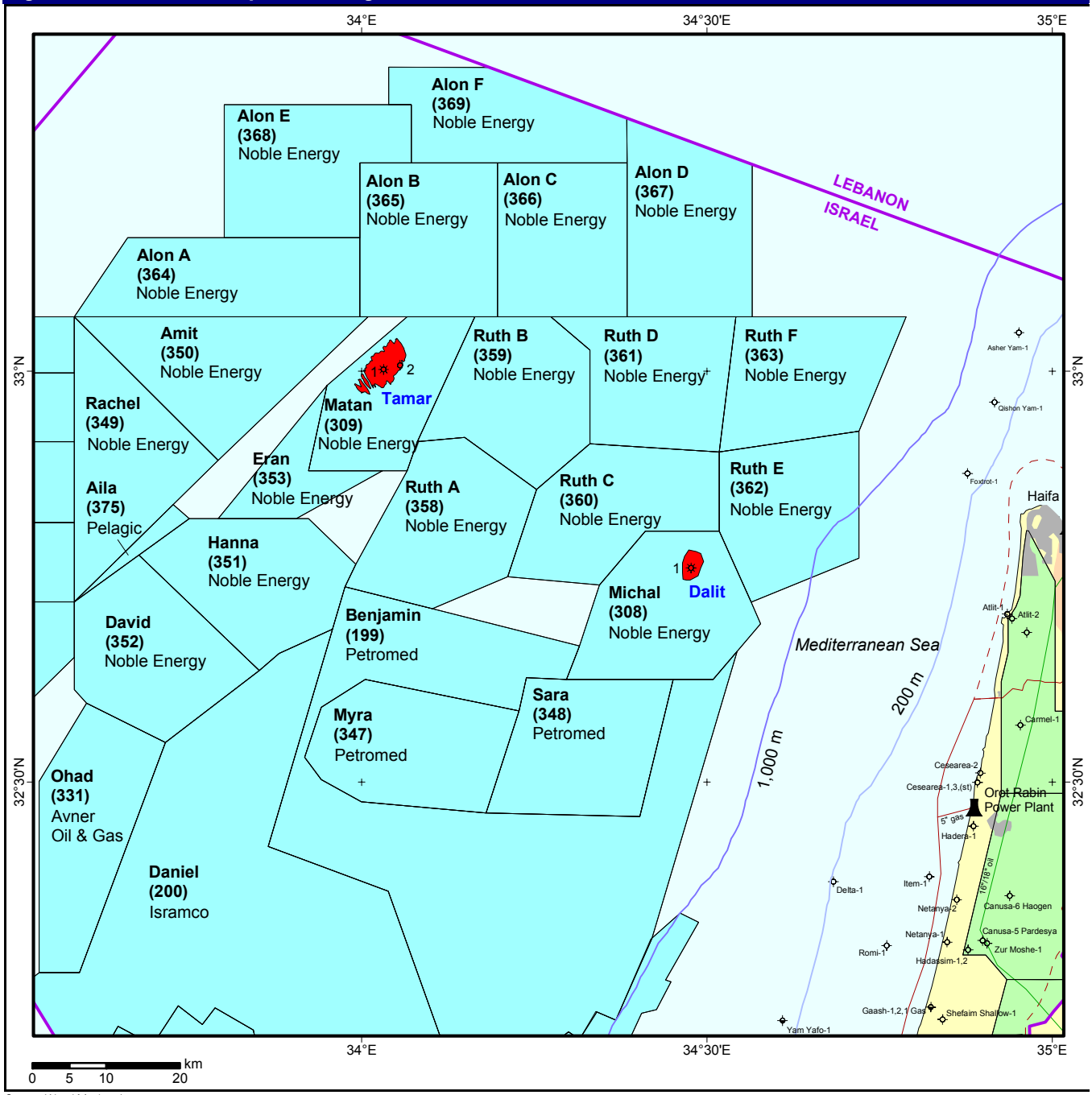


Source: Israeli Ministry of National Infrastructures

Gas discoveries sparking an exploration frenzy

The discoveries of Yam Tethys, Tamar and Leviathan have spurred a flurry of exploration activity in the Levant Basin. We note that although the likelihood of finding commercially viable gas in any typical exploration is relatively low, the discovery of proven reserves in a particular basin improves the chances considerably. Wood Mackenzie refers to the Israeli offshore exploration as "one of the world's exciting new plays."

Figure 18: Offshore Israeli petroleum rights



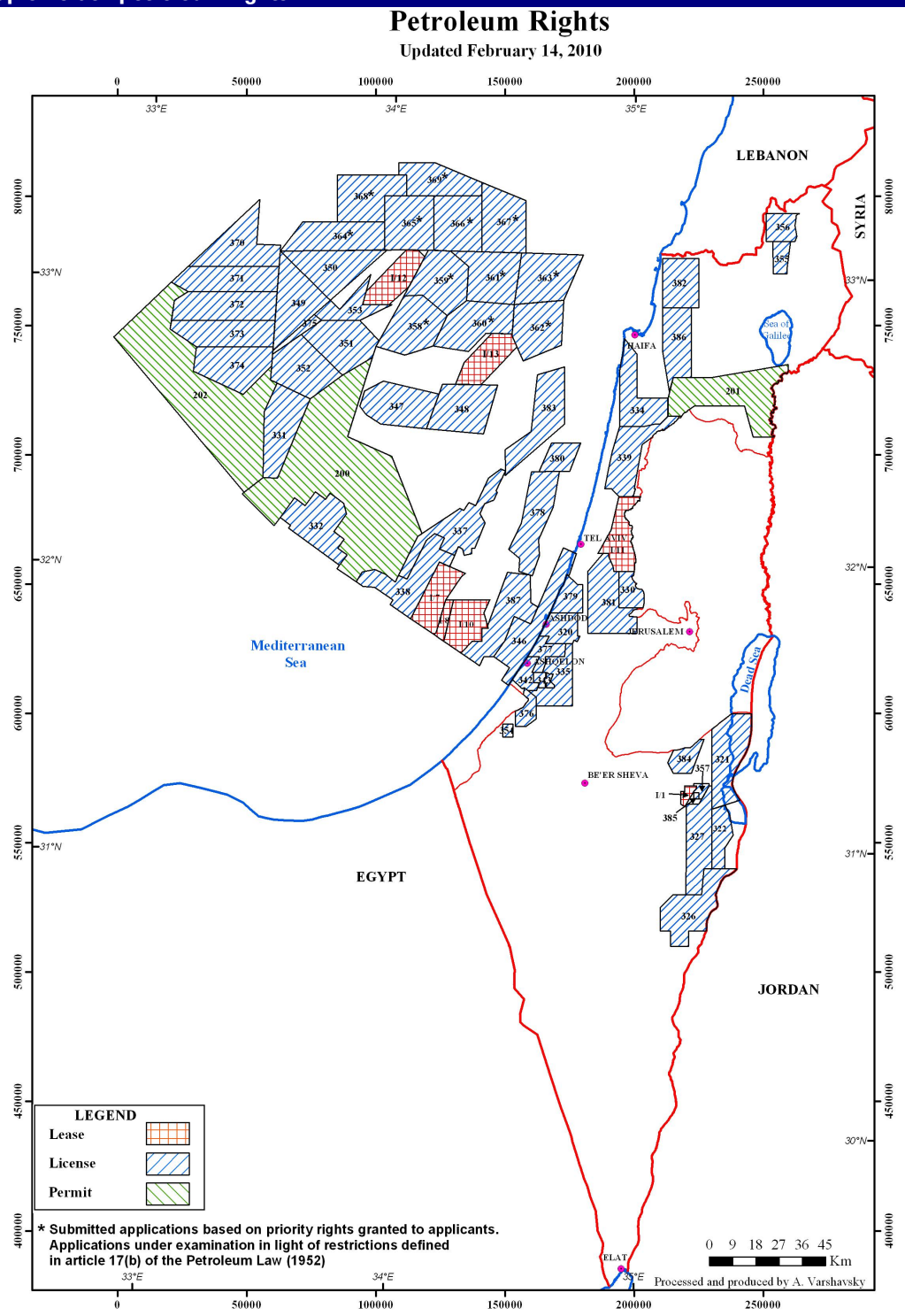
Source: Wood Mackenzie

Figure 19: Company acreage and participation

Company	Net acreage (sq km)	No. of blocks	No. of operated blocks
Noble Energy	3,340	21	21
Isramco	2,885	3	1
Delek Drilling	2,437	23	-
Avner Oil & Gas	2,412	24	3
Ratio Oil Exploration	2,043	7	1
Pelagic Exploration	2,050	6	6
Modiin Energy	827	6	1
ACC Holdings	400	1	1
Emanuelle Energy	347	2	-
Zerach Oil	255	1	-

Source: Wood Mackenzie

Figure 20: Map of Israeli petroleum rights



Source: Israeli Ministry of National Infrastructures

Demand coming from electricity production and heavy industry

Increasing reliance on natural gas

By the end of 2010, close to 40% of the electric power in Israel was produced using natural gas. We expect the rate of usage to increase to about 45-50% during the next five years. While the fear of over-reliance on a single energy source could be a limiting factor, we believe that electricity plants that can use natural gas and other fuel sources could allow for increased use of natural gas. At the same time, heavy energy users such as ICL and the oil refineries have converted or are in the process of converting to natural gas.

Figure 21: IEC energy sources

	2009	2010	2013E
Coal	64.7%	61.0%	45.9%
Diesel oil	1.5%	1.5%	2.7%
Nat. gas	32.6%	36.6%	48.4%
Fuel oil	1.2%	0.9%	3.0%
Total	100.0%	100.0%	100.0%

Source: IEC

Cheaper and cleaner

The main reasons for the relatively rapid conversion to natural gas are the cost and the environment. We outline the advantages as follows:

- **Cost.** Natural gas is cheaper than other forms of electricity generation. This is mainly due to the efficiency of gas under state-of-the-art combined-cycle technology. Natural gas uses up to 60% of its energy potential, compared with up to 46% for coal. As combined-cycle natural-gas electricity generators are more efficient than typical coal-fired generators, natural gas prices can be attractive even if the cost of natural gas is higher than coal.

Figure 22: Average cost of fuel (in agorot, per kwh)

	2010	2009	% chg
Coal	13.8	15.0	-8.0%
Diesel oil	143.0	146.7	-2.5%
Nat. gas	13.4	13.0	3.1%
Fuel oil	47.9	39.0	22.8%

Source: IEC, Deutsche Bank

Figure 23: IEC expenditures on energy sources

	Expenditure (ILSm)			% of total	
	2010	2009	% chg	2010	2009
Coal	4,725	5,274	-10.4%	53.0%	58.5%
Diesel oil	1,201	1,202	-0.1%	13.5%	13.3%
Nat. gas	2,760	2,296	20.2%	30.9%	25.4%
Fuel oil	236	250	-5.6%	2.6%	2.8%
Total	8,922	9,022	-1.1%	100.0%	100.0%

Source: IEC, Deutsche Bank

- **Environment.** Natural gas burns more cleanly than alternate forms such as coal and oil. For example, 0.5 ton of carbon dioxide is produced for every MW of electricity produced by natural gas, compared with 0.7 ton of carbon dioxide from coal-fired electric plants.

Figure 24: Pollutants from energy sources (pounds per Btu bn)

Pollutant	Natural gas	Oil	Coal
Carbon dioxide	117,000	164,000	208,000
Carbon monoxide	40	33	208
Nitrogen oxides	92	448	457
Sulfur dioxide	1	1,122	2,591
Particulates	7	84	2,744
Mercury	-	0.007	0.016

Source: US Energy Information Administration

Disadvantages of natural gas prevent a complete conversion to gas

Although natural gas is cheaper and cleaner than alternative fuels, there are no plans for a complete conversion of the electrical plants in Israel to natural gas. Given all the advantages of natural gas in terms of price and pollution, one might conclude that all electric production should be produced by natural gas. We note that although it is cheaper and cleaner, it does have some disadvantages compared with competing energy sources, as follows:

- **Stresses on system can impair gas distribution.** During times of peak demand, if one plant in the electricity network fails due to stress on the system, it can seriously impair gas distribution in the entire network.
- **Inability to rely on neighboring countries to supply electricity.** When the electrical system is stressed, many countries can buy electricity from neighboring countries. Israel does not have that luxury, and therefore cannot rely on a single energy source for its electricity production.
- **Risk of over-reliance on a single source.** Higher reliance on natural gas could disrupt electricity production in the event of a disruption in the natural gas supply. This is not the case with coal, the inventories of which can be made readily available in the case of a supply problem.

Key demand should come from electricity generation

The primary customer for both Yam Tethys and Tamar is IEC, which began using natural gas in 2004 at its Eshkol power station. Later additions included the Reading power station in Tel Aviv in 2006 and the Gezer station in 2008. Natural gas consumption by the IEC has been increasing over the years. In 2010, 37% of electricity was generated from natural gas, compared with 18% in 2006. IEC expects this to increase to more than 48% in 2013.

Several gas purchase agreements already in effect; more expected

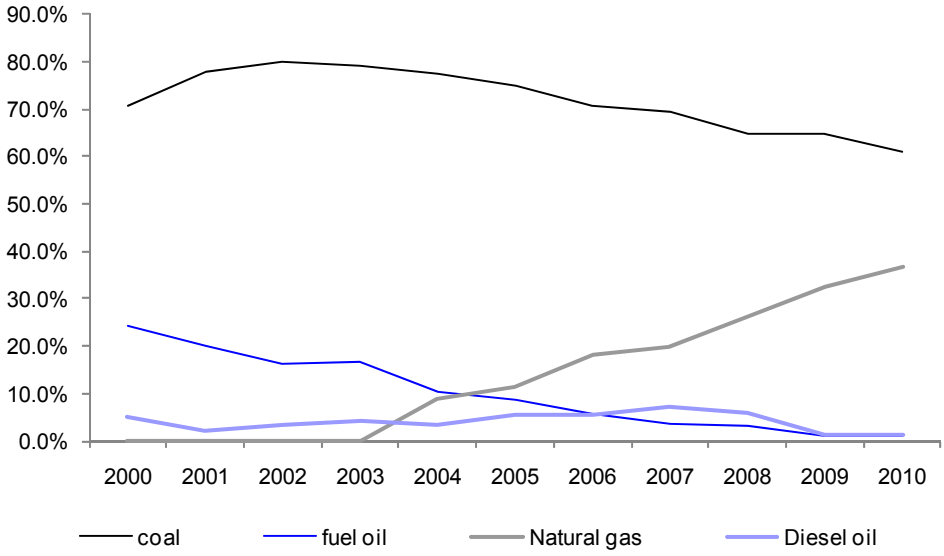
In 2002, IEC signed a contract with Yam Tethys to purchase 18 bcm at a price that we estimate at US$2.47/mmbtu. This was followed in 2005 by an agreement with EMG for 25 bcm over a 15-year period at a calculated price of US$2.75/mmbtu. A subsequent agreement raised the price of gas in these contracts. IEC, in a non-binding letter of agreement, has committed to purchasing at least 2.7 bcm annually from the Tamar project for 15 years, representing a cumulative 41 bcm of gas. In practice, we expect IEC to purchase well above the minimum stipulated in the agreement.

Figure 25: IEC natural gas consumption by supplier in 2010

	In BCM	% of total
Yam Tethys	2.7	56%
EMG	2.1	44%
Total	4.8	100%

Source: IEC, Deutsche Bank

Figure 26: Energy sources used for Israeli electricity generation (% of total)

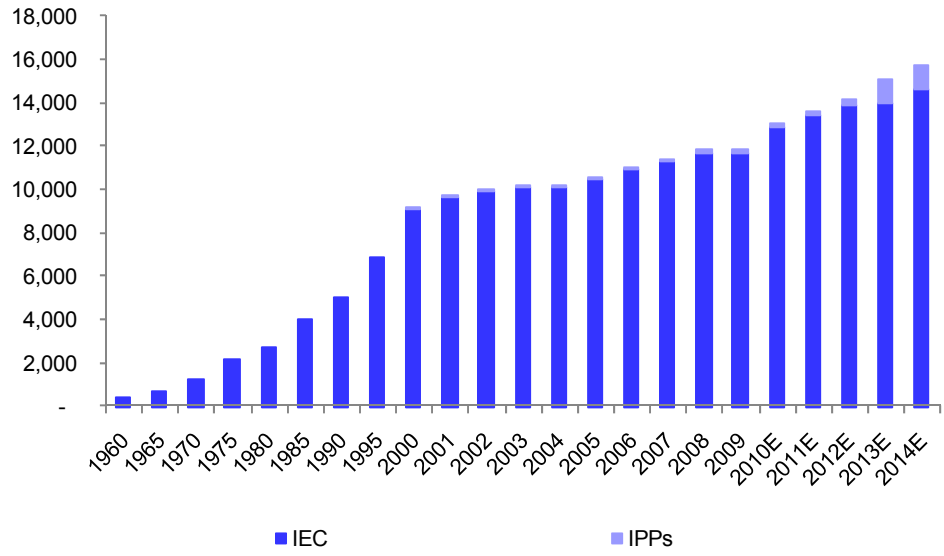


Source: IEC, Deutsche Bank

Planned electricity capacity expansion helps drive gas demand

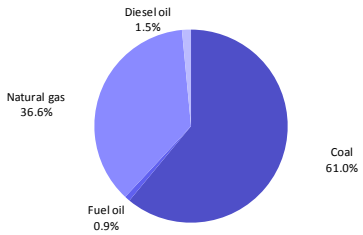
Electricity consumption is on the rise, and the Ministry of National Infrastructures forecasts that electricity demand will double in the next 20 years. IEC plans to expand electrical capacity by more than 3,000 MW by the end of 2014 at a total investment in generational capacity of US$6.8bn. All of the new capacity likely will be generated by natural gas. IEC expects natural gas to account for more than 48% of electricity production by 2013.

Figure 27: Installed electricity capacity in Israel (MW)



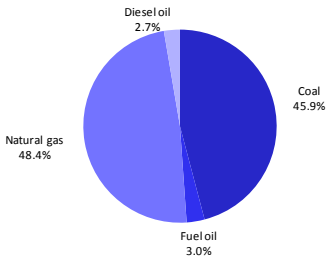
Source: IEC

Figure 28: IEC – Fuel sources 2010



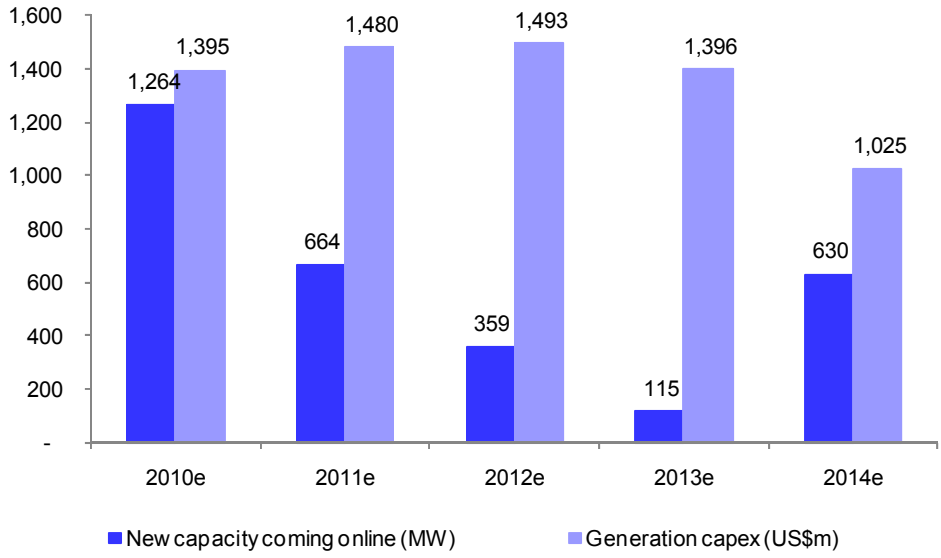
Source: IEC

Figure 29: IEC – Fuel sources 2013E



Source: IEC

Figure 30: IEC planned generational capacity (MW) adds and generation capex (US$m)



Source: IEC, Deutsche Bank estimates

Figure 31: Israel Electric Corporation projects

Location	Output (MW)	Date operational
Ramat Hovav	238	2010
Ramat Hovav (steam)	132	2012
Tsafit (steam)	123	2011
Alon Tabor	238	2011
Alon Tabor (steam)	132	2013
Eshkol	238	2010
Eshkol (steam)	132	2012
Haifa	476	2010
Haifa (steam)	278	2011
Hagit	238	2010
Hagit (steam)	132	2012
Ashlim thermo solar	2 @ 80-110	Q3 2013
Ashlim PV	15	Q2 2014
Timna	3 @ 50-75	
Coal powered plant - project D	2 @ 630	2014-15

Source: Israel Ministry of National Infrastructures

Lower costs = lower tariffs

Electricity rates are set by the Electricity Authority, based on IEC's cost structure, as well as a 'fair' rate of return on capital, less an efficiency factor. As of the end of 2009, the average price per KWh sold was US$0.1119. We note that IEC does not receive a benefit from cost savings, as this is translated into lower rates for consumers.

Tariffs are updated on the occurrence of three possible events:

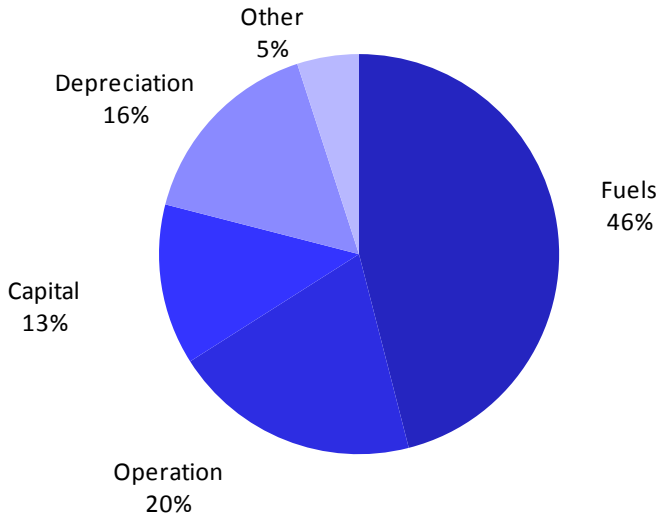
- Costs change by at least 5.5%
- Changes to the cost basket of at least 3.5%
- Six months following the previous tariff update

Will tariff cuts impede IPP development?

With fuel representing c.54% of the tariff basket, IEC estimates that the shift to gas would result in cost savings of about ILS2-3bn annually. Based on the cost savings and the tariff formula, the lower cost of natural gas led the Electricity Authority, which oversees electricity tariffs, to announce a 10-16% reduction in electricity tariffs, effective February 2010. The tariff cuts could have a negative effect on the sector, for the following reasons:

- **Increased electricity consumption.** Lower tariffs could increase electricity use, putting additional demand on infrastructure.
- **Less economic viability for IPPs.** The tariff cuts could make independent power plants less economically viable, thus reducing their number and potentially placing more of the burden on IEC.

Figure 32: Electricity costs basket



Source: IEC

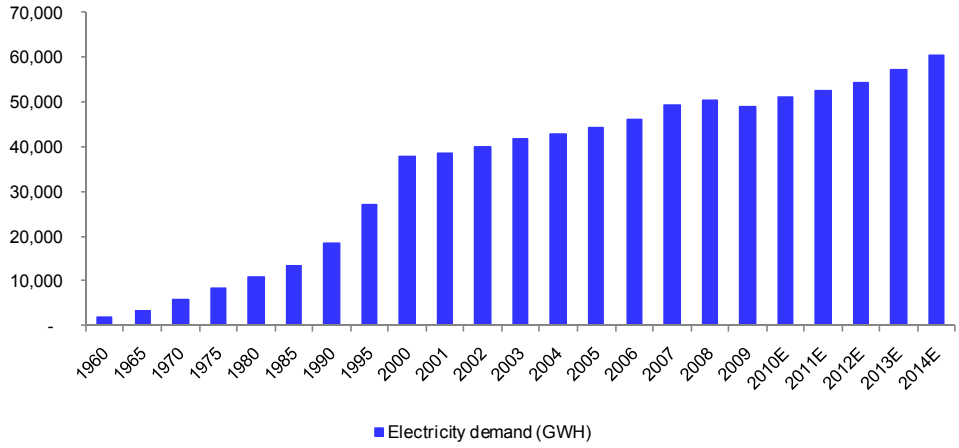
Independent power plants to provide growing share in electricity production

Independent power plants (IPPs) currently account for 223 MW, less than 2% of electricity production in Israel. This is likely to increase dramatically in 2013 with the planned addition of c.820 MW generated by IPPs, representing nearly 7% of generated electricity. This increase depends on the economic viability of IPPs, which, as mentioned previously, may have deteriorated with the recent tariff cuts.

IEC union may hamper conversion to gas

The IEC workers' union, one of the most powerful in Israel, could slow or limit the conversion from coal to gas. This is because coal requires workers to load and maintain inventory, while gas does not. The union might resist the gas conversion due to the possible loss of union jobs.

Figure 33: Electricity demand in Israel (GWH)



Source: IEC

IEC planning to build storage of 2 bcm

On top of demand from normal operations is the IEC's intention to create a gas reserve of 2 bcm for use in case of emergencies. This would be in addition to its normal demand, and would not be touched except during a gas-supply disruption. The gas would be stored at Yam Tethys when that field is depleted.

Industry adds to electricity demand

With energy costs a significant expenditure of heavy industry, companies such as Israel Chemicals Limited (ICL) and Oil Refineries Limited (ORL) are converting to cheaper natural gas. After a lengthy delay of several years due to the lack of a national infrastructure to deliver the gas, Israel Chemicals switched to natural gas in December 2009. Israel Corporation will likely become the largest private power producer in Israel, increasing its capacity from 800 MW to 1,200 MW. One of the purposes for expansion is to supply power for Better Place, an electric-car company that expects to begin selling cars at the end of 2011. Paz, which needs gas to power two private power plants at its oil refinery in Ashdod, is reportedly negotiating with both EMG and the Tamar consortium for about 0.06 bcm annually from 2013-15 and 0.2 bcm annually thereafter. Other companies reportedly negotiating for gas supply are American Israeli Paper Mills and Nesher, a cement manufacturer.

Rate of conversion to natural gas dependent on domestic infrastructure

One of the key issues for domestic growth will likely be the domestic infrastructure required to bring gas to customers. The Ministry of National Infrastructures has accelerated the development of land pipelines, but bureaucratic delays are common in Israel and could impair development.

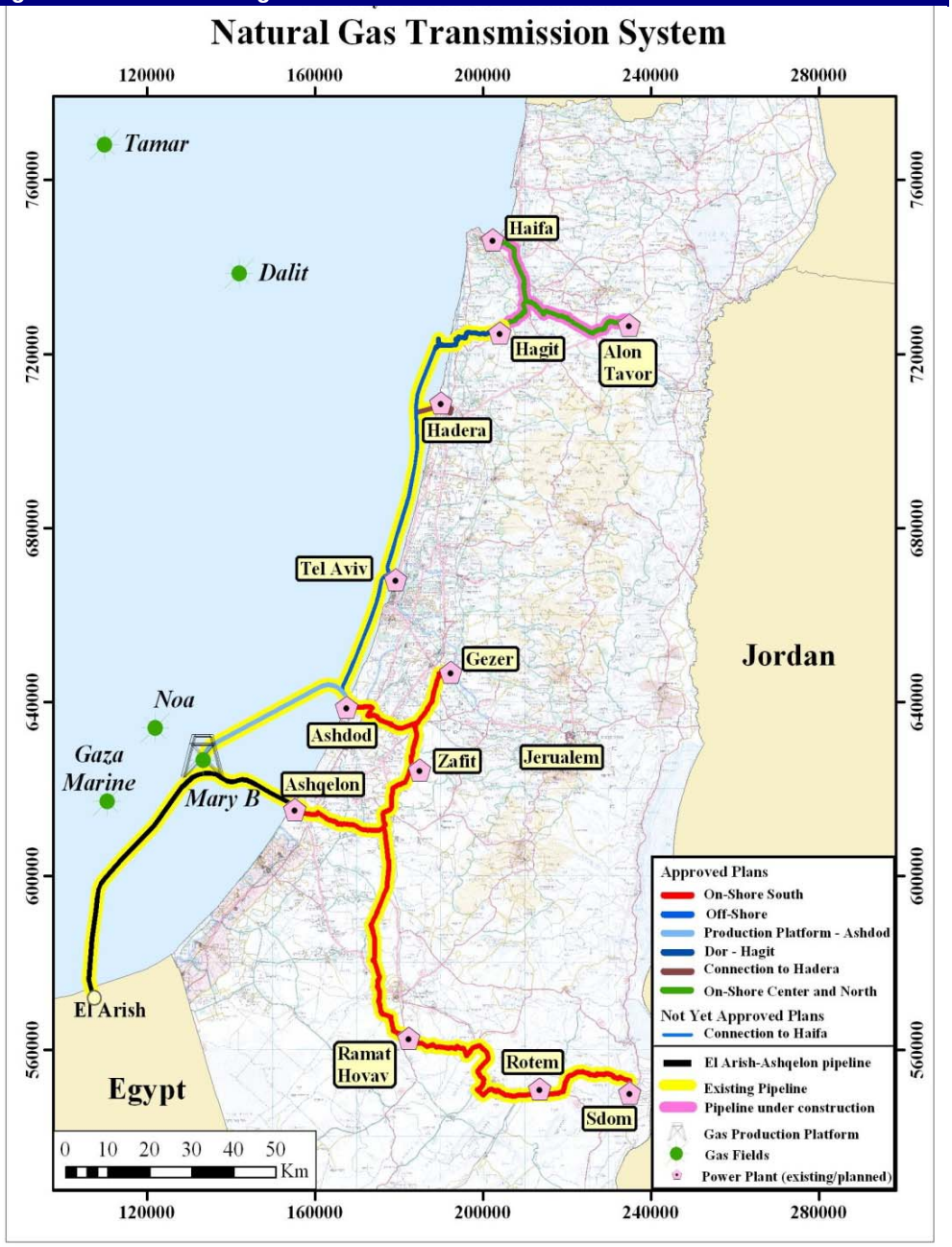
Bureaucratic delays could slow demand

A key risk to infrastructure construction could be bureaucratic delays. We note that bureaucratic delays are the norm in Israel, where planned infrastructure is rarely completed on time. We note that ICL only converted to natural gas at the end of 2009, after several years of recurring delays in obtaining the necessary permits, construction, etc. Israeli bureaucracy could delay the completion of adequate infrastructure for gas delivery, possibly slowing demand growth for natural gas.

Private companies to conduct the distribution

Distribution is likely to be performed by private companies. Israel will be divided into six districts, and two distributors have won the tenders for the central and Negev regions. Licensees will build and operate low pressure distribution systems, with the license valid for 25 years.

Figure 34: Israel natural gas transmission network



Source: Israel Ministry of National Infrastructures

Further discoveries could transform Israel into a global energy player

With domestic demand for the next three decades to be met by Yam Tethys, Tamar and Egyptian imports, any further discoveries such as Leviathan would likely be directed towards the export market. This would be far more complicated than the domestic market as it would require either a hookup to a pipeline or LNG. While the former is cheaper and simpler, it entails geopolitical risks, as the pipeline would pass through several countries. LNG is the more likely solution, but would require high capex and would likely take at least six years to build before the first shipments can be made.

Leviathan's export potential

Most of Leviathan likely to be exported, probably as LNG

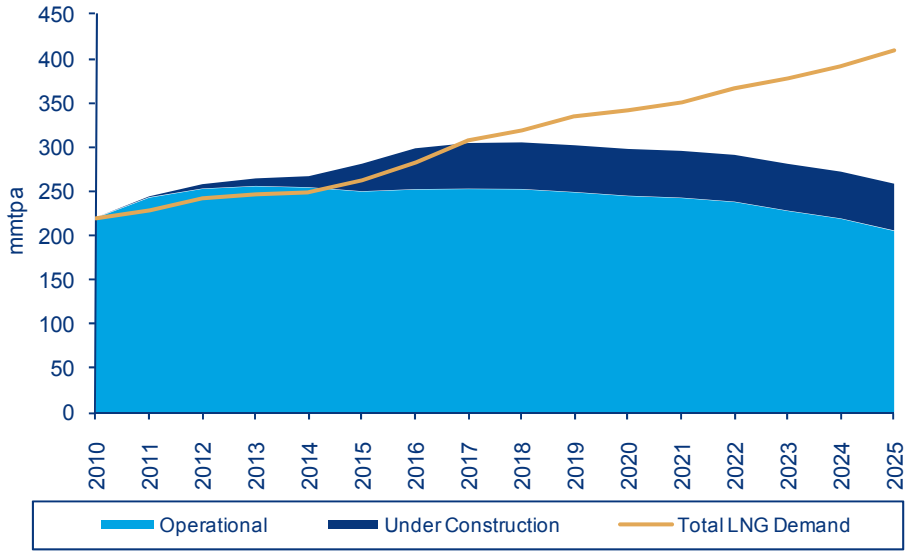
We expect that most of the Leviathan gas will be exported, as Tamar should make Israel self-sufficient for years to come. The Leviathan partners are discussing options for export, including LNG and/or a pipeline to Europe.

LNG or pipeline?

The Leviathan partners have been talking about two possible methods of gas export: LNG or a pipeline, probably to Greece, then to Europe. We think LNG is the preferred method. A pipeline to Greece would be costly and entail technical hurdles and, if other projects are a benchmark, numerous delays. A pipeline is also less flexible: LNG, while entailing high capex, provides market flexibility.

Energy consultant Wood Mackenzie expects LNG trade to grow at 6.5% annually through 2025. Driving this growth should be increased gas demand growth from emerging markets, particularly Asia, combined with declining gas production in Europe. While new LNG capacity should supply demand until around 2017, about 40 new average-size LNG trains would be required over the next decade to meet growing gas demand. With LNG production at Leviathan likely to begin towards the end of the decade, the timing of initial production could hardly be better.

Figure 35: Global LNG demand vs. supply



Source: Wood Mackenzie

Europe or Asia?

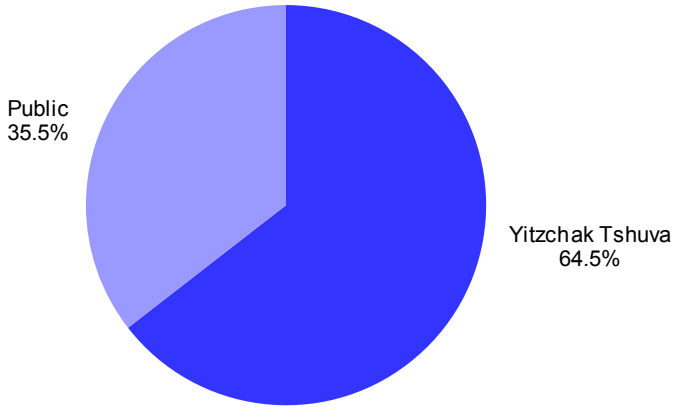
We see Europe as an easier market than Asia for Leviathan. Europe is geographically closer, and customers tend to be less conservative than in Asia, where customers are most concerned with reliability of supply and are less likely to take risks with new suppliers. It is for this reason that we believe that the Leviathan partners will have to form a relationship with a global player (such as Total, BP, Shell, etc.) that can guarantee an alternative supply in case there is a disruption to Israeli LNG. So while we believe Europe will be a more accessible market for Leviathan, higher prices in Asia should make this market attractive as well, provided a global partner can be secured.

Delek Group

A holding company with a focus on energy and infrastructure

Delek Group is a TASE-listed energy- and infrastructure-focused holding company with its key operations in Israel, Western Europe and the US. Only a few years ago the company's operations were diversified, but it has become more focused on energy in recent years with the discovery of energy assets and sales of other holdings. The group seeks to create a balance of cash flow (generated by dividends and the sale of assets) for dividends and future investment. The company's dividend policy is to distribute approximately 50% of annual net profit. The majority stake in Delek Group is owned by Yitzchak Tshuva, an Israeli businessman who acquired the company in a hostile takeover in 1998. Mr. Tshuva is the controlling shareholder, with a 64.5% stake in the company, which is listed on the TA-25, the Israeli blue-chip index.

Figure 36: Delek Group – ownership structure (as of May 23rd, 2011)



Source: TASE, Deutsche Bank

Key holdings in E&P, retail fuel, refining, and financial assets

The group's key holdings are in the following sectors:

- **Energy (upstream):** The group owns a portfolio of natural gas assets, most of it through its 79.8% stake in Delek Energy, a 14.3% direct stake in Avner and an 8.7% direct stake in Delek Drilling. In turn, subsidiary Delek Energy has a 62.7% stake in Delek Drilling and a 46.5% stake in Avner. The partnerships in the Delek Group have interests in 15 exploration licenses covering 6,494 sq km and four production leases covering 1,000 sq km. Delek Group also owns a small stake in Noble Energy, the operating partner in its Israeli energy assets. These assets contain 2P and 2C resources of 9.2tcf, and Leviathan contains an estimated 16 tcf. While E&P is currently a small contributor to revenues, it is expected to contribute a much larger share beginning in 2013, when the Tamar project is scheduled to begin pumping natural gas.
- **Energy (downstream):** The group owns a network of retail fuel chains across six countries, with more than 2,000 retail stations and related infrastructure. The group also owns a 60 kbpd, 9.5 NCI refinery in Tyler, Texas, and has an 88% share in Lion Oil, a refiner and marketer in the US.

- **Infrastructure:** The group owns a 49.8% stake in IDE Technologies, a leading desalination company, and is also developing independent power plants (IPPs) in Israel as well as operating IPPs in Israel and Brazil.
- **Insurance and finance:** The group owns a controlling stake in Phoenix, a leading Israeli insurer and financial asset manager, as well as Republic, a property and casualty insurer in the southwestern US.
- **Automotive:** Delek Automotive is the leading car importer in Israel, importing the Mazda and Ford brands. Delek Group recently sold 22% of Delek Automotive to Gil Agmon, the CEO of Delek Automotive, who has become the largest shareholder. Delek Group's stake in Delek Automotive is now 33%, and is therefore no longer consolidated in the Delek Group's financial statements.

Increasing energy-focus through divestments and investments

Until recently, Delek Group had been a diversified holding company, with assets in energy, real estate, automobile imports, insurance, communications and infrastructure. Over the past two years, the company has been divesting from its non-energy assets, with the intent of focusing more on the energy and infrastructure (water desalination and independent power producers) assets.

- **Delek Real Estate.** In March 2009, Delek Group distributed to its shareholders nearly all of its shares in Delek Real Estate. Delek Group now owns c.5% of Delek Real Estate.
- **Hot Telecom.** In December 2009, Delek Group sold a 12% stake in Hot Communications, a provider of cable television, fixed-line telephone and broadband internet, for ILS402m. Pre-tax capital gain on the transaction was ILS195m, and the company's stake in Hot fell to less than 5%.
- **Delek Automotive.** In October 2010, Delek Group sold a 22% equity stake to Gil Agmon, CEO of Delek Automotive, thus reducing Delek Group's stake in the company to 33%. Gil Agmon is now the largest shareholder, with a 38% stake. Proceeds of the transaction were ILS1bn, and due to IFRS, Delek Group would record an ILS2bn capital gain on the sale in 4Q10.
- **Noble Energy.** In August 2009, Delek Group's board of directors approved an investment of up to US$269m to acquire shares of Noble Energy, the operator in Delek's natural gas holdings. Delek currently owns a small percentage of Noble Energy.
- **Roadchef.** In November 2010, Delek Group announced that it intended to acquire (pending shareholder approval) the 75% stake in Roadchef held by Delek Real Estate though a subsidiary. The price agreed to was about ILS500m. Roadchef owns 27 service stations in the UK, which are engaged primarily in retail, catering and the sale of fuel at roadsides in England, Scotland and Wales.

Figure 37: Delek Group NAV

Company	Sector	Share price (listed currency)	Market cap (ILS m)	Shares held, m	Delek's stake (%)	Market Cap of stake (ILS m)	% of assets	DB Valuation of the company (ILS m)	DB Valuation of stake (ILS m)	% of assets	Valuation technique
Delek Energy	Energy	1,177.00	5,904	4.00	79.8%	4,713	30.4%	5,970	4,765	31.0%	DB valuation
Delek Automotive	Automotive	41.26	3,820	29.94	32.3%	1,235	8.0%	4,827	1,235	8.0%	Market capitalization
Delek US	Energy	11.40	2,140	39.74	70.6%	1,511	9.8%	1,941	1,371	8.9%	TP $10
Delek Israel	Energy	96.39	1,094	8.76	77.2%	845	5.4%	1,094	845	5.5%	Market capitalization
Phoenix	Insurance	12.71	2,416		55.3%	1,337	8.6%	2,416	1,337	8.7%	Market capitalization
Avner Oil	Energy	2.17	7,233	477.96	14.3%	1,037	6.7%	7,044	1,010	6.6%	DB valuation
Delek Drilling	Energy	12.15	6,646	47.66	8.7%	579	3.7%	6,311	550	3.6%	DB valuation
Gadot	Chemical	5.12	78	9.71	63.9%	50	0.3%	78	50	0.3%	Market capitalization
Total Public Holdings						11,307	72.9%		11,163	72.7%	
Delek Benelux	Energy		524		80%	419	2.7%		419	2.7%	7x EBITDA less net debt
Republic	Insurance		1,066		100%	1,066	6.9%		1,066	6.9%	1X P/BV
IDE Technologies	Infrastructure		2,496		50%	1,243	8.0%		1,243	8.1%	Multiple of multi-year average net income
Yam Tethys	Energy		3,426		4%	152	1.0%		152	1.0%	DCF of Yam Tethys
IPP Delek Ashkelon	Infrastructure		346		100%	346	2.2%		346	2.3%	Cost of investment
Barak Capital	Finance		54		48%	26	0.2%		26	0.2%	
Roadchef			679		100%	679	4.4%		679	4.4%	
PV of gas royalties						263	1.7%		263	1.7%	
Total Private Holdings						4,194	27.1%		4,194	27.3%	
Total Value Holdings						15,500			15,356		
Net Debt as of 4Q10						(4,542)			(4,542)		
NAV (ILSm) before holding discount					10,958			10,814			
Holding discount									15%		
Value after applying holding company discount								9,192			
Shares									11		
PT (excl oil)									808		
Add Leviathan oil assets - Level 1:											
Delek Energy oil	Energy				79.8%			2,614	2,087		
Avner oil	Energy				14.3%			2,393	343		
Delek Drilling oil	Energy				8.7%			2,393	209		
Total value of oil - Level 1 (ILSm)								2,638			
Total value of oil - Level 1 - per share (ILS)								232			
Total value of gas and oil - Level 1 - per share (ILS)							1,040				

Figure 37: Delek Group NAV (Cont'd)

Company	Sector	Share price (listed currency)	Market cap (ILS m)	Shares held, m	Delek's stake (%)	Market Cap of stake (ILS m)	% of assets	DB Valuation of the company (ILS m)	DB Valuation of stake (ILS m)	% of assets	Valuation technique
Add Leviathan oil assets - Level 2:											
Delek Energy oil	Energy				79.8%			492	393		
Avner oil	Energy				14.3%			450	65		
Delek Drilling oil	Energy				8.7%			-	-		
Total value of oil - Level 2 (ILSm)								457			
Total value of oil - Level 2 - per share (ILS)								40			
Total value of gas and oil - Level 2 - per share (ILS)							1,080				

Source: Deutsche Bank

Delek Group: Investment thesis

Outlook

We have a Buy rating for the Delek Group, as the gas discoveries of Yam Tethys, Tamar and Leviathan should provide long-term cash flow. The group's discount to NAV is attractive, in our view, and the company now has an energy focus, with c.60% of gross assets derived from energy-related assets.

Valuation

We value the Delek Group using a NAV model, which we view as the most appropriate methodology for a holding company. We have assessed the value of each asset using DCF, market value, multiples and cost of investment, as appropriate for each particular asset. We then deducted corporate-level net debt to reach NAV. Our price target is based on a 15% discount to NAV, the historical average.

Risks

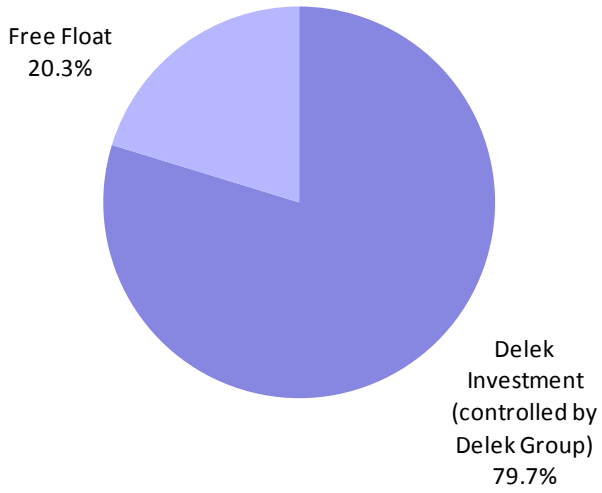
Downside risks include: difficult credit market conditions, volatility in energy prices, and challenges in commercializing the Tamar and Leviathan gas reserves.

Delek Energy

Delek Energy, founded in 1981, was listed for trading on the TASE in 1982. Its principal areas of operation are in Israel and the US. The company is controlled (80%) by the Delek Group, and its key holdings are a 48.5% stake in Avner and a 62.3% stake, including that held by a subsidiary, in Delek Drilling. Apart from these holdings, through its wholly owned subsidiary, Delek Energy Systems US, the company has stakes in:

- Elk (100%): Elk is involved in the production and sale of oil and gas products in the US. Acquired in February 2008 for US$100m, the company has proved and probable reserves of about 11.8m barrels of oil and 4 bcf of natural gas. Its energy assets are located mainly in Utah in the US.
- Matra Petroleum (29.1% stake): Delek Energy owns 29.1% of Matra Petroleum, which is traded on the AIM. Matra is involved in the exploration and sale of oil in Russia. According to Matra, the oil reserve at its Sokolovskoe well is 65m barrels.
- Nexus Energy (4% equivalent stake): The company owns 4% of Nexus, which is traded on the Australian Stock Exchange (ASX).

Figure 38: Delek Energy – Ownership structure (as of May 23rd, 2011)



Source: TASE

Delek Energy receives royalties from Delek Drilling and Avner for Yam Tethys and, when they begin to generate revenues, Tamar and Dalit.

Figure 39: Delek Energy NAV

Asset	Stake	DB Valuation (US$ thous)	Value of stake per DB (US$ thous)	Valuation method
Avner (ex oil)	46.51%	2,041,788	949,635	DCF
Delek Drilling (ex oil)	62.73%	1,829,348	1,147,550	DCF
Elk	100.00%	140,000	140,000	Cost of Investment
Matra Petroleum	29.25%	24,522	7,173	Market cap
Nexus Energy	2.70%	7,243	7,243	Market cap
PV of royalties	75.00%	469,095	351,821	DCF
PV of tax			(377,493)	
Total assets (ex oil)			2,225,929	
Less: Net Debt (in US$ thous)			(495,424)	
Net asset value (US$ thous, ex oil)			1,730,505	
Exch rate			3.45	
Net asset value (ILS thous, ex oil)			5,970,241	
Shares outstanding			5,016	
Value per share (ILS, ex oil))			1,190	
Oil valuation - Level 1 - Avner (US$m)	46.510%	693,702	322,641	
Oil valuation - Level 1 - Delek Drilling (US$m)	62.730%	693,702	435,159	
Total Oil valuation - Level 1 (US$m)			757,800	
Total Oil valuation - Level 1 (ILSm)			2,614,410	
Tax			(470,594)	
			2,143,816	
Value per share - oil only (ILS)			427	
Value per share - gas and oil - Level 1 (ILS)			1,617	
Oil valuation - Level 2 - Avner (US$m)	46.510%	130,579	60,732	
Oil valuation - Level 2 - Delek Drilling (US$m)	62.730%	130,579	81,912	
Total Oil valuation - Level 2 (US$m)			142,645	
Total Oil valuation - Level 2 (ILSm)			492,124	
Tax			(88,582)	
			403,542	
Value per share - oil only (ILS)			80	
Value per share - gas and oil - Level 1 and Level 2 (ILS)		1,700		

Source: Deutsche Bank

Delek Energy: Investment thesis

Outlook

Delek Energy, through its holdings in Avner and Delek Drilling, has significant stakes in the Yam Tethys and Tamar projects as well as in the Leviathan reserve. With the Tamar project likely to meet Israeli natural gas demand for the next two to three decades, the company should benefit from significant cash flow. We rate Delek Energy a Buy, as it is trading below its estimated target value, based on our valuation model.

Valuation

We value Delek Energy using a NAV model, which we view as the most appropriate methodology, as it is in essence an energy holding company. We assess the value of each holding using a DCF methodology to value the energy field over the useful life of the asset, using a 10% discount rate (standard for the industry), and then deduct corporate-level net debt to reach NAV. Due to the synergies between holdings, we do not apply a discount to the NAV.

Risks

Risks include: delays in the gas projects, a failure to discover oil at Leviathan, volatility in energy prices, and challenges in commercializing the Tamar and/or Leviathan offshore well.

.

Delek Drilling

Delek Drilling was founded in 1993 as a limited partnership for the purpose of oil and gas exploration. The company's main shareholder is Delek Energy, with a 50% stake.

The company has a 25.5% stake in Yam Tethys, a 15.6% stake in Tamar and a 22.7% stake in Leviathan. Delek Drilling will likely pay 3% of gross revenues in the Tamar project to its parent companies (75% to Delek Energy and 25% to Delek Group) until the capital investment is recouped; thereafter, it is due to pay a total of 13% in royalties.

Other prospects include:

- **Avia** (50%). This license is located 60 km off the coast of Tel Aviv and Ashdod, covering an area of 400 km. The balance of the ownership is held by Avner.
- **Keren** (50%). This license is located 60 km off the coast of Tel Aviv and Ashdod, covering an area of 400 km. The balance of the ownership is held by Avner.
- **Ruth** (27.8%). This license is located 20-90 km off the coast of Haifa, covering an area of 2,400 km, at a depth of 700-1,500 meters. The license expires in March 2012. The balance of the ownership is held by Avner (25.1%) and Noble Energy (47.1%). 2D seismographic surveys have been performed.
- **Alon (26.5%).** This license is located 50-140 km off the coast of Nahariya, covering an area of 2,400 km, at a depth of 1,400-1,800 meters. The balance of the ownership is held by Delek Drilling (26.5%) and Noble Energy (47%).
- **Cyprus rights.** In January 2009, Avner signed a contract with Noble Energy Cyprus, whereby Avner received an option for 15% of the rights in a production-sharing contract with the government of Cyprus. The agreement provides rights to oil and gas exploration in the territorial waters of Cyprus, located 15-20 km west of the Alon license.

Figure 40: Delek Drilling NAV

Asset	Stake	DB Valuation (US$ thous)	Value of stake (US$ thous)	Valuation methodology
Yam Tethys	25.50%	992,933	253,198	DCF
Tamar	15.63%	6,094,091	952,202	DCF
Leviathan (gas only)	22.67%	4,985,276	1,130,162	DCF
NPV of royalties paid to parents	100.00%	(469,095)	(469,095)	DCF
Total assets			1,866,467	
Less: Net Debt (4Q10)			(37,119)	
Net asset value (US$ thous)			1,829,348	
Exch rate			3.45	
Net asset value (ILS thous)			6,311,251	
Shares outstanding			546,958	
Value per share (ILS)			11.5	
Oil valuation (risked):				
Oil valuation - Level 1(US$m)	22.670%	3,060,000	693,702	
Oil valuation - Level 1(ILSm)			2,393,272	
Value per share - oil only (ILS)			4.38	
Value per share - gas and oil (ILS)			15.9	
Oil valuation - Level 2(US$m)	22.670%	576,000	130,579	
Oil valuation - Level 2(ILSm)			450,498	
Value per share - oil only (ILS)			0.82	
Value per share - gas and oil (ILS)			16.7	

Source: Deutsche Bank

Delek Drilling: Investment thesis

Outlook

With a 25.5% holding in the Yam Tethys reserve, a 15.6% holding in the Tamar and Dalit reserves, and a 22.7% stake in the Leviathan reserve, Delek Drilling is well positioned to take advantage of the large conversion to natural gas in Israel. With Israel Electric Corp. converting much of its generation to natural gas, the launch of independent power plants (IPPs) and the conversion of industrial plants to natural gas, demand in Israel should remain strong for years to come. We rate Derek Drilling a Buy, underpinned by the upside potential to our target.

Valuation

We value Delek Drilling using an NAV model, which we view as the most appropriate methodology. We assess the value of the Yam Tethys, Tamar and Leviathan reserves using a DCF methodology, using a 10% discount rate (standard for the industry) over the useful life of the asset. We then deduct corporate-level net debt to reach NAV. Due to the synergies between the holdings, we do not apply a discount to the NAV.

Risks

Risks include: delays in the gas projects, a failure to discover oil at Leviathan, volatility in energy prices, and challenges in commercializing the Tamar and/or Leviathan offshore well.

Avner

Avner owns a 23% stake in Yam Tethys, a 15.6% stake in Tamar and a 22.67% stake in Leviathan. Other rights include:

- **Ohad** (50% stake). A 3D seismic survey revealed various geological structures. A point for an exploratory drill has been determined, but it was decided to conduct a review of the seismic data first in order to find deeper locations. The balance of the license is held by Delek Drilling.
- **Avia** (50%). This license is located 60 km off the coast of Tel Aviv and Ashdod, covering an area of 400 km. The balance of the ownership is held by Delek Drilling.
- **Keren** (50%). This license is located 60 km off the coast of Tel Aviv and Ashdod, covering an area of 400 km. The balance of the ownership is held by Delek Drilling.
- **Ruth** (25.1%)**.** This license is located 20-90 km off the coast of Haifa, covering an area of 2,400 km at a depth of 700-1,500 meters. The license expires in March 2012. The balance of the ownership is held by Delek Drilling (27.8%) and Noble Energy (47.1%). 2D seismographic surveys have been performed.
- **Cyprus rights.** In January 2009, Avner signed a contract with Noble Energy Cyprus, whereby Noble Energy would transfer 15% of the rights in a production-sharing contract with the government of Cyprus. The agreement provides rights to oil and gas exploration in the territorial waters of Cyprus, located 15-20 km west of the Alon license.

Figure 41: Avner NAV

Asset	Stake	DB Valuation	Value of stake per DB	Valuation methodology
Yam Tethys	23.000%	992,933	228,375	DCF
Tamar	15.625%	6,094,091	952,202	DCF
Leviathan (ex oil)	22.670%	4,985,276	1,130,162	DCF
PV of royalties paid to parent for Tamar	100.000%	(237,410)	(237,410)	DCF
Total assets			2,073,329	
Less: Net Debt			(31,541)	
Net asset value (USD thous)			2,041,788	
ILS/USD exchange rate			3.45	
Net asset value (ILS thous, gas only)			7,044,167	
Shares outstanding			3,334,831	
Value per share - gas only (ILS)			2.1	
Oil valuation (US$m) - Level 1	22.670%	3,060,000	693,702	
Oil valuation (ILSm) - Level 1			2,393,272	
Value per share - Level 1 oil (ILS)			0.72	
Value per share - gas and Level 1 oil (ILS)			2.8	
Oil valuation (US$m) - Level 2	22.670%	576,000	130,579	
Oil valuation (ILSm) - Level 2			450,498	
Value per share - Level 2 oil (ILS)			0.14	
Value per share - gas and Level 2 oil (ILS)			3.0	

Source: Deutsche Bank

Avner: Investment thesis

Outlook

With a 23% holding in the Yam Tethys reserve, a 15.6% in the Tamar and Dalit reserves and a 22.7% stake in the potential Leviathan reserve, Avner looks well positioned to take advantage of the large conversion to natural gas in Israel. With Israel Electric Corp. converting much of its generation to natural gas, the launch of independent power plants (IPPs) and the conversion of industrial plants to natural gas, demand in Israel should remain strong for years to come. With significant upside potential, we rate the stock a Buy.

Valuation

We value Avner using an NAV model, which we view as the most appropriate methodology. We assess the value of the Yam Tethys, Tamar and Dalit and Leviathan reserves using a DCF methodology, using a 10% discount rate (standard for the industry) over the useful life of the asset. We then deduct corporate-level net debt to reach NAV. Due to the synergies between the holdings, we do not apply a discount to the NAV.

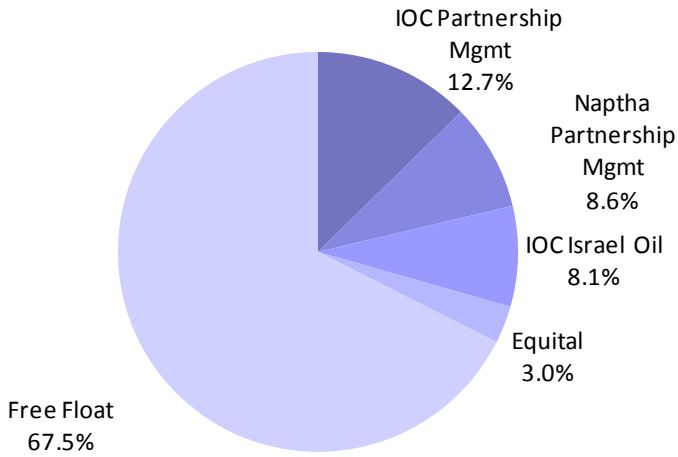
Risks

Risks include: delays in the gas projects, a failure to discover oil at Leviathan, volatility in energy prices and challenges in commercializing the Tamar offshore well.

Isramco

Isramco, formed in 1988 as a limited partnership, is involved in oil and gas exploration and production in Israel.

Figure 42: Isramco – Ownership structure (as of May 23rd, 2011)



Source: TASE

Tamar and Dalit: The dominant assets

The partnership owns 28.75% in Tamar and Dalit, as well as interests in one lease, two licenses and one permit off Israel's coast. It is currently looking for an international partner to explore its other licenses. The next potential prospect for Isramco is the Samson prospect. Seismic survey results are likely on this in the near term, in our view.

According to its agreement with Isramco Inc., Isramco Negev 2 pays royalties at the rate of 5.1% of Isramco's 28.75% share of revenues until capital expenditure is recovered. Afterward, the royalty rate rises to 9.5%.

A virtual pure play on Tamar and Dalit

We believe Isramco is the purest play on Dalit and Tamar, as these are the company's dominant assets. We do not apply value to the company's other assets, as assessments have not been performed. We value Isramco using the value of its share in Tamar and Dalit, as well as the present value of royalties it receives, less expenses.

Figure 43: Isramco NAV

Asset	Stake	DB Valuation	Value of stake per DB
Tamar	28.75%	6,094,091	1,752,051
PV of royalties paid to parent	100.00%	(338,600)	(338,600)
Total assets			1,413,451
Less: Net Debt (US$ thous)			136,779
Net asset value (US$ thous)			1,550,230
Exch rate			3.45
Net asset value (ILS thous)			5,348,293
Shares outstanding			11,976,505
Value per share (ILS)			0.45

Source: Deutsche Bank

Isramco investment thesis

Outlook

Isramco has a 28.75% stake in the Tamar and Dalit project. We expect demand in Israel to remain strong for years to come, with the Israel Electric Corp converting much of its generation to natural gas, the launch of independent power plants (IPPs) and the conversion of industrial plants to natural gas. Based on our valuation, the shares appear undervalued, and we rate the stock a Buy.

Valuation

We value the shares using NAV methodology. We value the Tamar gas project based on the NPV of free cash flows generated. We use a 10% discount rate, standard for the industry, over the useful life of the asset. We expect the field to be active from 2013 until 2039. We then apply Isramco's share of the project to the company's NAV. We then add or deduct the NPV of other company-specific cash flows, such as royalties to parent companies, to arrive at a value for the share price. From this we add/deduct the company's net cash/debt. We use a discount rate of 10%, in line with the industry standard.

Risks

Downside risks include: delays in the gas project, volatility in energy prices and challenges in commercializing the Tamar offshore well. Upside risks include higher energy prices and/or gas volumes than assumed in our model.

Ratio

A pure play on the Leviathan reserve

Ratio was founded in 1993 as a limited partnership. The company's key asset is a 15% stake in the Leviathan field, the largest deep-water natural gas discovery in a decade. The company also holds a 100% stake in the Gal prospect (90% held currently, plus awaiting shareholder approval for the remaining 10%), adjacent to the Leviathan discovery. Exploration of Gal is still in a relatively early stage (seismic scanning results are expected in Q2), and we view Ratio as a near pure play on Leviathan.

Figure 44: Ratio key holdings

Prospect/reserve	% owned	Area (km sq)
Ratio Yam (Leviathan)	15.0%	1,777
Gal	100.0%	1,771
Med Yavne	12.3%	52

Source: Deutsche Bank

Figure 45: Ratio NAV

Asset	Stake	DB valuation (US$ thous)	Value of stake per DB	Valuation methodology
Leviathan (ex oil)	15.000%	4,985,276	747,791	DCF
PV of royalties			(91,552)	
Total assets (USD$ thous)			656,239	
Total assets (ILS thous)			2,264,025	
Net (Debt) Cash			277,000	
Net asset value (ILS thous)			2,541,025	
Shares outstanding			7,370,375	
Value per share - gas only (ILS) before dilution discount		0.34		
Dilution discount			5%	
Value per share - gas only (ILS)			0.33	
Oil valuation (US$m) - Level 1	15.000%	3,060,000	459,000	
Oil valuation (ILSm) - Level 1			1,583,550	
Value per share - Level 1 oil only (ILS)			0.21	
Risked value per share - gas and oil (ILS)			0.54	
Oil valuation (US$m) - Level 2	15.000%	576,000	86,400	
Oil valuation (ILSm) - Level 2			298,080	
Value per share - Level 2 oil only (ILS)			0.04	
Risked value per share - gas and oil (ILS)			0.58	

Source: Deutsche Bank

Ratio Oil Exploration: Investment thesis

Outlook

Ratio has a 15% stake in the Leviathan prospect, with 16 tcf of 2C gas reserves. In addition, based on seismic scans, there is a small chance of finding a large volume of oil, which we believe is partially reflected in the share price. Based on our valuation, there is significant upside potential, and we initiate our coverage on the stock with a Buy.

Valuation

We have valued the shares using NAV methodology. We have valued the Leviathan reserve based on the NPV of free cash flows generated. We use a discount rate of 10%, in line with the industry standard, over the life of the project. We expect Leviathan to begin production in 2013. We then apply Ratio's share of the project to the company's NAV. We then add or deduct the NPV of other company-specific cash flows, to arrive at a value for the share price. From this we add/deduct the company's net cash/debt, and we apply a dilution discount of 5% due to the expected future funding requirements.

Risks

Downside risks include: delays in the gas project, volatility in energy prices and challenges in commercializing the Leviathan offshore well through LNG or other methods, and a failure to discover oil at Leviathan.

Model updated:24 May 2011

Running the numbers

Emerging Europe

Israel

Oil & Gas

Delek Group

Reuters: DELKG.TA Bloomberg: DLEKG IT

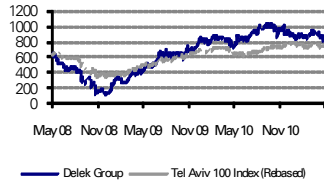
Buy

Price (24 May 11)	ILS 813.00
Target price	ILS 1,080.00
52-week Range	ILS 714.70 - 1,035.00
Market Cap (m)	ILSm 9,428 USDm 2,711

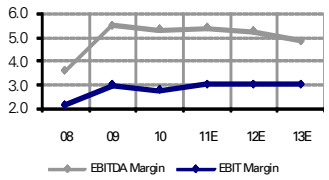
Company Profile

Delek Group Ltd. is an Israel-based, pro-active holding/investment company with a diversified portfolio. Through its subsidiaries, the Company is involved in the following businesses: oil refining; oil and gas exploration; marketing of petroleum products in Israel, the US and Europe; the import, marketing and selling of automobiles; investment in real estate in Israel and abroad; the domestic and US insurance markets; activities in the chemical and biochemical sector, and various infrastructural projects.

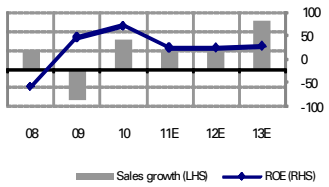
Price Performance



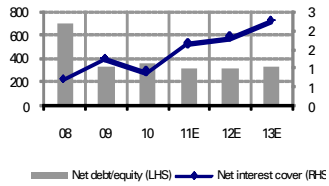
Margin Trends



Growth & Profitability



Solvency



Richard Gussow
+972 3 710-2046 richard.gussow@db.com

Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ILS)	-156.35	74.50	136.59	60.16	66.72	87.02
Reported EPS (ILS)	-156.35	74.50	146.68	60.16	66.72	87.02
DPS (ILS)	14.17	37.25	73.34	30.08	33.36	43.51
BVPS (ILS)	130.9	181.8	228.7	258.8	292.1	335.6
Weighted average shares (m)	12	12	12	12	12	12
Average market cap (ILSm)	5,443	5,809	10,207	9,428	9,428	9,428
Enterprise value (ILSm)	33,138	20,671	25,635	23,991	25,951	28,808
Valuation Metrics						
P/E (DB) (x)	nm	6.7	6.4	13.5	12.2	9.3
P/E (Reported) (x)	nm	6.7	6.0	13.5	12.2	9.3
P/BV (x)	0.95	4.25	4.00	3.14	2.78	2.42
FCF Yield (%)	nm	28.9	nm	54.2	25.4	18.4
Dividend Yield (%)	3.0	7.4	8.3	3.7	4.1	5.4
EV/Sales (x)	0.7	0.5	0.6	0.5	0.5	0.4
EV/EBITDA (x)	20.2	9.7	10.9	9.1	9.2	8.9
EV/EBIT (x)	33.3	18.0	20.9	16.3	16.0	14.2
Income Statement (ILSm)						
Sales revenue	**46,240**	**38,703**	**44,567**	**49,024**	**53,926**	**67,408**
Gross profit	**6,232**	**6,864**	**7,715**	**8,515**	**9,286**	**11,344**
EBITDA	**1,639**	**2,125**	**2,353**	**2,633**	**2,814**	**3,255**
Depreciation	643	975	1,128	1,162	1,197	1,233
Amortisation	0	0	0	0	0	0
EBIT	**996**	**1,150**	**1,225**	**1,471**	**1,618**	**2,022**
Net interest income(expense)	-1,458	-924	-1,384	-900	-900	-900
Associates/affiliates	-12	451	2,139	600	612	624
Exceptionals/extraordinaries	69	518	-4	150	150	150
Other pre-tax income/(expense)	-1,945	91	156	100	100	101
Profit before tax	**-2,338**	**835**	**-7**	**821**	**968**	**1,374**
Income tax expense	-37	83	178	197	223	316
Minorities	-504	339	253	526	584	673
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**-1,809**	**864**	**1,701**	**698**	**774**	**1,009**
DB adjustments (including dilution)	0	0	-117	0	0	0
DB Net profit	**-1,809**	**864**	**1,584**	**698**	**774**	**1,009**
Cash Flow (ILSm)						
Cash flow from operations	**1,679**	**3,278**	**1,044**	**6,164**	**3,314**	**2,776**
Net Capex	-1,753	-1,597	-2,419	-1,056	-918	-1,042
Free cash flow	**-74**	**1,681**	**-1,375**	**5,108**	**2,396**	**1,734**
Equity raised/(bought back)	-43	216	24	0	0	0
Dividends paid	-324	-526	-1,143	-349	-387	-505
Net inc/(dec) in borrowings	804	2,326	2,190	-293	-292	-291
Other investing/financing cash flows	-828	-1,205	-356	-2,792	-141	-177
Net cash flow	**-465**	**2,492**	**-660**	**1,674**	**1,576**	**762**
Change in working capital	*1,030*	*-1,875*	*389*	*-4,321*	*-1,314*	*-427*
Balance Sheet (ILSm)						
Cash and other liquid assets	2,500	5,100	4,050	5,429	4,501	2,649
Tangible fixed assets	21,598	8,129	8,997	8,891	8,613	8,422
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	5,429	3,178	4,381	4,440	3,996	3,596
Other assets	47,129	67,949	74,468	78,103	82,691	94,471
Total assets	**76,656**	**84,356**	**91,896**	**96,863**	**99,801**	**109,139**
Interest bearing debt	32,780	20,660	21,634	22,161	22,704	23,264
Other liabilities	39,514	59,108	65,385	69,431	71,394	79,622
Total liabilities	**72,294**	**79,768**	**87,019**	**91,592**	**94,098**	**102,886**
Shareholders' equity	1,518	2,108	2,652	3,001	3,388	3,892
Minorities	2,844	2,480	2,225	2,270	2,315	2,361
Total shareholders' equity	**4,362**	**4,588**	**4,877**	**5,270**	**5,703**	**6,254**
Net debt	*30,280*	*15,560*	*17,584*	*16,733*	*18,204*	*20,614*
Key Company Metrics						
Sales growth (%)	9.1	-16.3	15.2	10.0	10.0	25.0
DB EPS growth (%)	na	na	83.3	-56.0	10.9	30.4
EBITDA Margin (%)	3.5	5.5	5.3	5.4	5.2	4.8
EBIT Margin (%)	2.2	3.0	2.7	3.0	3.0	3.0
Payout ratio (%)	nm	50.0	50.0	50.0	50.0	50.0
ROE (%)	-59.2	47.7	71.5	24.7	24.2	27.7
Capex/sales (%)	3.8	4.1	5.4	2.2	1.7	1.5
Capex/depreciation (x)	2.7	1.6	2.1	0.9	0.8	0.8
Net debt/equity (%)	694.2	339.1	360.5	317.5	319.2	329.6
Net interest cover (x)	0.7	1.2	0.9	1.6	1.8	2.2

Source: Company data, Deutsche Bank estimates

Model updated:23 May 2011

Running the numbers

Emerging Europe

Israel

Oil Services

Delek Energy

Reuters: DLEN.TA Bloomberg: DLEN IT

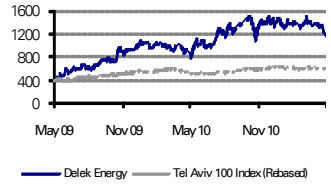
Buy

Price (24 May 11)	ILS 1,165.00
Target price	ILS 1,700.00
52-week Range	ILS 776.40 - 1,508.00
Market Cap (m)	ILSm 5,831 USDm 1,676

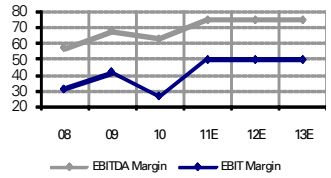
Company Profile

Delek Energy Systems Ltd. The company engaged in oil and gas exploration by "Delek Drilling" and "Avner".

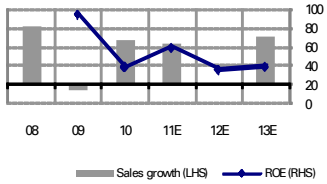
Price Performance



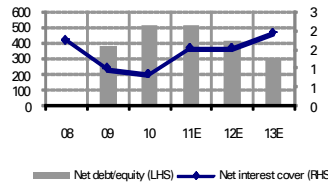
Margin Trends



Growth & Profitability



Solvency



Richard Gussow

+972 3 710-2046 richard.gussow@db.com

Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ILS)	0.94	5.76	11.32	18.21	18.21	29.97
Reported EPS (ILS)	0.94	5.76	11.32	18.21	18.21	29.97
DPS (ILS)	5.40	2.63	0.00	0.00	0.00	0.00
BVPS (ILS)	-25.7	37.8	20.8	40.4	60.0	91.4
Weighted average shares (m)	5	5	5	5	5	5
Average market cap (ILSm)	1,251	2,765	5,691	5,831	5,831	5,831
Enterprise value (ILSm)	2,588	3,666	6,795	7,629	7,626	7,571
Valuation Metrics						
P/E (DB) (x)	264.6	96.0	100.5	64.0	64.0	38.9
P/E (Reported) (x)	264.6	96.0	100.5	64.0	64.0	38.9
P/BV (x)	nm	25.64	67.78	28.83	19.42	12.75
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	2.2	0.5	0.0	0.0	0.0	0.0
EV/Sales (x)	6.6	9.5	14.3	13.2	13.2	10.4
EV/EBITDA (x)	11.6	14.1	22.9	17.9	17.9	14.0
EV/EBIT (x)	21.5	23.2	55.7	27.0	26.9	21.1
Income Statement (ILSm)						
Sales revenue	**394**	**384**	**474**	**576**	**576**	**724**
Gross profit	**394**	**384**	**474**	**576**	**576**	**724**
EBITDA	**223**	**260**	**296**	**427**	**427**	**540**
Depreciation	102	102	174	144	144	181
Amortisation	0	0	0	0	0	0
EBIT	**120**	**158**	**122**	**283**	**283**	**358**
Net interest income(expense)	-69	-159	-147	-184	-184	-184
Associates/affiliates	-42	19	63	20	20	20
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**10**	**18**	**38**	**119**	**119**	**194**
Income tax expense	5	-11	-19	28	28	44
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**5**	**29**	**57**	**91**	**91**	**150**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**5**	**29**	**57**	**91**	**91**	**150**
Cash Flow (ILSm)						
Cash flow from operations	**197**	**187**	**225**	**300**	**258**	**322**
Net Capex	-553	-239	-256	-656	-1,056	-1,456
Free cash flow	**-355**	**-52**	**-31**	**-356**	**-798**	**-1,134**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-27	-13	0	0	0	0
Net inc/(dec) in borrowings	-78	-101	54	-36	-35	-34
Other investing/financing cash flows	555	535	-21	-1,279	-418	124
Net cash flow	**95**	**368**	**2**	**-1,671**	**-1,251**	**-1,044**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ILSm)						
Cash and other liquid assets	149	520	517	346	595	1,051
Tangible fixed assets	1	1	1	751	751	751
Goodwill/intangible assets	1,313	1,187	1,396	1,466	1,539	1,616
Associates/investments	460	741	903	803	794	740
Other assets	214	154	242	192	194	201
Total assets	**2,137**	**2,603**	**3,058**	**3,558**	**3,873**	**4,359**
Interest bearing debt	1,812	1,975	2,285	2,695	2,920	3,254
Other liabilities	320	251	429	403	389	370
Total liabilities	**2,132**	**2,226**	**2,714**	**3,098**	**3,309**	**3,624**
Shareholders' equity	-128	189	104	202	300	457
Minorities	133	187	240	252	264	278
Total shareholders' equity	**5**	**376**	**344**	**454**	**565**	**735**
Net debt	*1,663*	*1,455*	*1,768*	*2,349*	*2,325*	*2,203*
Key Company Metrics						
Sales growth (%)	30.7	-2.5	23.3	21.6	0.0	25.7
DB EPS growth (%)	-90.9	509.1	96.6	60.9	0.0	64.5
EBITDA Margin (%)	56.5	67.5	62.5	74.1	74.1	74.5
EBIT Margin (%)	30.5	41.1	25.8	49.1	49.1	49.5
Payout ratio (%)	571.2	45.8	0.0	0.0	0.0	0.0
ROE (%)	nm	94.7	38.6	59.5	36.3	39.6
Capex/sales (%)	140.1	62.2	54.1	113.9	183.3	201.0
Capex/depreciation (x)	5.4	2.4	1.5	4.6	7.3	8.0
Net debt/equity (%)	nm	386.7	513.8	517.4	411.8	299.7
Net interest cover (x)	1.8	1.0	0.8	1.5	1.5	1.9

Source: Company data, Deutsche Bank estimates

Model updated:23 May 2011

Running the numbers

Emerging Europe

Israel

Oil Services

Delek Drilling

Reuters: DEDRp.TA Bloomberg: DEDRL IT

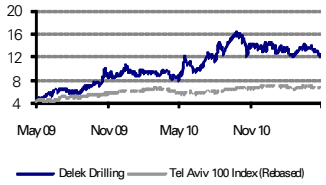
Buy

Price (24 May 11)	ILS 12.05
Target price	ILS 16.70
52-week Range	ILS 8.00 - 16.44
Market Cap (m)	ILSm 6,591 USDm 1,895

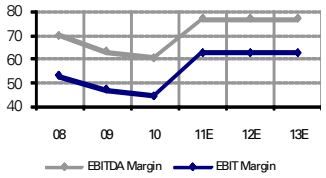
Company Profile

Dellek Drilling Limited Partnership.Limited Partnership engaged in oil and gas exploration.

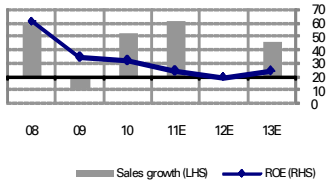
Price Performance



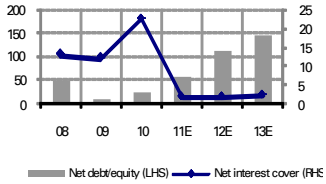
Margin Trends



Growth & Profitability



Solvency



Richard Gussow
+972 3 710-2046 richard.gussow@db.com

Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (USD)	0.09	0.07	0.09	0.09	0.09	0.14
Reported EPS (USD)	0.09	0.07	0.09	0.09	0.09	0.14
DPS (USD)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (USD)	0.2	0.2	0.3	0.4	0.5	0.6
Weighted average shares (m)	547	547	547	547	547	547
Average market cap (USDm)	295	772	1,669	1,895	1,895	1,895
Enterprise value (USDm)	292	760	1,681	1,998	2,178	2,373
Valuation Metrics						
P/E (DB) (x)	6.2	20.1	33.4	38.6	38.6	24.9
P/E (Reported) (x)	6.2	20.1	33.4	38.6	38.6	24.9
P/BV (x)	2.49	9.95	12.10	8.23	6.78	5.33
FCF Yield (%)	20.8	5.7	nm	nm	nm	nm
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	3.0	8.5	14.2	12.0	13.0	11.3
EV/EBITDA (x)	4.3	13.5	23.7	15.6	17.0	14.8
EV/EBIT (x)	5.7	18.2	32.1	19.1	20.8	18.1
Income Statement (USDm)						
Sales revenue	**97**	**89**	**118**	**167**	**167**	**210**
Gross profit	**76**	**69**	**91**	**149**	**149**	**187**
EBITDA	**68**	**56**	**71**	**128**	**128**	**161**
Depreciation	17	14	19	23	23	29
Amortisation	0	0	0	0	0	0
EBIT	**51**	**42**	**52**	**105**	**105**	**131**
Net interest income(expense)	-4	-3	-2	-55	-55	-55
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**47**	**38**	**50**	**49**	**49**	**76**
Income tax expense	0	0	0	0	0	0
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**47**	**38**	**50**	**49**	**49**	**76**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**47**	**38**	**50**	**49**	**49**	**76**
Cash Flow (USDm)						
Cash flow from operations	**67**	**54**	**69**	**53**	**52**	**79**
Net Capex	-6	-11	-72	-109	-218	-229
Free cash flow	**61**	**44**	**-3**	**-56**	**-167**	**-151**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-22	-9	0	0	0	0
Net inc/(dec) in borrowings	-16	-21	-13	117	117	-4
Other investing/financing cash flows	-18	-4	-30	-36	-43	-52
Net cash flow	**5**	**10**	**-47**	**24**	**-93**	**-206**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (USDm)						
Cash and other liquid assets	15	24	14	38	-55	-262
Tangible fixed assets	0	0	0	0	0	0
Goodwill/intangible assets	106	138	238	950	950	950
Associates/investments	49	24	35	35	35	35
Other assets	23	15	35	36	37	38
Total assets	**192**	**201**	**322**	**1,059**	**967**	**762**
Interest bearing debt	61	36	60	176	263	252
Other liabilities	37	33	80	653	425	154
Total liabilities	**99**	**70**	**141**	**829**	**687**	**406**
Shareholders' equity	93	131	181	230	279	355
Minorities	0	0	0	0	0	0
Total shareholders' equity	**93**	**131**	**181**	**230**	**279**	**355**
Net debt	*47*	*12*	*47*	*138*	*318*	*514*
Key Company Metrics						
Sales growth (%)	39.1	-8.2	32.1	41.5	0.0	25.7
DB EPS growth (%)	28.1	-19.1	30.4	-1.8	0.0	54.7
EBITDA Margin (%)	69.7	62.8	60.2	76.6	76.6	76.6
EBIT Margin (%)	52.7	46.7	44.3	62.6	62.6	62.6
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	61.5	34.1	32.0	23.9	19.3	23.9
Capex/sales (%)	5.9	11.8	61.4	65.4	130.7	109.2
Capex/depreciation (x)	0.3	0.7	3.9	4.7	9.3	7.8
Net debt/equity (%)	50.0	9.3	25.7	59.7	113.9	144.5
Net interest cover (x)	13.2	12.3	22.6	1.9	1.9	2.4

Source: Company data, Deutsche Bank estimates

Model updated:23 May 2011

Running the numbers

Emerging Europe

Israel

Oil Services

Avner Oil Exploration

Reuters: AVNRp.TA Bloomberg: AVNRL IT

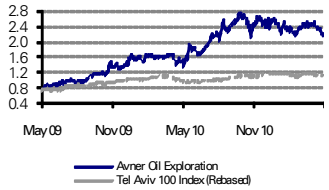
Buy

Price (24 May 11)	ILS 2.14
Target price	ILS 3.00
52-week Range	ILS 1.37 - 2.72
Market Cap (m)	ILSm 7,140 USDm 2,053

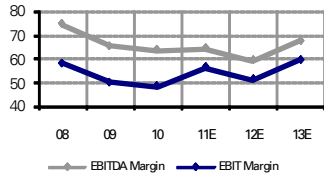
Company Profile

Avner Oil exploration Limited Partnership.Limited partnership engaged in oil and gas exploration.

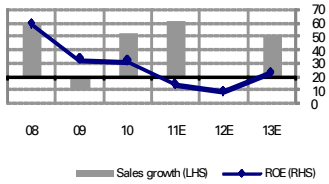
Price Performance



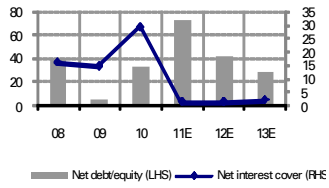
Margin Trends



Growth & Profitability



Solvency



Richard Gussow

+972 3 710-2046 richard.gussow@db.com

Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (USD)	0.01	0.01	0.01	0.01	0.01	0.02
Reported EPS (USD)	0.01	0.01	0.01	0.01	0.01	0.02
DPS (USD)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (USD)	0.0	0.0	0.1	0.1	0.1	0.1
Weighted average shares (m)	3,335	3,335	3,335	3,335	3,335	3,335
Average market cap (USDm)	260	760	1,760	2,053	2,053	2,053
Enterprise value (USDm)	246	738	1,782	2,075	2,012	2,008
Valuation Metrics						
P/E (DB) (x)	5.4	20.2	35.6	72.2	99.2	33.6
P/E (Reported) (x)	5.4	20.2	35.6	72.2	99.2	33.6
P/BV (x)	2.40	9.33	12.91	9.77	8.90	7.03
FCF Yield (%)	20.8	0.9	nm	nm	2.6	nm
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	2.8	9.2	16.7	13.8	13.4	10.1
EV/EBITDA (x)	3.8	14.0	26.3	21.4	22.5	15.0
EV/EBIT (x)	4.8	18.3	34.8	24.4	26.1	17.1
Income Statement (USDm)						
Sales revenue	**88**	**81**	**107**	**151**	**151**	**198**
Gross profit	**74**	**67**	**89**	**109**	**101**	**149**
EBITDA	**65**	**53**	**68**	**97**	**89**	**134**
Depreciation	14	12	17	12	12	16
Amortisation	0	0	0	0	0	0
EBIT	**51**	**40**	**51**	**85**	**77**	**118**
Net interest income(expense)	-3	-3	-2	-57	-57	-57
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**48**	**38**	**50**	**28**	**21**	**61**
Income tax expense	0	0	0	0	0	0
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**48**	**38**	**50**	**28**	**21**	**61**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**48**	**38**	**50**	**28**	**21**	**61**
Cash Flow (USDm)						
Cash flow from operations	**65**	**52**	**66**	**-50**	**153**	**94**
Net Capex	-11	-45	-74	-100	-100	-100
Free cash flow	**54**	**7**	**-8**	**-150**	**53**	**-6**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-23	-8	0	0	0	0
Net inc/(dec) in borrowings	-15	-19	-12	0	0	0
Other investing/financing cash flows	-18	28	11	199	3	85
Net cash flow	**-1**	**7**	**-9**	**49**	**56**	**79**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (USDm)						
Cash and other liquid assets	20	27	18	68	123	203
Tangible fixed assets	0	0	0	0	0	0
Goodwill/intangible assets	93	127	227	227	227	227
Associates/investments	51	28	38	130	137	132
Other assets	23	15	37	82	40	97
Total assets	**187**	**197**	**319**	**507**	**527**	**658**
Interest bearing debt	57	34	78	220	220	289
Other liabilities	35	31	60	77	77	77
Total liabilities	**93**	**65**	**138**	**297**	**297**	**366**
Shareholders' equity	95	132	182	210	231	292
Minorities	0	0	0	0	0	0
Total shareholders' equity	**95**	**132**	**182**	**210**	**231**	**292**
Net debt	*37*	*7*	*60*	*152*	*96*	*87*
Key Company Metrics						
Sales growth (%)	39.1	-8.2	32.1	41.5	0.0	31.5
DB EPS growth (%)	41.9	-21.5	31.9	-42.5	-27.2	195.6
EBITDA Margin (%)	74.4	65.4	63.7	64.4	59.2	67.4
EBIT Margin (%)	58.0	50.0	48.1	56.4	51.2	59.4
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	59.6	33.1	31.5	14.5	9.4	23.4
Capex/sales (%)	12.0	56.3	69.6	66.4	66.4	50.5
Capex/depreciation (x)	0.7	3.6	4.5	8.3	8.3	6.3
Net debt/equity (%)	39.3	5.2	32.9	72.5	41.7	29.7
Net interest cover (x)	16.3	14.6	29.4	1.5	1.4	2.1

Source: Company data, Deutsche Bank estimates

Model updated:23 May 2011

Running the numbers

Emerging Europe

Israel

Utilities

Isramco Negev 2

Reuters: ISRAp.TA Bloomberg: ISRAL IT

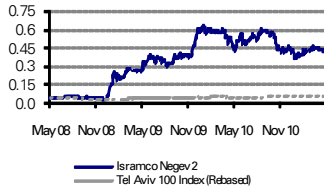
Hold

Price (24 May 11)	ILS 0.42
Target price	ILS 0.45
52-week Range	ILS 0.36 - 0.60
Market Cap (m)	ILSm 4,788 USDm 1,377

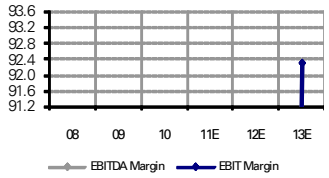
Company Profile

Isramco Negev 2 Limited Partnership. Limited partnership engaged in oil and gas exploration.

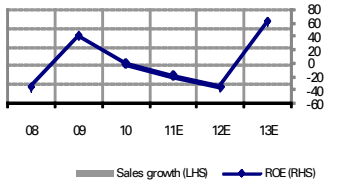
Price Performance



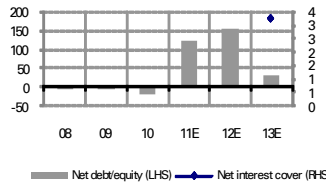
Margin Trends



Growth & Profitability



Solvency



Richard Gussow
+972 3 710-2046 richard.gussow@db.com

Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ILS)	-0.04	0.02	0.00	-0.01	-0.01	0.03
Reported EPS (ILS)	-0.04	0.02	0.00	-0.01	-0.01	0.03
DPS (ILS)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (ILS)	0.1	0.1	0.1	0.0	0.0	0.1
Weighted average shares (m)	4,251	9,352	10,679	11,347	11,347	11,347
Average market cap (ILSm)	207	2,877	5,700	4,788	4,788	4,788
Enterprise value (ILSm)	-53	2,501	5,228	5,717	7,136	6,752
Valuation Metrics						
P/E (DB) (x)	nm	13.4	nm	nm	nm	15.4
P/E (Reported) (x)	nm	13.4	nm	nm	nm	15.4
P/BV (x)	0.32	7.02	4.32	9.39	13.47	7.18
FCF Yield (%)	nm	nm	nm	nm	nm	8.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	nm	nm	nm	nm	nm	13.4
EV/EBITDA (x)	nm	nm	nm	nm	nm	14.6
EV/EBIT (x)	nm	nm	nm	nm	nm	14.6
Income Statement (ILSm)						
Sales revenue	**0**	**0**	**0**	**0**	**0**	**503**
Gross profit	**-2**	**-2**	**-10**	**-10**	**-10**	**492**
EBITDA	**-4**	**-8**	**-23**	**-24**	**-25**	**464**
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	**-4**	**-8**	**-23**	**-24**	**-25**	**464**
Net interest income(expense)	-166	164	39	-122	-122	-144
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-1	59	-27	-9	-9	-9
Profit before tax	**-171**	**215**	**-12**	**-154**	**-155**	**312**
Income tax expense	0	0	0	0	0	0
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**-171**	**215**	**-12**	**-154**	**-155**	**312**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**-171**	**215**	**-12**	**-154**	**-155**	**312**
Cash Flow (ILSm)						
Cash flow from operations	**-10**	**-11**	**-37**	**-82**	**-64**	**397**
Net Capex	-273	-375	-426	-862	-1,347	0
Free cash flow	**-283**	**-386**	**-464**	**-944**	**-1,411**	**397**
Equity raised/(bought back)	0	114	0	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	272	281	253	93	392	3
Net cash flow	**-12**	**9**	**-210**	**-851**	**-1,020**	**400**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ILSm)						
Cash and other liquid assets	16	25	220	-630	-556	-220
Tangible fixed assets	0	0	0	0	0	0
Goodwill/intangible assets	8	377	862	1,723	3,071	3,105
Associates/investments	244	352	251	-298	-1,792	-1,744
Other assets	174	0	1	1	1	1
Total assets	**442**	**753**	**1,334**	**795**	**723**	**1,142**
Interest bearing debt	0	0	0	0	0	0
Other liabilities	52	35	221	285	368	475
Total liabilities	**52**	**35**	**221**	**285**	**368**	**475**
Shareholders' equity	390	719	1,113	510	355	667
Minorities	0	0	0	0	0	0
Total shareholders' equity	**390**	**719**	**1,113**	**510**	**355**	**667**
Net debt	*-16*	*-25*	*-220*	*630*	*556*	*220*
Key Company Metrics						
Sales growth (%)	nm	nm	nm	nm	nm	nm
DB EPS growth (%)	na	na	na	-1,121.2	-0.5	na
EBITDA Margin (%)	nm	nm	nm	nm	nm	92.3
EBIT Margin (%)	nm	nm	nm	nm	nm	92.3
Payout ratio (%)	nm	0.0	nm	nm	nm	0.0
ROE (%)	-35.8	38.9	-1.3	-19.0	-35.8	61.0
Capex/sales (%)	nm	nm	nm	nm	nm	0.0
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	-4.1	-3.5	-19.8	123.6	156.3	33.0
Net interest cover (x)	nm	nm	nm	nm	nm	3.2

Source: Company data, Deutsche Bank estimates

Model updated:24 May 2011

Running the numbers

Emerging Europe

Israel

Oil Services

Ratio Oil Exploration

Reuters: RATlp.TA Bloomberg: RATIL IT

Buy

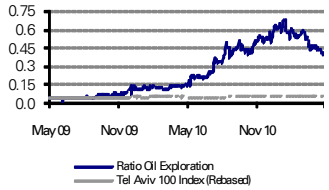
Price (24 May 11)	ILS 0.40
Target price	ILS 0.58
52-week Range	ILS 0.15 - 0.68
Market Cap (m)	ILSm 2,733 USDm 786

Company Profile

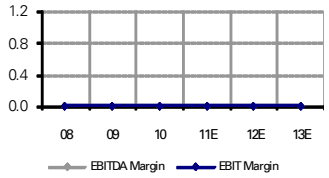
Ratio Oil Exploration (1992) Limited Partnership.

Limited Partnership engaged in oil and gas exploration.

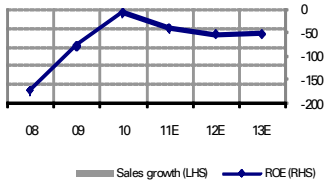
Price Performance



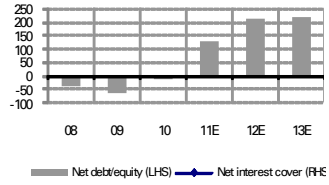
Margin Trends



Growth & Profitability



Solvency



Richard Gussow
+972 3 710-2046 richard.gussow@db.com

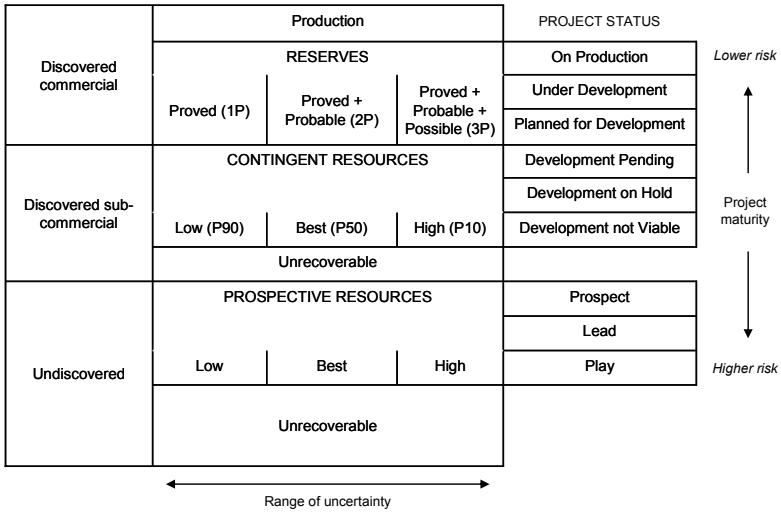
Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (ILS)	0.00	-0.03	0.00	-0.01	-0.01	-0.01
Reported EPS (ILS)	0.00	-0.03	0.00	-0.01	-0.01	-0.01
DPS (ILS)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (ILS)	0.0	0.1	0.0	0.0	0.0	0.0
Weighted average shares (m)	2,080	2,080	6,834	6,834	6,834	6,834
Average market cap (ILSm)	24	103	1,902	2,733	2,733	2,733
Enterprise value (ILSm)	24	-80	1,729	2,796	2,808	2,820
Valuation Metrics						
P/E (DB) (x)	nm	nm	nm	nm	nm	nm
P/E (Reported) (x)	nm	nm	nm	nm	nm	nm
P/BV (x)	19.75	1.51	21.61	15.97	15.88	15.79
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	nm	-61.4	nm	nm	nm	nm
EV/EBITDA (x)	nm	nm	nm	nm	nm	nm
EV/EBIT (x)	nm	nm	nm	nm	nm	nm
Income Statement (ILSm)						
Sales revenue	**0**	**1**	**0**	**0**	**0**	**0**
Gross profit	**0**	**1**	**0**	**0**	**0**	**0**
EBITDA	**-2**	**-69**	**-6**	**-13**	**-13**	**-13**
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	**-2**	**-69**	**-6**	**-13**	**-13**	**-13**
Net interest income(expense)	0	0	0	-50	-75	-75
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	**-2**	**-70**	**-6**	**-63**	**-88**	**-88**
Income tax expense	0	0	0	0	0	0
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	-6	-5	-4	-3
Net profit	**-2**	**-70**	**-12**	**-68**	**-92**	**-91**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**-2**	**-70**	**-12**	**-68**	**-92**	**-91**
Cash Flow (ILSm)						
Cash flow from operations	**-2**	**-79**	**-96**	**-154**	**-178**	**-177**
Net Capex	0	0	0	-200	-200	-200
Free cash flow	**-2**	**-79**	**-96**	**-354**	**-378**	**-377**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	400	366	366
Other investing/financing cash flows	0	0	0	0	0	0
Net cash flow	**-2**	**-79**	**-96**	**46**	**-12**	**-11**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ILSm)						
Cash and other liquid assets	0	113	17	99	87	76
Tangible fixed assets	0	0	0	250	250	251
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	69	156	156	286	286
Other assets	1	1	1	1	1	1
Total assets	**2**	**183**	**174**	**506**	**624**	**614**
Interest bearing debt	0	0	0	318	448	449
Other liabilities	1	4	4	17	4	16
Total liabilities	**1**	**4**	**4**	**335**	**452**	**465**
Shareholders' equity	1	179	170	171	172	173
Minorities	0	0	0	0	0	0
Total shareholders' equity	**1**	**179**	**170**	**171**	**172**	**173**
Net debt	*0*	*-113*	*-17*	*219*	*361*	*373*
Key Company Metrics						
Sales growth (%)	nm	nm	nm	nm	nm	nm
DB EPS growth (%)	na	-3,764.6	94.6	-452.7	-35.1	1.1
EBITDA Margin (%)	nm	nm	nm	nm	nm	nm
EBIT Margin (%)	nm	nm	nm	nm	nm	nm
Payout ratio (%)	nm	nm	nm	nm	nm	nm
ROE (%)	-172.3	-78.1	-7.1	-40.1	-53.8	-52.9
Capex/sales (%)	nm	0.0	nm	nm	nm	nm
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	-36.1	-63.6	-10.0	128.0	209.7	215.5
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

Appendix A – Reserves and resources

Although there is no single, commonly accepted technical structure for the definition of reserves and resources, the Society of Petroleum Engineer's (SPE) definitions are widely used within the upstream oil and gas industry. These are summarized below.

Figure 46: SPE reserve/resource classification system



Source: Deutsche Bank

Reserves

'Those quantities of petroleum that are anticipated to be commercially recovered from known accumulations from a given date forward.'

Specifically, to quality as reserves volumes must be discovered (a well has tested hydrocarbons at commercial rates), recoverable, remaining (the volumes will be recovered after the date of the assessment) and commercial (there is a firm intention to develop the volumes, usually demonstrated by there being an approved development plan in place). Reserves are subdivided on three bases:

Proved (1P) – There is 'reasonable certainty' the reserves are commercially recoverable. If deterministic methods are used, then reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Proved & Probable (2P) – Probable reserves are unproven, but they are 'more likely than not' to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

Proved, Probable and Possible (3P) – Possible reserve are unproven, and are 'less likely to be recoverable than probable reserves'. In this context, when probabilistic methods are used, there should be at least a 10% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable plus possible reserves.

Contingent resources

'Those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from **known** accumulations, but which are not currently considered to be commercially recoverable.'

Reasons for contingent resources not being considered commercially recoverable may be economic, technical or it may be that development planning is immature at this point. The key difference between reserves and contingent resources is maturity. For contingent resources there is some risk, albeit small in many cases, that the volumes will not mature into revenue generating projects.

The industry application of the contingent resource classification is far less consistent across companies than that of proved, probable and possible reserves. We recognise three probabilistically defined sub-groups to contingent resources: **P10**, **P50** and **P90**.

The probabilities cut-offs that define these sub-groups are equivalent to those used for 1P, 2P and 3P reserves – the difference in our P10, P50, P90 usage being that it is applied to the higher-risk class of 'resources' as opposed to the more certain 'reserves' class.

P90 – There is at least a 90% probability that the quantities identified will equal or exceed the resource estimate.

P50 – There is at least a 50% probability that the quantities identified will equal or exceed the resource estimate.

P10 – There is at least a 10% probability that the quantities identified will equal or exceed the resource estimate.

Prospective resources

'Those quantities of petroleum that are estimated, on a given date, to be potentially recoverable from **undiscovered** accumulations.'

There is significantly higher risk that the identified volumes will not mature into revenue generating projects. Prospective resources are further subdivided into **Prospects** (defined drillable targets) and **Leads**.

Appendix B – Geology

The following is a description of the geology of the Levant basin from Wood Mackenzie:

Offshore

Israel's offshore sector comprises the eastern part of the Mediterranean Sea and its underlying geological structure - the Levant or Levantine Basin. The basin fill ranges in thickness from around five kilometres on the eastern margin to over 15 kilometres in its deepest parts.

The basin has been affected by several major tectonic episodes, including a rifting phase in the Early/Middle Jurassic and a subsequent extended period of post-rift subsidence. Thereafter, a compressional phase at the end of the Cretaceous caused inversion and uplift of earlier structures, with erosion of highland areas leading to development of early Tertiary submarine fan deposits on the basin slope and floor. The remainder of the Tertiary was characterised by repeated regressive and transgressive cycles, which deposited shallow and deeper water sediments in the basin.

Following the closure and dessication of the Mediterranean at the end of the Miocene, and an abrupt sea-level fall, a thick sequence of evaporites was deposited across the deeper parts of the offshore area. This was followed by another sharp rise in sea-level in the early Pliocene, during which the evaporites were overlain by deeper water clays and the late Pliocene progradational sequences which are prominent on modern seismic data.

Levantine Basin

The Jurassic and Triassic reservoirs, which are commonly the main targets for onshore exploration, have also proven oil-bearing in the coastal offshore areas. Light oil has been found in shallow marine, Middle Jurassic oolitic carbonate shoals in the Yam-2 and Yam Yafo-1 wells. Reservoir potential has also been identified in sandstones within lower Cretaceous submarine fan sequences, which have been penetrated (without oil shows) in several wells in the south-eastern, shallower water parts of the basin.

In recent years, the focus of exploration has been on potential gas reserves in Miocene and Pliocene sandstones, deposited on the continental slope and basin floor. The potential of these plays was demonstrated by discovery of the Mari B (discovered in 2000), Noa (1999) Or and Gaza Marine (2000) fields, all of which were drilled in relatively shallow waters, close to Israel's Mediterranean coast. The Pliocene reservoir sands in these fields are distributed in channel and fan morphologies, within palaeo-canyons which cut into the basin slope and floor. The sands commonly have high porosity and permeability and individual wells flowed gas at rates of over 37 mmcfd on test and at over 200 mmcfd on full-scale production (Mari B). The gas is dry with no liquids and is believed to be biogenic in origin.

The Pliocene reservoirs post-date the accumulation of thick evaporite sequences in the central and western parts of the basin. More recently, however, drilling results have proven the gas potential in Lower Miocene sandstones, beneath the salt formations.

Appendix 1

Important Disclosures

Additional information available upon request

For disclosures pertaining to recommendations or estimates made on a security mentioned in this report, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr**.**

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst about the subject issuers and the securities of those issuers. In addition, the undersigned lead analyst has not and will not receive any compensation for providing a specific recommendation or view in this report. Richard Gussow

Equity rating key	Equity rating dispersion and banking relationships

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

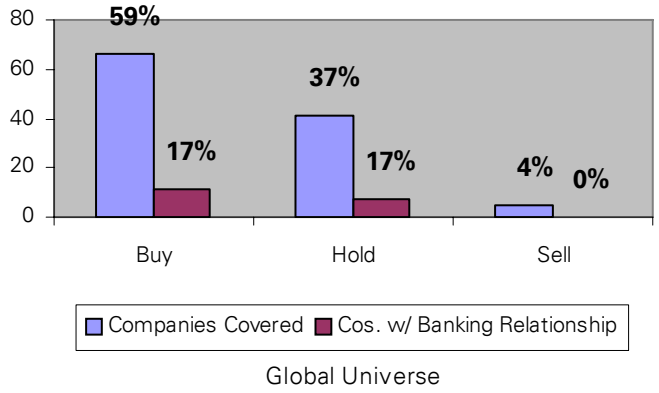
Notes:
1. Newly issued research recommendations and target prices always supersede previously published research.

2. Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period



Regulatory Disclosures

1. Important Additional Conflict Disclosures

Aside from within this report, important conflict disclosures can also be found at https://gm.db.com/equities under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

2. Short-Term Trade Ideas

Deutsche Bank equity research analysts sometimes have shorter-term trade ideas (known as SOLAR ideas) that are consistent or inconsistent with Deutsche Bank's existing longer term ratings. These trade ideas can be found at the SOLAR link at http://gm.db.com.

3. Country-Specific Disclosures

Australia: This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.
Brazil: The views expressed above accurately reflect personal views of the authors about the subject company(ies) and its(their) securities, including in relation to Deutsche Bank. The compensation of the equity research analyst(s) is indirectly affected by revenues deriving from the business and financial transactions of Deutsche Bank.
EU countries: Disclosures relating to our obligations under MiFiD can be found at http://globalmarkets.db.com/riskdisclosures.
Japan: Disclosures under the Financial Instruments and Exchange Law: Company name - Deutsche Securities Inc. Registration number - Registered as a financial instruments dealer by the Head of the Kanto Local Finance Bureau (Kinsho) No. 117. Member of associations: JSDA, The Financial Futures Association of Japan. Commissions and risks involved in stock transactions - for stock transactions, we charge stock commissions and consumption tax by multiplying the transaction amount by the commission rate agreed with each customer. Stock transactions can lead to losses as a result of share price fluctuations and other factors. Transactions in foreign stocks can lead to additional losses stemming from foreign exchange fluctuations. "Moody's", "Standard & Poor's", and "Fitch" mentioned in this report are not registered credit rating agencies in Japan unless "Japan" is specifically designated in the name of the entity.
New Zealand: This research is not intended for, and should not be given to, "members of the public" within the meaning of the New Zealand Securities Market Act 1988.
Russia: This information, interpretation and opinions submitted herein are not in the context of, and do not constitute, any appraisal or evaluation activity requiring a license in the Russian Federation.

Deutsche Bank AG/London

European locations

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ

Tel: (44) 20 7545 8000

Deutsche-Bank AG,
3, Avenue de Friedland
75008 Paris Cedex 8
France
Tel: (33) 1 44 95 64 00

Deutsche Bank AG
Equity Research
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank Sim S.p.a
Via Santa Margherita 4
20123 Milan
Italy

Tel: (39) 0 24 024 1

Deutsche Bank AG
Herengracht 450
1017 CA Amsterdam
Netherlands

Tel: (31) 20 555 4911

Deutsche Securities
S.V.B, S.A.
P0 de la Castellana, 42
7th Floor
28046 Madrid, Spain
Tel: (34) 91 782 8400

Deutsche Bank AG
Stureplan 4 A, Box 5781
S-114 87 Stockholm
Sweden

Tel: (46) 8 463 5500

Deutsche Bank AG
Uraniastrasse 9
PO Box 7370
8023 Zürich
Switzerland
Tel: (41) 1 224 5000

Deutsche Bank AG, Helsinki
Kaivokatu 10 A, P.O.Bvox 650
FIN-00101 Helsinki
Finland

Tel: (358) 9 25 25 25 0

Deutsche Bank AG
Hohenstaufengasse 4
1010 Vienna
Austria

Tel: (43) 1 5318 10

Deutsche Bank AG
Aurora business park
82 bld.2 Sadovnicheskaya street
Moscow, 115035
Russia
Tel: (7) 495 797-5000

Deutsche Bank AG, Warsaw
al.Armii Ludowej 26
Budynek FOCUS
00-609 Warsaw
Poland
Tel: (48) 22 579 87 00

Deutsche Bank AG, Turkey
Eski Buyukdere Cad. Tekfen Tower
No:209 Kat:17-18
TR-34394 Istanbul
Tel: (90) 212 317 01 00

Deutsche Bank AG, Greece
23A Vassilissis Sofias Avenue
6th Floor
10674 Athens, Greece
Tel: (30) 210 72 56 150

International locations

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank AG
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Filiale Hongkong
International Commerce Centre,
1 Austin Road West,Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Global Disclaimer

The information and opinions in this report were prepared by Deutsche Bank AG or one of its affiliates (collectively "Deutsche Bank"). The information herein is believed to be reliable and has been obtained from public sources believed to be reliable. Deutsche Bank makes no representation as to the accuracy or completeness of such information.

Deutsche Bank may engage in securities transactions, on a proprietary basis or otherwise, in a manner **inconsistent** with the view taken in this research report. In addition, others within Deutsche Bank, including strategists and sales staff, may take a view that is **inconsistent** with that taken in this research report.

Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this report. They do not necessarily reflect the opinions of Deutsche Bank and are subject to change without notice. Deutsche Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Prices and availability of financial instruments are subject to change without notice. This report is provided for informational purposes only. It is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. Target prices are inherently imprecise and a product of the analyst judgement.

As a result of Deutsche Bank's recent acquisition of BHF-Bank AG, a security may be covered by more than one analyst within the Deutsche Bank group. Each of these analysts may use differing methodologies to value the security; as a result, the recommendations may differ and the price targets and estimates of each may vary widely.

Deutsche Bank has instituted a new policy whereby analysts may choose not to set or maintain a target price of certain issuers under coverage with a Hold rating. In particular, this will typically occur for "Hold" rated stocks having a market cap smaller than most other companies in its sector or region. We believe that such policy will allow us to make best use of our resources. Please visit our website at http://gm.db.com to determine the target price of any stock.

The financial instruments discussed in this report may not be suitable for all investors and investors must make their own informed investment decisions. Stock transactions can lead to losses as a result of price fluctuations and other factors. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results. Deutsche Bank may with respect to securities covered by this report, sell to or buy from customers on a principal basis, and consider this report in deciding to trade on a proprietary basis.

Unless governing law provides otherwise, all transactions should be executed through the Deutsche Bank entity in the investor's home jurisdiction. In the U.S. this report is approved and/or distributed by Deutsche Bank Securities Inc., a member of the NYSE, the NASD, NFA and SIPC. In Germany this report is approved and/or communicated by Deutsche Bank AG Frankfurt authorized by the BaFin. In the United Kingdom this report is approved and/or communicated by Deutsche Bank AG London, a member of the London Stock Exchange and regulated by the Financial Services Authority for the conduct of investment business in the UK and authorized by the BaFin. This report is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. This report is distributed in Singapore by Deutsche Bank AG, Singapore Branch, and recipients in Singapore of this report are to contact Deutsche Bank AG, Singapore Branch in respect of any matters arising from, or in connection with, this report. Where this report is issued or promulgated in Singapore to a person who is not an accredited investor, expert investor or institutional investor (as defined in the applicable Singapore laws and regulations), Deutsche Bank AG, Singapore Branch accepts legal responsibility to such person for the contents of this report. In Japan this report is approved and/or distributed by Deutsche Securities Inc. The information contained in this report does not constitute the provision of investment advice. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product. Deutsche Bank AG Johannesburg is incorporated in the Federal Republic of Germany (Branch Register Number in South Africa: 1998/003298/10). Additional information relative to securities, other financial products or issuers discussed in this report is available upon request. This report may not be reproduced, distributed or published by any person for any purpose without Deutsche Bank's prior written consent. Please cite source when quoting.