

## ISRAEL OIL & GAS: E&P

### Potential farm-in partner to unlock value

**Upgrading Isramco to 1-OW and the Israel E&P sector to 1-Positive. With commercial production from the Tamar gas field expected to begin in 2Q 2012, finalised supply contracts with the Israel Electric Company and financing now secure, we turn positive on the Israeli E&P sector and on Isramco, raising its PT to ILS 0.69 from ILS 0.44. We reduce our PT for Ratio to ILS 0.45 from ILS 0.56 for two reasons: 1) the halting of drilling on Leviathan Deep exploration targets that will most likely not resume until late 2013; and 2) uncertainty around the Zemach Committee that will finalise the government position on export allowance of Israeli assets. Isramco and Ratio are our 1-OW rated stocks in Israeli E&P, each with over 40% potential upside.**

**Commercial production from Tamar field in 2Q 2013 positive for Isramco:** Isramco has a 29% working interest in Tamar, which is world-scale at 9 trillion cubic feet (tcf), and stands to be the major beneficiary from the initiation of gas supply. Recent governmental approval of the long-term local off-take contracts removes a significant overhang on the sector and is the main reason for our upgrade. We also see this as positive for Delek Drilling, Avner Oil, Delek Energy and Delek Group (see page 2 for our new price targets). Within the Delek company structure we believe that an investment in Delek Group is the most appealing. Delek Group trades c. \$2m per day and is not structured as a Limited Partnership. We also believe that focusing on divesting non-core and non-energy holdings would improve the investment case.

**A farm-in partner for Leviathan may raise the profile of the Israeli sector:** Leviathan is one of the largest natural gas discoveries globally in the past decade, and commercialising the resource will require the introduction of strategic partners. In its most recent presentation from May, US operator Noble Energy said that advisors are helping it to find the right partners for the project. We expect a partner with mid-stream technical knowledge and marketing abilities who would be able to capitalise on the export potential. Taking a lead from the recent M&A activity that saw Cove Energy valued at \$5/mboe in East Africa, we believe that the Eastern Mediterranean may demand similar valuations, which could mean a significant premium to current market values. Our models and share price targets imply a valuation for Leviathan of \$1.3/barrel of oil equivalent (BoE) and \$2.5/BoE respectively.

**Valuation and risks:** Our sector trades on an average of 1.8x EV/2 proved and probable + 2 contingent resources vs. the European E&P sector that trades on 12.1x EV/2P+2C. We believe the discount comes from both regulatory uncertainty around allowable export limits and the Limited Partnership/General Partnership legal structure. On the other hand, we believe: 1) the commercial production from Tamar; and 2) a potential farm-in partner to the region would significantly increase investor interest and valuations in the sector.

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 27.

#### SECTOR UPDATE

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##### Israel Oil & Gas: E&P

1-POSITIVE

from 2-Neutral

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##### Israel Power & Utilities

2-NEUTRAL

Unchanged

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

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

Company	Rating		Price	Price Target			EPS FY1 (E)			EPS FY2 (E)		
	Old	New	28-Jun-12	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
Israel Oil & Gas: E&P	2-Neu	1-Pos										
Avner Oil Exploration - LP (AVNRL IT / AVNRp.TA)	2-EW	2-EW	2.16	2.74	2.91	6	0.02	0.03	50	N/A	0.07	-
Delek Drilling - LP (DEDRL IT / DEDRp.TA)	2-EW	2-EW	11.80	13.56	16.53	22	0.16	0.16	-	N/A	0.40	-
Delek Energy Systems Ltd. (DLEN IT / DLEN.TA)	1-OW	1-OW	1330.00	1411.00	1363.00	-3	-1.88	-1.88	-	N/A	-1.66	-
Isramco Negev 2 LP (ISRAL IT / ISRAp.TA)	3-UW	1-OW	0.47	0.44	0.69	57	0.00	0.00	-	N/A	0.06	-
Ratio Oil Exploration (RATIL IT / RATIp.TA)	1-OW	1-OW	0.29	0.56	0.45	-20	-0.01	0.00	100	0.00	0.00	-
Israel Power & Utilities	2-Neu	2-Neu										
Delek Group Ltd. (DLEKG IT / DELKG.TA)	1-OW	1-OW	569.90	851.00	831.00	-2	43.73	46.56	6	N/A	50.95	-
Oil Refineries Ltd. (ORL IT / ORL.TA)	2-EW	2-EW	1.89	2.50	2.50	-	0.01	0.04	300	N/A	0.05	-
Ormat Industries Ltd. (ORMT IT / ORMT.TA)	2-EW	2-EW	19.33	36.00	36.00	-	N/A	0.23	-	N/A	0.32	-

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

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

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

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

## RAISING THE PROFILE OF THE EASTERN MED

### Farm-in partners and cash flow to raise the profile of the Israeli E&P sector

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At a recent presentation and mentioned in its May presentation (available on the company websites), Noble said it is seeking partners to develop the 24 tcf of gas in Leviathan and Cyprus, although it is still unclear if the assets would be developed jointly or separately.

Taking a lead from the recent M&A activity in East Africa we believe that the Eastern Mediterranean may demand similar valuations. Since February 2012, Royal Dutch Shell and PTTEP have been competing to take over Cove Energy. Cove owns an 8.5% working interest of a block in the Rovuma Basin that is estimated to hold 30 tcf of natural gas and may support six LNG trains, according to Cove. Coupled with Eni's neighbouring Mamba exploration that holds an estimated 40 tcf, the LNG potential is significant. Based on the last cash offer of \$1.9bn, this values the gas reserves at c. \$5 per Barrel of Oil Equivalent (BOE).

The similarities of the projects in Mozambique and Israel, which are large gas discoveries where local demand cannot handle the potential supply and an option on oil, increase our confidence that bringing in a large-scale partner is the next logical step, which would enhance the value of the assets, in our view.

### Who will join?

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We believe the Israeli partners need large-scale partners with mid-stream technical knowledge, LNG experience and marketing abilities for the development of the export potential for the region. In addition, the Leviathan deep oil targets have drilling targets at 7,400 metres depth; a challenge that very few operators have undertaken.

Moreover, some potential partners are facing conflicting geopolitical situations, further limiting the number of candidates.

The final question is which local partner(s) might sell their stake? Although they might be tempted to require a high entry price, they should bear in mind that investors see in farming-in the only long-term solution in the region, we believe.

### Scenario analysis

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We look at the potential impact a deal with similar valuation to the Cove transaction could have on the fields and partners.

We estimate the NAV of the Leviathan Gas field to be \$7,061mn, or \$2.57/mboe. Based on Ratio Oil's \$556m market cap (as at close of 28 June) and its 15% working interest in Leviathan, we calculate an stock market implied field value of \$3,707 million or \$1.36/mboe; which represents a 48% discount to our valuation. If we were to apply the \$5.0/mBOE, which is the per barrel value implied by the PTT and Shell offers for Cove energy, we would arrive at a 93% and 267% premium to our and market-implied values respectively.

Figure 1: Leviathan Gas – Scenario Analysis

	\$ / mBOE	\$ Value (mn)		
Barclays Valuation	\$2.57/mboe	\$7,061		
Implied Market Value*	\$1.36/mboe	\$3,707		
	Implied value (\$mn)		Premium to Barclays Valuation	Premium to Market Value
Scenarios	\$2.50/mboe	\$6,800	-4%	83%
	\$3.00/mboe	\$8,160	16%	120%
	\$3.50/mboe	\$9,520	35%	157%
	\$4.00/mboe	\$10,880	54%	197%
	\$4.50/mboe	\$12,240	73%	230%
	<b>\$5.00/mboe</b>	<b>\$13,600</b>	<b>93%</b>	<b>267%</b>
	\$5.50/mboe	\$14,960	112%	304%

Source: Barclays Research

\*Based on Ratio Oil market capitalisation on close of 28 June 2012

## Tamar

On 14 June, the Public Utilities Authority (PUA) approved the gas agreement between the Tamar partners and the Israel Electric Company (IEC). We expect the first commercial production of gas from Tamar, which we think is likely to be a significant driver for the Israeli E&P sector and for Isramco, Delek Drilling and Avner in particular. In May the regulator issued a list of 26 propositions to regulate the agreement between the IEC and the Tamar partners. The PUA's priorities were to minimise costs for electricity consumers; create competitive conditions in the electric sector; prevent delay in natural gas supply to the market; and securing Israel's long-term energy independence.

## Long-term oil targets keep us positive on Leviathan

In early May, drilling operations of the deepest oil targets at Leviathan #1 were suspended before the primary targeting layers were reached (middle and lower cretaceous). This was caused by high pressure at the layers that were drilled, and by the mechanical limits of the wellbore. The partners have said they are considering carrying out an additional drill to the deeper layers, via a new rig. However, this might not happen until next year, we believe.

## Regulations are the main risk for now

In April the Zemach Committee submitted its interim recommendations, limiting future natural gas exports and setting aside a national strategic natural gas reserve of 14 tcf. Although government recognition of the Israeli gas exports economic reality is clearly a positive, we view these recommendations as negative for the sector, as we believe they lack clarity and fail to lift the uncertainty in the market. Of major concern to us are: 1) the percentage of the upstream permitted for export; and 2) where would a LNG facility be built?

We view these questions as critical as 1) no farm-in will take place before potential partners have better visibility 2) no serious investment capex can be set aside.

The final recommendations are expected before the end of 2012.

## Explorations calendar is full

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After being used for gas flow tests at Leviathan #1, the Homer Ferrington rig has been transferred to the **Myra and Sara** licences for four months. The last estimates (published by Netherland Sewell & Associates in June 2011) are for 6.5tcf of natural gas with a 54% probability and 150 million boe with an 18% probability. The partners in the **Pelagic** licences announced they are waiting for the availability of the Homer Ferrington rig to spud its licences. Ryder Scott estimated the 2C of prospective resources are 6.2 tcf of gas with probabilities ranging from 28.5% to 76.7%. Drilling of the **Shimshon** well is expected to be completed in the near future, as technical issues with the borehole forced the operator to change the well plan. Lockwood & Associates estimated the 2C of prospective resources are 2.3 tcf of gas with a 20% probability. The partners in the **Gabriella** licence announced they are looking for an operator to begin exploring the licence, for which they obtained a permit extension through July 2013. Netherland Sewell & Associates estimated the 2C of contingent resources are 110.1 bcf of gas and 128 mmboe of oil equivalent. The 2C of prospective resources are 641.1 bcf of gas and 124 mmboe of oil equivalent.

## COMPS AND COMPANY PAGES

Figure 2: European E&amp;P – Valuation Sheet

Company	Barclays Rating	Closing Price 28/06/12	Price Target	Potential Up/down	Market Cap (U\$m)	PE		EV/EBITDA		EV/2P	EV/2P+2C
						2012E	2013E	2012E	2013E	2012E	2012E
E&P – Israel											
AVNER	2-EW	ILS 2.16	ILS 2.91	35%	1,825	21.1	8.0	15.6	6.8	110.6	2.0
DELEK DRILLING	2-EW	ILS 11.80	ILS 16.53	40%	1,638	NM	NM	15.0	6.4	108.2	1.8
DELEK ENERGY	1-OW	ILS 1,330	ILS 1,363	3%	1,718	NM	NM	3.2	1.4	22.6	0.4
ISRAMCO NEGEV 2	1-OW	ILS 0.47	ILS 0.69	47%	1,538	NM	8.0	NM	2.3	5.0	2.1
RATIO OIL EXPL.	1-OW	ILS 0.29	ILS 0.45	55%	544	NM	NM	NM	NM	N/A	1.2
E&P – Europe											
Afren	1-OW	£0.98	£1.90	98%	1,645	4.7	4.3	1.7	1.4	20.0	15.2
Bowleven	1-OW	£0.54	£2.15	291%	246	-30.1	-21.4	NM	NM	1.7	0.9
Cairn Energy	2-EW	£2.56	£4.45	77%	2,398	4.7	6.8	-79.9	-74.1	11.3	7.9
Cove Energy	1-OW	£2.67	£1.75	-34%	2,038	1.1	1.1	-314.4	-245.3	-	-
Enquest	2-EW	£1.05	£1.45	37%	1,312	11.7	14.0	1.9	2.4	9.6	4.8
JKX Oil & Gas	2-EW	£0.97	£1.75	81%	258	2.7	3.9	1.0	0.9	2.0	2.0
Max Petroleum	1-OW	£0.04	£0.28	600%	56	-7.1	19.7	8.5	5.4	-	31.3
Premier Oil	1-OW	£3.31	£6.10	84%	2,720	7.0	6.3	3.2	2.6	13.4	7.3
Rockhopper Exploration	1-OW	£2.44	£5.90	142%	1,081	-15.5	-142.8	-14.4	-136.2	-	-
Salamander Energy	1-OW	£1.62	£2.65	64%	644	13.9	7.7	4.4	3.0	10.8	4.5
Soco International	3-UW	£2.79	£3.55	27%	1,440	7.5	6.2	6.0	4.1	10.2	9.6
Tullow Oil	1-OW	£14.30	£18.40	29%	20,156	26.2	19.5	14.1	12.4	111	37.3

Source: Company reports, Barclays Research

Figure 3: Israel E&amp;P – Trading Volumes

	Market Cap, ILSm	Market Cap, \$m	Volume, \$m	Free Float
Ratio	2,145	544	\$5.6	77%
Avner	7,190	1,825	\$4.2	45%
Isramco	6,061	1,538	\$3.7	64%
Delek Energy	6,769	1,718	\$0.5	14%
Delek Drilling	6,454	1,638	\$2.1	31%
Delek Group	6,484	1,645	\$2.6	31%

Source: Thomson Reuters – Barclays Research. Data as close of 28 June 2012

## Delek Group (1-OW): our top pick in the sector

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We view the Delek Group as the best positioned company in the Israel Power & Utilities sector.

### Opportunities

- **Diversified energy portfolio across upstream and mid stream assets:** Through its subsidiaries the company has exposure to Israel's largest reserves c. 45% of Leviathan, c. 30% of Tamar, c. 53% of Yam Tethys as well as secondary fields Dalit, Dolphin, Tanin as well a portfolio of unexplored Alon licences. In addition, it also has exposure to the Cyprus Block 12 fields and participated in the new round of licensing. The Group also runs around 1,600 fuel service stations in Israel, Europe and the US; and holds refineries and power plants. Finally, the Group operates around 400 desalinisation plants, and maintains additional international exploration and production projects.
- **Dividend distribution:** Since 2005 the company has had a dividend policy of approximately 50% of net income. It distributed ILS 1,060mn and ILS 425mn of dividends in 2010 and 2011 respectively
- **Corporation vs. Limited Partnership:** The Group is a corporation and not a limited partnership (LP). The E&P subsidiaries Avner Oil and Delek Drilling are limited partnerships. LPs imply that investors are treated as partners, to whom income is allocated and tax paid at the partner's tax rate. The LPs do not pay tax, as the tax is paid at the partners' level. This structure can lead to tax benefits (if the partner has an overall low taxable income or if the LP has losses) or tax burden (if the partner is already paying high taxes). In any case, this structure implies sophisticated tax calculations. The Delek Group's investors do not face those issues.

### Risks

- **Complicated holding structure is a constraint:** In addition to its ownership in the energy sector, the Group also holds companies in the infrastructure, real estate, financial services and automotive sectors. We believe this increases the risk of losing focus from the core energy activities.

### Valuation

Delek Group trades at a 46% discount to its core NAV. After applying a 5% conglomerate discount to our estimated NAV, we arrive at a PT of ILS 831.

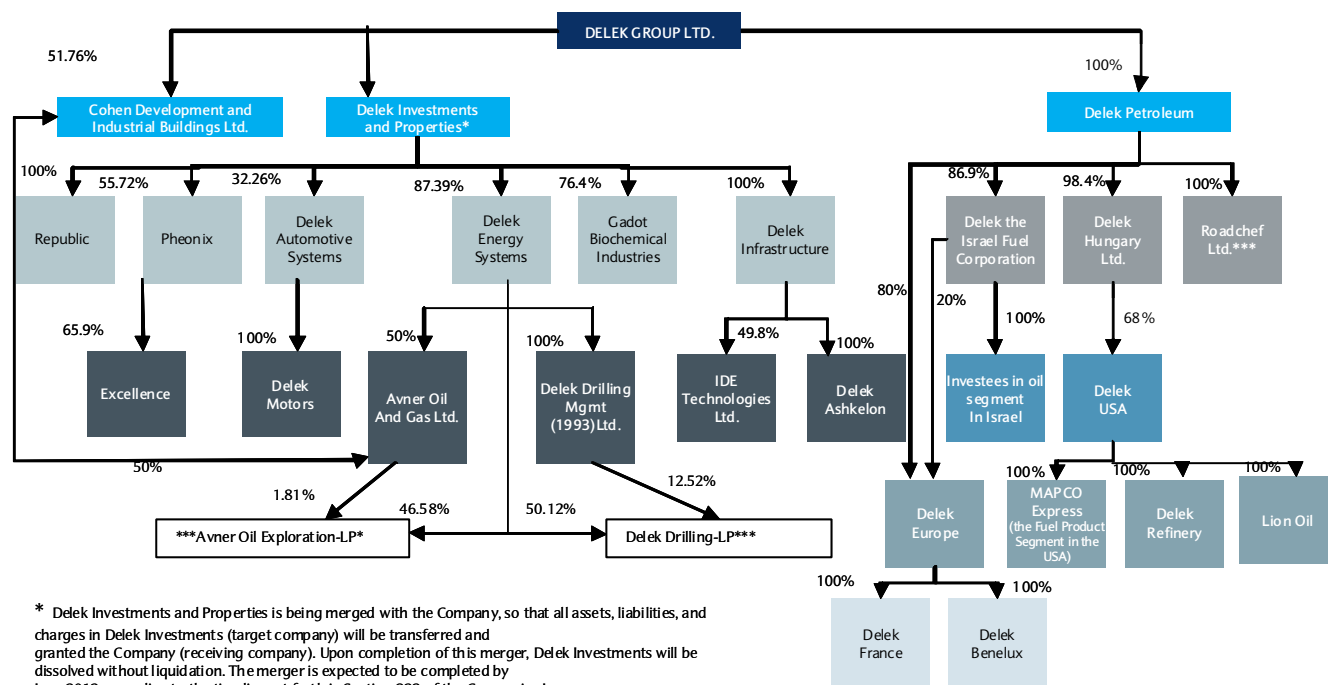
Figure 4: Delek Group – NAV

Public	Methodology	Value of Holding (ILS m)	% of Gross NAV	Total
<b>Energy</b>				
<i>Significant Energy Holdings</i>				
Delek US	Market Price	3,040	18.0%	
Delek Energy	Market Price	6,075	36.0%	
Delek Israel Fuel	Market Price	549	3.3%	
Other Energy Holdings	Market Price	1,376	8.2%	
<b>Total Public Energy Holdings</b>				<b>11,040</b>
<b>Insurance and Financial Holdings</b>				
<i>Significant Insurance and Financial Holdings</i>				
Phoenix	Market Price	984	5.8%	
<b>Total Public Insurance and Financial Holdings</b>				<b>984</b>
<b>Automotive/Other</b>				
Delek Automotive	Market Price	780	4.6%	
<b>Total Public Automotive and Other Holdings</b>				<b>780</b>
<b>Sub-total</b>				<b>12,804</b>
Private	Methodology	Value of Holding (ILS m)	% of Gross NAV	
<b>Energy</b>				
Yam Tethys	DCF	133	0.8%	
Delek Europe	7x EBITSA	1,037	6.1%	
Other Energy/Infrastructure Holdings	Market Price	1,346	7.9%	
<b>Total Private Energy Holdings</b>				<b>2,516</b>
Other Holdings	Market Price	765	4.5%	
Insurance and Financial Holdings	1x BV	801	4.7%	
<b>Sub-total</b>				<b>4,082</b>
<b>Gross Asset Value</b>				<b>16,886</b>
<b>Net Debt</b>				<b>6,937</b>
<b>Net Asset Value</b>				<b>9,049</b>
<b>NAV/Share at 5% conglomerate discount</b>				<b>831</b>
<b>Delek/Share</b>				<b>570</b>
<b>Discount to NAV</b>				<b>46%</b>

Source: Company reports, Barclays Research

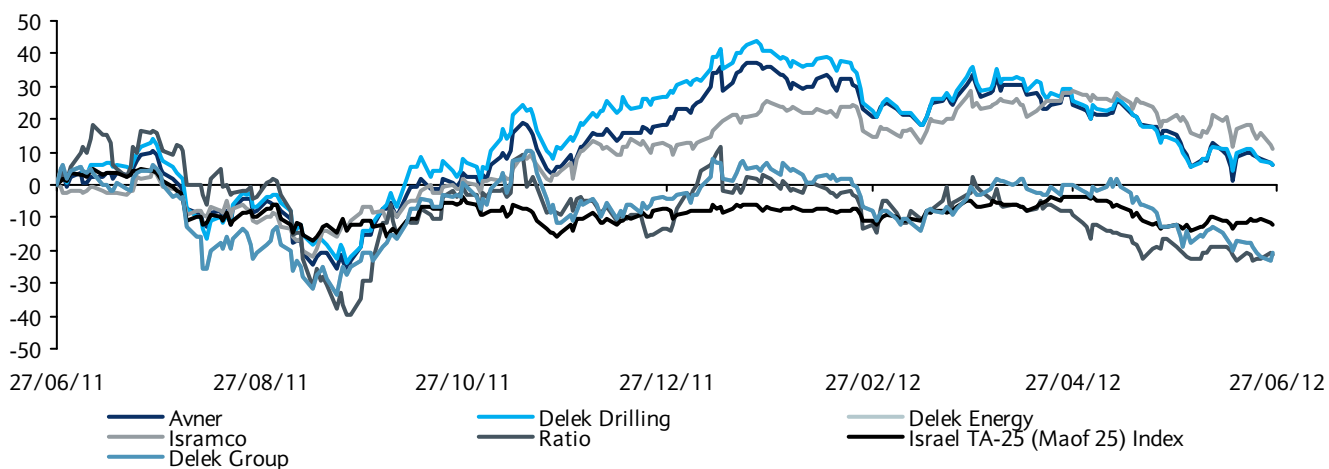


Figure 5: Delek Group holding structure



Source: Company report, Barclays Research

Figure 6: Israel Energy – Stock Performance LTM



Source: Thomson Datastream, Barclays Research

## Isramco: upgrading to 1-OW from 3-UW

We upgrade Isramco from 3-UW to 1-OW as near-term catalysts start adding up. Our former rating was based on our view that Isramco was a pure play on the Tamar reserve; and that was fully priced in, with limited near-term catalysts to drive outperformance.

We believe this has changed as Tamar off-take agreements are now concrete with the regulator having approved the contracts' structure. In addition, our Isramco valuation points to 47% potential upside.

In addition, Isramco holds a 39% working interest in Shimshon. The field has been estimated by Netherland Sewell & Associates to have a 2C of 2.3 tcf of gas with a 20% probability. Drilling of the well is expected to be completed in the near future, as technical issues with the borehole forced the operator to delay the exploration. Shimshon is located in Southern Israel and would likely tie back to the Mari-B or Tamar platforms that are situated nearby.

Isramco's new valuation removes the overhang of the regulatory opposition to the signing of the off-take agreements with Israel power producers. With pricing now more certain, we raise our price target to ILS 0.69 from ILS 0.44. We increase our initial price for natural gas to \$5.8 per million British thermal units (MMBTU) of gas from \$5.5 and model c. 5% increase in the first five years of production as more customers bring power production capabilities online.

Figure 7: Isramco – NAV

					Risky			Risky				Unrisk.
					Reserv./Resour.							
Assets	Country/	WI	Hydroc.	CoS	Gross	Net (WI)	NPV/boe	NPV	NPV	NPV	%	NPV
	Licence	%	Fluid	%	mmboe	mmboe	\$/boe	\$mn	ILSmn	p/sh	Tot NAV	p/sh
Under development												
Tamar	Israel	29%	Gas	95%	1150	331	6.8	2127	7870	0.69	100.35	0.73
Cash/(Net Debt)								117	434	0.04	5.53	0.04
BS adj.								-	-	-	-	-
Core NAV								2244	8304	0.73	105.88	0.77
E&A upside								0	0	0	0	0.00
NPV of Royalties paid								125	461	0.04	5.88	0.04
Total NAV								2120	7843	0.69	100	0.77

Source: Company data, Barclays Research

## Ratio (1-OW): why we still see upside

We view Ratio as the most levered company to a potential farm-in at Leviathan. Based on Ratio's 15% working interest in the field and \$556m market cap (as of 28 June) we derive an implied field value of \$3,707 or \$1.36/mboe; which represents a 48% discount to our valuation. Figure 1 on page 4 shows the triple-digit potential upside implication a farm-in could have on Leviathan, and therefore on Ratio's working interest.

We do not believe that Ratio is a potential takeover target; we believe it more likely that candidates in Leviathan's farm-in will purchase stakes in the asset from each of the partners.

We view Leviathan deep oil target as a long-term positive for the stock. In early May, the drilling operations of the deepest oil targets were suspended before the primary targeting layers were reached (middle and lower cretaceous). This was caused by high pressure at the layers that were drilled, and by the mechanical limits of the wellbore. The partners said they are considering carrying out an additional drill to the deeper layers, via a new rig. However, we believe this might not happen before the end of 2013 given the lack of available drilling equipment and rigs in the region.

Finally, Ratio has a 100% working interest in Gal, which is located South of Leviathan and is expected to target deep structures. We view Gal has a potential long-term opportunity and a differentiator, as it is one of the few fields that are not part of the Delek/Noble consortium.

We lower our price target for Ratio to ILS 0.45 from ILS 0.56 for two reasons. 1) The Leviathan Deep targets whose exploration programme was halted and will most likely not be resumed until late 2013. The fact that the initial well gave positive preliminary results keeps us relatively positive on the prospects but the "delay" until a return to an exploratory has a negative impact on our DCF. 2) The uncertainty around the Zemach Committee and the final export allowance also weigh on the Leviathan valuation for the near term. We await the results of the public hearing scheduled for 10 July 2012 and the final recommendations of the committee at some point in 2H 12.

Figure 8: Ratio – NAV

Assets	WI %	Hydroc. Fluid	CoS %	Risked Reserv./Resour.			Risked				Unrisk.
				Gross	Net (WI)	NPV/boe	NPV	NPV	NPV	%	NPV
				mmboe	mmboe	\$/boe	\$mn	ILSmn	p/sh	Tot NAV	p/sh
Cash/(Net Debt)							41	151	0.02	4.5	0.02
<b>Core NAV</b>							41	151	0.02	4.5	0.02
<b>Contingent Developments</b>							847	3135	0.43	93.7	0.53
Leviathan Gas	15%	LNG	80%	2745	412	2.6	847	3135	0.43	93.7	0.53
<b>Exploration/Appraisal</b>											
Leviathan Oil #1	15%	Oil/Gas	12%	1038	156	7.4	138	511	0.07	15.3	0.58
<b>E&amp;A upside</b>							1695	6270	0.49	109.0	1.11
<b>NPV of Royalties paid</b>							122	451	0.06	13.5	0.06
<b>Total NAV</b>							1613	5969	<b>0.45</b>	100	1.07

Source: Company data, Barclays Research

## Avner and Delek Drilling: we maintain our 2-EW

Avner Oil and Delek Drilling offer exposure to the primary and secondary gas fields in Israel as well as to the Cyprus Block 12. We believe that the Limited Partnership structure and complicated tax implications make these less investible than the parent company Delek Group (see explanations above). For direct exposure to the assets the Ratio and Isramco options provide more upside and are more leveraged to assets themselves, albeit it at higher risk.

We raise our price targets for both Avner Oil and Delek Drilling to ILS 2.91 and ILS 16.53 from ILS 2.74 and ILS 13.56. The increase is mostly driven by the higher valuation of the Tamar gas field now \$7.7bn from \$5.0bn. The main change in the Tamar valuation is our updated forecasted prices for natural gas to an initial price of \$5.8 per million British thermal units from \$5.5. The increase in Tamar's value is mitigated in part by the lower Leviathan gas field valuation, now \$6.6bn from \$14bn. The valuation for Leviathan is lower for two main reasons: 1) a lower price for the liquefied natural gas the is forecast to be exported from Israel and 2) a lower value for the Leviathan Deep targets following the May drilling update by the companies.

Figure 9: Avner – NAV

Assets	Reserv./Resour.				Risked				Unrisk.		
	WI		CoS	Gross	Net (WI)	NPV/boe	NPV	NPV	NPV	%	NPV
	%	Fluid									
			%	mmboe	mmboe	\$/boe	\$mn	ILSmn	p/sh	Tot NAV	p/sh
<b>Producing</b>											
Mari and Noa	23%	Gas	100%	168	39	4.5	175	647	0.19	6.7	0.19
<b>Under development</b>											
Tamar	16%	Gas	95%	1150	180	6.8	1156	4277	1.28	44.1	1.35
Cash/(Net Debt)							31.9	118.1	0.0	1.2	0.0
BS adj.							-	-	-	-	-
<b>Core NAV</b>							1363	5043	1.51	52.0	1.58
<b>Contingent Developments</b>											
Leviathan Gas	23%	LNG	80%	2745	622	2.6	1281	4738	1.42	48.8	1.78
<b>Exploration/Appraisal</b>											
Leviathan Oil #1	23%	Oil/Gas	12%	1038	235	6.1	209	772	0.23	8.0	1.93
<b>E&amp;A upside</b>							1489	5510	1.65	56.8	5.55
<b>NPV of Royalties paid</b>							230	851	0.26	8.8	0.26
<b>Total NAV</b>							2622	97026	2.91	100	7.13

Source: Company data, Barclays Research

Figure 10: Delek Drilling – NAV

Assets	Risked						Risked			Unrisk.	
	WI	Hydroc.	CoS	Reserv./Resour.		NPV/boe	NPV	NPV	NPV	%	NPV
				Gross	Net (WI)						
	%	Fluid	%	mmboe	mmboe	\$/boe	\$mn				
Producing											
Mari and Noa	26%	Gas	100%	168	43	4.5	194	718	1.31	8.1	1.31
Under development											
Tamar	16%	Gas	95%	1150	180	6.8	1156	4277	7.82	49.3	8.23
Cash/(Net Debt)							35.5	131.4	0.2	1.5	0.2
BS adj.							-	-	-	-	-
Core NAV							1386	5126	9.37	59.0	9.78
Contingent Developments							1281	4738	8.66	52.4	10.83
Leviathan Gas	23%	LNG	80%	2745	622	2.6	1281	4738	8.66	52.4	10.83
Exploration/Appraisal											
Leviathan Oil #1	23%	Oil/Gas	12%	1038	235	7.4	209	772	1.41	8.5	11.77
E&A upside							2561	5510	10.0	60.9	21.66
NPV of Royalties paid							431	1593	2.91	17.6	2.91
Total NAV							3516	9044	16.53	100	31.44

Source: Company data, Barclays Research

Figure 11: Delek Energy – NAV

Israel E&P	Methodology	Value of Holding (ILS m)	% of Gross NAV	Total
Delek Drilling	Sum of the parts	4,541	49.1%	
Avner Oil	Sum of the parts	4,519	48.8%	
<b>Total Israel</b>				<b>8,680</b>
<b>Other</b>				
Matra	Market Price	193	2.1%	
<b>Total Other</b>				<b>193</b>
<b>Total Gross sum of the parts</b>				<b>9,253</b>
<b>Net Debt</b>				<b>800</b>
<b>NPV of future tax</b>				<b>3,111</b>
<b>NPV of royalties</b>				<b>1,593</b>
<b>Total Net sum of the parts</b>				<b>6,935</b>
<b>Current market value</b>				<b>6,769</b>
<b>Discount</b>				<b>2%</b>
<b>PT</b>				<b>1,363</b>
<b>Current Price</b>				<b>1,330</b>

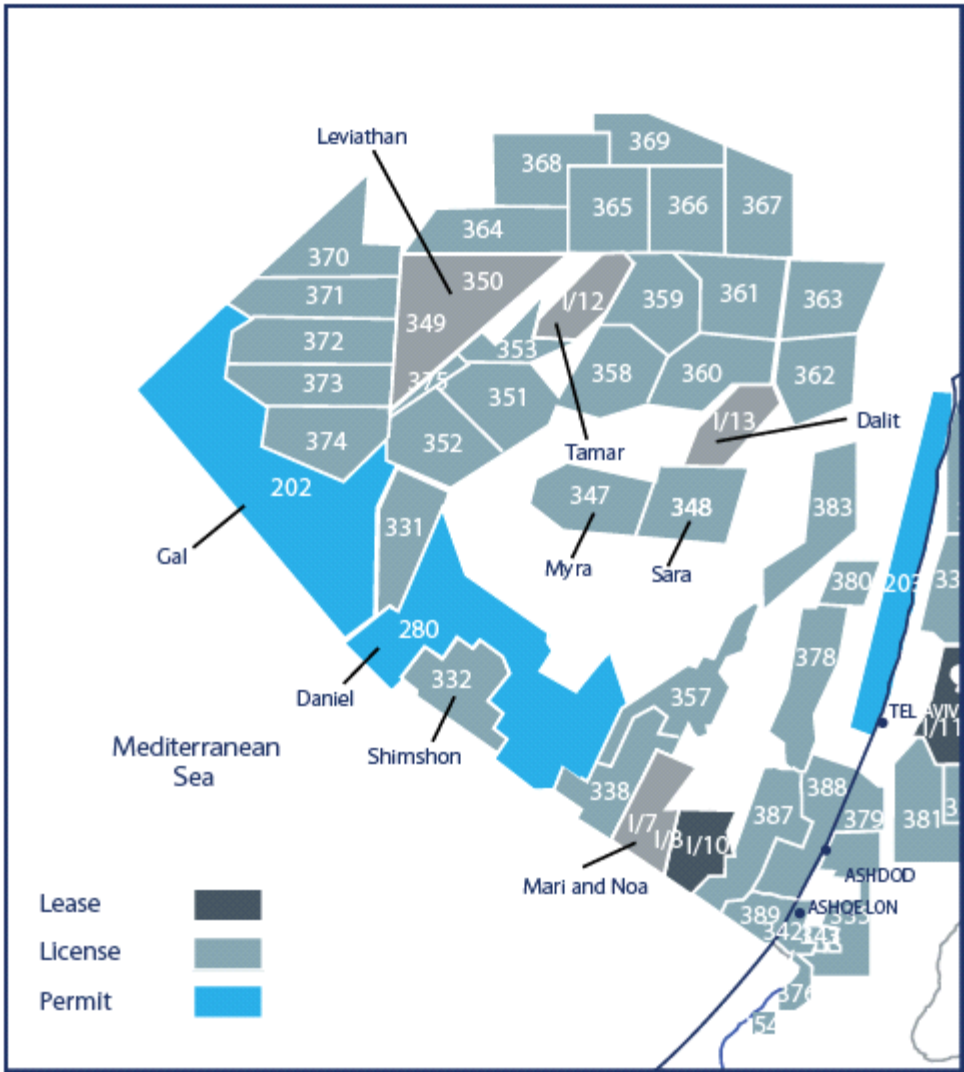
Source: Company data, Barclays Research

Figure 12: Ownership in petroleum rights

	Leviathan	Gal	Sara and Myra	Shimshon	Daniel	Tamar	Yam Tethys	Hanna	Alon	Med Yavne	David
Avner Oil	22.7%					15.6%	23.0%	22.7%	26.5%		22.7%
Delek Drilling	22.7%					15.6%	25.5%	22.7%	26.5%		22.7%
Isramco Negev				39.0%	59.0%	28.8%				50.6%	
Ratio Oil	15.0%	100%						15.0%		12.3%	15.0%
Delek Group							4.4%				
Noble Energy	39.7%					36.0%	47.0%	40.0%	47.1%		40.0%
ATP				40.0%	40.0%						
INOC				10.0%							
Naphta Exploration Ltd				10.0%						3.5%	
Israel Oil Co				1.0%	1.0%					14.8%	
Emmanuelle Energy*			38.7%								
Modiin Energy**			28.1%								
IPC Oil and Gas			12.9%								
Blue Water Oil and Gas											
GeoGlobal resources			10.0%								
IDB Development Corporation**			5.3%								
Israel Land Development*			5.0%								
Dor Gas Exploration Ltd						4.0%				5.5%	
Israeli Petrochem. Entrerpr.										5.5%	
Jerusalem Oil Explor.										4.4%	
Equital										3.3%	
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Israel Ministry of National Infrastructures, Barclays Research; \* Controlled by Ofer Nimrodi; \*\* Controlled by IDB Holdings

Figure 13: Map of the Israeli gas fields



Source: Israel Ministry of Infrastructures, Barclays Research  
Note: Alon A is located on #364 on the map above

## COMPANY SNAPSHOTS

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## COMPANY SNAPSHOT

Avner Oil Exploration - LP

Israel Oil &amp; Gas: E&amp;P

Income statement (\$mn)	2011A	2012E	2013E	2014E	CAGR
Total operating profit	81,632	90,859	231,858	N/A	N/A
EBIDA	116,940	114,768	263,232	N/A	N/A
Pre-tax income	77,319	86,546	227,545	N/A	N/A
Net income	67,819	86,546	227,545	N/A	N/A
EPS (reported) (ILS)	0.02	0.03	0.07	N/A	N/A
Diluted shares (mn)	3,334,831.0	3,334,831.0	3,334,831.0	N/A	N/A
DPS (\$)	0.00	0.00	0.00	N/A	N/A

Margin and return data	Average				
ROACE (%)	32.8	38.3	80.1	N/A	50.4
Revenues (\$/boe)	32.12	28.46	43.87	N/A	34.82
Cash opex (\$/boe)	6.10	4.87	4.91	N/A	5.29
Non-cash opex (\$/boe)	N/A	N/A	N/A	N/A	N/A
EBIDA (\$/boe)	N/A	N/A	N/A	N/A	N/A

Balance sheet and cash flow (\$mn)	CAGR				
Shareholders' equity	249,009	335,555	563,100	N/A	N/A
Minorities	0	0	0	N/A	N/A
Net debt/(funds)	6,058	-3,224	-12,506	N/A	N/A
Capital employed	255,641	332,905	551,168	N/A	N/A
Cash EBIDA	13	17	32	N/A	N/A
Cash flow from operations	99,662	106,247	254,499	N/A	N/A
Capital expenditure	-4,271	-2,328	-2,566	N/A	N/A
Dividends paid	0	0	0	N/A	N/A
Net cash from operations	102,430	131,975	138,222	N/A	N/A
Free cash flow	122,353	138,169	144,389	N/A	N/A
Net cash surplus/(deficit)	-179,095	-139,016	-133,006	N/A	N/A

Valuation and leverage metrics	Average				
P/E (reported) (x)	108.0	83.1	31.8	N/A	74.3
EV/EBITDA (x)	14.7	16.2	7.1	N/A	12.7
EV/EBIDA (x)	15.9	16.2	7.1	N/A	13.1
Equity FCF yield (%)	6.7	7.6	7.9	N/A	7.4
Dividend yield (%)	0.0	0.0	0.0	N/A	0.0
Net debt/capital (%)	2.4	-1.0	-2.3	N/A	-0.3
Net debt/equity (%)	2.4	-1.0	-2.2	N/A	-0.2
EV/2P reserves (\$/boe)	N/A	N/A	N/A	N/A	N/A
EV/2P + 2C reserves (\$/boe)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics				
Total production (000 boe/d)	N/A	N/A	N/A	N/A
Reserves (in '000 boe)				
2P reserves (m boe) (mn)	97.3	97.3	97.3	N/A
2C resources (m boe) (mn)	5,216.6	5,216.6	5,216.6	N/A

Stock Rating	2-EQUAL WEIGHT
Sector View	1-POSITIVE
Price (28-Jun-2012)	ILS 2.16
Price Target	ILS 2.91
Ticker	AVNRp.TA

## Investment case

**Why a 2-Equal Weight?** We value Avner using a sum of the parts valuation which values each of the reserves individually using a 10% discount rate. We model Mari and Noa at \$761m, Tamar at \$7.8b and then multiply the NPV by the working interest. Leviathan is divided into two projects a) Leviathan gas whose NPV is \$7.1bn and on which we apply a 80% chance of success b) Leviathan Oil whose NPV is \$7.7bn and COS is 12%. This leads us to our ILS 2.91 / share valuation.

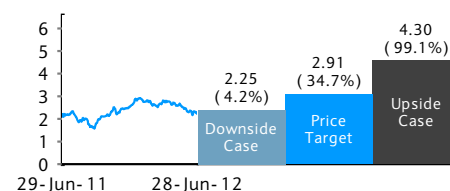
## Upside case ILS 4.30

In our upside case, we model a 100% chance of success for Tamar (versus 95% in our base case), 100% for Leviathan Gas (versus 80%) and 100% for Leviathan Oil (versus 12%). This increases our total NAV valuation to ILS 14.3bn, or ILS 4.30 / share.

## Downside case ILS 2.25

In our downside case, we model a 75% chance of success for Tamar (versus 95% in our base case), 70% for Leviathan Gas (versus 80%) and 0% for Leviathan Oil (versus 12%). This decreases our total NAV valuation to ILS 7.5bn, or ILS 2.25 / share.

## Upside/downside scenarios



Source: Barclays Research

Source: Company data, Barclays Research  
Note: FY End Dec

## COMPANY SNAPSHOT

Delek Drilling - LP

Israel Oil &amp; Gas: E&amp;P

Income statement	2011A	2012E	2013E	2014E	CAGR
Total operating profit	N/A	N/A	N/A	N/A	N/A
EBIDA (\$mn)	121,917	106,717	249,782	N/A	N/A
Pre-tax income (\$mn)	79,626	85,697	221,388	N/A	N/A
Net income (\$mn)	70,063	85,697	221,388	N/A	N/A
EPS (reported) (ILS)	0.13	0.16	0.40	N/A	N/A
Diluted shares (mn)	546,967.0	546,967.0	546,967.0	N/A	N/A
DPS	N/A	N/A	N/A	N/A	N/A

Margin and return data	Average				
ROACE (%)	33.0	21.6	N/A	N/A	27.3
Revenues (\$/boe)	N/A	N/A	N/A	N/A	N/A
Cash opex (\$/boe)	10.71	6.17	6.21	N/A	7.69
Non-cash opex (\$/boe)	N/A	N/A	N/A	N/A	N/A
EBIDA (\$/boe)	N/A	N/A	N/A	N/A	N/A

Balance sheet and cash flow (\$mn)	CAGR				
Shareholders' equity	252,054	337,751	559,139	N/A	N/A
Minorities	N/A	N/A	N/A	N/A	N/A
Net debt/(funds)	681	38,841	-26,191	N/A	N/A
Capital employed	252,022	375,879	532,235	N/A	N/A
Cash EBIDA	N/A	N/A	N/A	N/A	N/A
Cash flow from operations	107,445	104,716	247,705	N/A	N/A
Capital expenditure	-77,605	-1,786	-2,023	N/A	N/A
Dividends paid	0	0	0	N/A	N/A
Net cash from operations	113,540	138,530	166,481	N/A	N/A
Free cash flow	131,214	138,745	166,534	N/A	N/A
Net cash surplus/(deficit)	139,473	268,649	220,960	N/A	N/A

Valuation and leverage metrics	Average				
P/E (reported) (x)	92.2	75.2	29.1	N/A	65.5
EV/EBITDA (x)	12.7	15.7	6.7	N/A	11.7
EV/EBIDA (x)	13.7	15.7	6.7	N/A	12.0
Equity FCF yield (%)	N/A	N/A	N/A	N/A	N/A
Dividend yield (%)	N/A	N/A	N/A	N/A	N/A
Net debt/capital (%)	0.3	10.3	-4.9	N/A	1.9
Net debt/equity (%)	0.3	11.5	-4.7	N/A	2.4
EV/2P reserves (\$/boe)	N/A	N/A	N/A	N/A	N/A
EV/2P + 2C reserves (\$/boe)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics					
Total production (000 boe/d)	N/A	N/A	N/A	N/A	
Reserves (in '000 boe)					
2P reserves (m boe) (mn)	88.9	88.9	88.9	N/A	
2C resources (m boe) (mn)	5,213.9	5,213.9	5,213.9	N/A	

Stock Rating	2-EQUAL WEIGHT
Sector View	1-POSITIVE
Price (28-Jun-2012)	ILS 11.80
Price Target	ILS 16.53
Ticker	DEDRp.TA

## Investment case

**Why a 2-Equal Weight?** We value Delek Drilling using a sum of the parts valuation which values each of the reserves individually using a 10% discount rate. We model Mari and Noa at \$761m, Tamar at \$7.8b and then multiply the NPV by the working interest. Leviathan is divided into two projects a) Leviathan gas whose NPV is \$7.1bn and on which we apply a 80% chance of success b) Leviathan Oil whose NPV is \$7.7bn and COS is 12%. This leads us to our ILS 16.53 / share valuation.

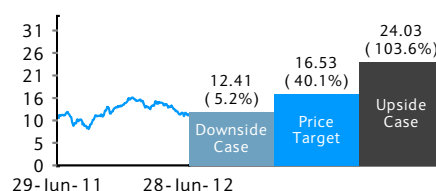
## Upside case ILS 24.03

In our upside case, we model a 100% chance of success for Tamar (versus 95% in our base case), 100% for Leviathan Gas (versus 80%) and 100% for Leviathan Oil (versus 12%). This increases our total NAV valuation to ILS 13.1bn, or ILS 24.03 / share.

## Downside case ILS 12.41

In our downside case, we model a 75% chance of success for Tamar (versus 95% in our base case), 70% for Leviathan Gas (versus 80%) and 0% for Leviathan Oil (versus 12%). This decreases our total NAV valuation to ILS 6.8bn, or ILS 12.41 / share.

## Upside/downside scenarios



Source: Barclays Research

Source: Company data, Barclays Research  
Note: FY End Dec

## COMPANY SNAPSHOT

Delek Energy Systems Ltd.

Israel Oil &amp; Gas: E&amp;P

Income statement	2011A	2012E	2013E	2014E	CAGR
Total operating profit	N/A	N/A	N/A	N/A	N/A
EBIDA (ILSmn)	0	0	0	N/A	N/A
Pre-tax income (ILSmn)	65,657	69,382	244,856	N/A	N/A
Net income (ILSmn)	65,657	69,382	244,856	N/A	N/A
EPS (reported) (ILS)	-2.20	-1.88	-1.66	N/A	N/A
Diluted shares	N/A	N/A	N/A	N/A	N/A
DPS	N/A	N/A	N/A	N/A	N/A

Margin and return data	Average				
ROACE (%)	0.0	0.0	0.0	N/A	0.0
Revenues (\$/boe)	N/A	N/A	N/A	N/A	N/A
Cash opex (\$/boe)	0.00	0.00	0.00	N/A	0.00
Non-cash opex (\$/boe)	0.00	0.00	0.00	N/A	0.00
EBIDA (\$/boe)	N/A	N/A	N/A	N/A	N/A

Balance sheet and cash flow (ILSmn)	CAGR				
Shareholders' equity	169,999	239,381	484,237	N/A	N/A
Minorities	-11,031	-9,444	-8,313	N/A	N/A
Net debt/(funds)	0	0	0	N/A	N/A
Capital employed	0	0	0	N/A	N/A
Cash EBIDA	0	0	0	N/A	N/A
Cash flow from operations	65,657	69,382	244,856	N/A	N/A
Capital expenditure	0	0	0	N/A	N/A
Dividends paid	N/A	N/A	N/A	N/A	N/A
Net cash from operations	296,263	302,847	612,940	N/A	N/A
Free cash flow	0	0	0	N/A	N/A
Net cash surplus/(deficit)	0	0	0	N/A	N/A

Valuation and leverage metrics	Average				
P/E (reported) (x)	N/A	N/A	N/A	N/A	N/A
EV/EBITDA (x)	23.0	22.6	13.2	N/A	19.6
EV/EBIDA (x)	N/A	N/A	N/A	N/A	N/A
Equity FCF yield (%)	N/A	N/A	N/A	N/A	N/A
Dividend yield (%)	N/A	N/A	N/A	N/A	N/A
Net debt/capital (%)	0.0	0.0	0.0	N/A	0.0
Net debt/equity (%)	0.0	0.0	0.0	N/A	0.0
EV/2P reserves (\$/boe)	N/A	N/A	N/A	N/A	N/A
EV/2P + 2C reserves (\$/boe)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics				
Total production (000 boe/d)	N/A	N/A	N/A	N/A
<b>Reserves (in '000 boe)</b>				
2P reserves (m boe)	N/A	N/A	N/A	N/A
2C resources (m boe)	N/A	N/A	N/A	N/A

Stock Rating	<b>1-OVERWEIGHT</b>
Sector View	<b>1-POSITIVE</b>
Price (28-Jun-2012)	<b>ILS 1,330.00</b>
Price Target	<b>ILS 1,363.00</b>
Ticker	<b>DLEN.TA</b>

## Investment case

**Why a 1-Overweight?** We value Delek Energy using a sum of the parts valuation. We value each subsidiary individually and then multiply by the percentage of ownership. This leads us to a net sum-of-the-parts valuation of ILS 6.9bn or ILS 1,363 / share.

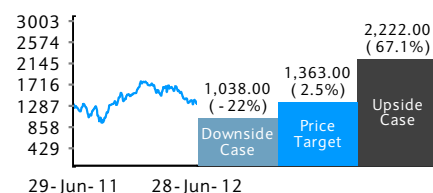
Upside case **ILS 2,222.00**

Our upside case takes into account the upside cases at Avner and Delek Drilling. This leads us to a net sum-of-the-parts valuation of ILS 11.9bn or ILS 2,222 / share.

Downside case **ILS 1,038.00**

Our downside case takes into account the downside cases at Avner and Delek Drilling. This leads us to a net sum-of-the-parts valuation of ILS 5.5bn or ILS 1,038 / share.

## Upside/downside scenarios



Source: Barclays Research

Source: Company data, Barclays Research

Note: FY End Dec

## COMPANY SNAPSHOT

Delek Group Ltd.

Israel Power &amp; Utilities

Income statement (ILSmn)	2011A	2012E	2013E	2014E	CAGR
Revenue	59,159	60,753	62,447	64,207	2.8%
EBITDA	3,474	2,767	2,915	3,067	-4.1%
EBIT	1,613	1,567	1,649	1,738	2.5%
Pre-tax income	3,814	869	951	1,040	-35.2%
Net income	3,256	783	857	937	-34.0%
EPS (reported) (ILS)	231.69	46.56	50.95	55.71	-37.8%
Diluted shares (mn)	11.3	11.7	11.7	11.7	1.2%
DPS (ILS)	0.00	0.00	0.00	0.00	N/A

Margin and return data	Average				
EBITDA margin (%)	5.9	37.7	38.6	39.5	30.4
EBIT margin (%)	2.7	2.6	2.6	2.7	2.7
Pre-tax margin (%)	6.4	11.8	12.6	13.4	11.1
Net margin (%)	5.5	10.7	11.3	12.1	9.9
ROA (%)	1.5	1.5	1.5	1.6	1.5
ROIC (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	97.7	21.0	20.6	20.3	39.9

Balance sheet and cash flow (ILSmn)	CAGR				
Tangible fixed assets	9,610	10,011	10,391	10,754	3.8%
Intangible fixed assets	2,540	2,540	2,540	2,540	0.0%
Cash and equivalents	3,610	5,631	6,377	7,229	26.0%
Total assets	41,501	41,663	41,760	41,860	0.3%
Short and long-term debt	N/A	N/A	N/A	N/A	N/A
Other long-term liabilities	1,020	1,020	1,020	1,020	0.0%
Total liabilities	55,309	55,309	55,309	55,309	0.0%
Net debt/(funds)	N/A	N/A	N/A	N/A	N/A
Shareholders' equity	41,501	41,663	41,760	41,860	0.3%
Cash flow from operations	3,256	783	857	937	-34.0%
Capital expenditure	0	0	0	0	N/A
Free cash flow	0	0	0	0	N/A
Change in working capital	-258	363	269	279	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	2.5	12.2	11.2	10.2	9.0
Equity FCF yield (%)	0.0	0.0	0.0	0.0	0.0
P/BV (x)	0.2	0.2	0.2	0.2	0.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Sum of parts valuation	N/A	N/A	N/A	N/A	N/A

## Selected operating metrics

Source: Company data, Barclays Research  
Note: FY End Dec

Stock Rating	1-OVERWEIGHT
Sector View	2-NEUTRAL
Price (28-Jun-2012)	ILS 569.90
Price Target	ILS 831.00
Ticker	DEKKG.TA

## Investment case

**Why a 1-Overweight?** We use a sum-of-the-parts model to value the Group. We use market cap for most of the publicly traded assets and DCF for the E&P business, which comes to ILS 12,804m and various methodologies including price-to-book of 1x Republic insurance, 18x annualized earnings for IDE, purchase price less debt for Delek Europe to arrive at a value of ILS 2,516m for the privately held subsidiaries. We then subtract ILS 6,937m in net debt and apply 5% conglomerate discount.

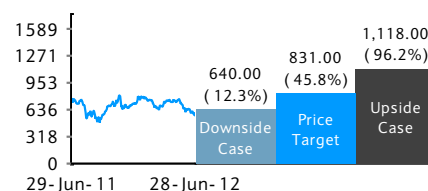
## Upside case ILS 1,118.00

Our upside case takes into account the upside cases at Avner and Delek Drilling. This leads us to net sum of the part valuation of ILS 15.1bn or ILS 1,118 / share.

## Downside case ILS 640.00

Our downside case takes into account the downside cases at Avner and Delek Drilling. This leads us to net sum of the part valuation of ILS 8.7bn or ILS 640 / share.

## Upside/downside scenarios



Source: Barclays Research

## COMPANY SNAPSHOT

Isramco Negev 2 LP

Israel Oil &amp; Gas: E&amp;P

Income statement	2011A	2012E	2013E	2014E	CAGR
Total operating profit	N/A	N/A	N/A	N/A	N/A
EBIDA (ILSmn)	-1,556	-2,090	667,750	N/A	N/A
Pre-tax income (ILSmn)	-13,841	-4,179	662,261	N/A	N/A
Net income (ILSmn)	-19,372	-4,179	662,261	N/A	N/A
EPS (reported) (ILS)	0.00	0.00	0.06	N/A	N/A
Diluted shares (mn)	11,346,522.0	11,346,522.0	11,346,522.0	N/A	N/A
DPS	N/A	N/A	N/A	N/A	N/A

Margin and return data	Average				
ROACE (%)	-1.2	-0.7	N/A	N/A	-0.9
Revenues (\$/boe)	N/A	N/A	N/A	N/A	N/A
Cash opex (\$/boe)	N/A	N/A	1.77	N/A	1.77
Non-cash opex (\$/boe)	N/A	N/A	N/A	N/A	N/A
EBIDA (\$/boe)	N/A	N/A	N/A	N/A	N/A

Balance sheet and cash flow (ILSmn)	CAGR				
Shareholders' equity	326,580	325,889	988,150	N/A	N/A
Minorities	0	0	0	N/A	N/A
Net debt/(funds)	472,626	667,259	-869,753	N/A	N/A
Capital employed	1,185,433	1,375,887	501,136	N/A	N/A
Cash EBIDA	0	0	0	N/A	N/A
Cash flow from operations	1,443	1,127	670,966	N/A	N/A
Capital expenditure	-324,935	-247,398	-247,398	N/A	N/A
Dividends paid	0	0	0	N/A	N/A
Net cash from operations	-3,338	-963	668,772	N/A	N/A
Free cash flow	-245,955	-246,272	423,567	N/A	N/A
Net cash surplus/(deficit)	24,812	24,812	869,753	N/A	N/A

Valuation and leverage metrics	Average				
P/E (reported) (x)	N/A	N/A	8.1	N/A	8.1
EV/EBITDA (x)	-2,738.8	-2,608.3	8.2	N/A	-1,779.6
EV/EBIDA (x)	-3,502.7	-2,608.3	8.2	N/A	-2,034.3
Equity FCF yield (%)	N/A	N/A	N/A	N/A	N/A
Dividend yield (%)	N/A	N/A	N/A	N/A	N/A
Net debt/capital (%)	N/A	N/A	N/A	N/A	N/A
Net debt/equity (%)	144.7	204.8	-88.0	N/A	87.2
EV/2P reserves (\$/boe)	N/A	N/A	N/A	N/A	N/A
EV/2P + 2C reserves (\$/boe)	N/A	N/A	N/A	N/A	N/A

## Selected operating metrics

Total production (000 boe/d)	N/A	N/A	N/A	N/A
<b>Reserves (in '000 boe)</b>				
2P reserves (m boe)	N/A	N/A	N/A	N/A
2C resources (m boe)	N/A	N/A	N/A	N/A

Stock Rating	1-OVERWEIGHT
Sector View	1-POSITIVE
Price (28-Jun-2012)	ILS 0.47
Price Target	ILS 0.69
Ticker	ISRAp.TA

## Investment case

**Why a 1-Overweight?** We value Isramco using a sum of the parts valuation which values Tamar using a 10% discount rate. We value Tamar at \$7.8bn and then multiple the NPV by the c. 29% working interest. This gives us a ILS 7.9bn NAV or ILS 0.69 per share.

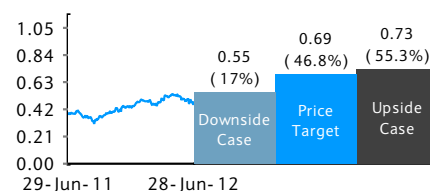
## Upside case ILS 0.73

In our upside case, we attribute a 100% chance of success of tamar, versus 95% in our base case. This gives us a ILS 8.3bn NAV or ILS 0.73 per share.

## Downside case ILS 0.55

In our downside case, we attribute a 75% chance of success of tamar, versus 95% in our base case. This gives us a ILS 6.2bn NAV or ILS 0.55 per share.

## Upside/downside scenarios



Source: Barclays Research

Source: Company data, Barclays Research

Note: FY End Dec

## COMPANY SNAPSHOT

Ratio Oil Exploration

Israel Oil &amp; Gas: E&amp;P

Income statement	2011A	2012E	2013E	2014E	CAGR
Total operating profit	N/A	N/A	N/A	N/A	N/A
EBIDA (\$mn)	-2,784	-2,923	-3,069	N/A	N/A
Pre-tax income (\$mn)	-17,306	-15,398	-15,691	N/A	N/A
Net income (\$mn)	-17,306	-15,398	-15,691	N/A	N/A
EPS (reported) (ILS)	0.00	0.00	0.00	N/A	N/A
Diluted shares (mn)	6,833,711.8	6,833,711.8	6,833,711.8	N/A	N/A
DPS (\$)	0.00	0.00	0.00	N/A	N/A

Margin and return data	Average				
ROACE (%)	-21.2	-16.6	N/A	N/A	-18.9
Revenues (\$/boe)	N/A	N/A	N/A	N/A	N/A
Cash opex (\$/boe)	N/A	N/A	N/A	N/A	N/A
Non-cash opex (\$/boe)	N/A	N/A	N/A	N/A	N/A
EBIDA (\$/boe)	N/A	N/A	N/A	N/A	N/A

Balance sheet and cash flow (\$mn)	CAGR				
Shareholders' equity	100,253	84,855	69,164	N/A	N/A
Minorities	0	0	0	N/A	N/A
Net debt/(funds)	-204,128	-193,586	-182,606	N/A	N/A
Capital employed	1,030,089	1,025,232	1,020,522	N/A	N/A
Cash EBIDA	0	0	N/A	N/A	N/A
Cash flow from operations	-18,563	-15,398	-15,691	N/A	N/A
Capital expenditure	-46,737	0	0	N/A	N/A
Dividends paid	0	0	0	N/A	N/A
Net cash from operations	-14,596	-11,508	-11,801	N/A	N/A
Free cash flow	1,183	967	821	N/A	N/A
Net cash surplus/(deficit)	14,586	-11,508	-11,801	N/A	N/A

Valuation and leverage metrics	Average				
P/E (reported) (x)	N/A	N/A	N/A	N/A	N/A
EV/EBITDA (x)	-195.2	-185.9	N/A	N/A	-190.5
EV/EBIDA (x)	-195.2	-185.9	N/A	N/A	-190.5
Equity FCF yield (%)	0.2	0.2	0.2	N/A	0.2
Dividend yield (%)	0.0	0.0	0.0	N/A	0.0
Net debt/capital (%)	-19.8	-18.9	N/A	N/A	-19.3
Net debt/equity (%)	-203.6	-228.1	N/A	N/A	-215.9
EV/2P reserves (\$/boe)	N/A	N/A	N/A	N/A	N/A
EV/2P + 2C reserves (\$/boe)	N/A	N/A	N/A	N/A	N/A

## Selected operating metrics

Total production (000 boe/d)	N/A	N/A	N/A	N/A
<b>Reserves (in '000 boe)</b>				
2P reserves (m boe) (mn)	0.0	0.0	N/A	N/A
2C resources (m boe) (mn)	2,532.6	2,532.6	N/A	N/A

Source: Company data, Barclays Research  
Note: FY End Dec

Stock Rating	1-OVERWEIGHT
Sector View	1-POSITIVE
Price (28-Jun-2012)	ILS 0.29
Price Target	ILS 0.45
Ticker	RATIp.TA

## Investment case

**Why a 1-Overweight?** We value Ratio using a sum of the parts valuation which values each of the reserves individually using a 10% discount rate. Leviathan is divided into two projects a) Leviathan gas whose NPV is \$7.1bn and on which we apply a 80% chance of success b) Leviathan Oil whose NPV is \$7.7bn and COS is 12%. This leads us to our ILS 6bn NAV valuation or ILS 0.45 / share.

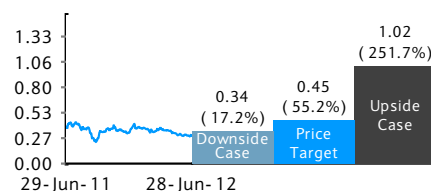
## Upside case ILS 1.02

In our upside case, we model 100% chance of success for Leviathan Gas (versus 80%) and 100% for Leviathan Oil (versus 12%). This increases our total NAV valuation to ILS 7.2bn, or ILS 4.30 / share.

## Downside case ILS 0.34

In our downside case, we model a 70% chance of success for Leviathan Gas (versus 80%) and 0% for Leviathan Oil (versus 12%). This decreases our total NAV valuation to ILS 5.2bn, or ILS 0.34 / share.

## Upside/downside scenarios



Source: Barclays Research

## COMPANY SNAPSHOT

ORL

Israel Power &amp; Utilities

Income statement (\$mn)	2011A	2012E	2013E	2014E	CAGR
Revenue	N/A	N/A	N/A	N/A	N/A
EBITDA (adj)	113	213	235	N/A	N/A
EBIT (adj)	-22	213	235	N/A	N/A
Pre-tax income	-111	97	120	N/A	N/A
Net income	-59	96	115	N/A	N/A
EPS (adj) (\$)	-0.04	0.04	0.05	N/A	N/A
Diluted shares (mn)	2,432	2,432	2,432	N/A	N/A
DPS (\$)	0.00	0.03	0.04	N/A	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	N/A	N/A	N/A	N/A	N/A
EBIT (adj) margin (%)	N/A	N/A	N/A	N/A	N/A
Pre-tax margin (%)	N/A	N/A	N/A	N/A	N/A
Net margin (%)	N/A	N/A	N/A	N/A	N/A
ROIC (%)	N/A	N/A	N/A	N/A	N/A
ROA (%)	-0.4	3.8	4.2	N/A	2.5
ROE (%)	-5.5	9.5	11.3	N/A	5.1

Balance sheet and cash flow (\$mn)	CAGR				
Tangible fixed assets	2,313	2,313	2,313	N/A	N/A
Intangible fixed assets	N/A	N/A	N/A	N/A	N/A
Cash and equivalents	42	42	42	N/A	N/A
Total assets	4,505	4,505	4,505	N/A	N/A
Short and long-term debt	2,480	0	0	N/A	N/A
Other long-term liabilities	0	0	0	N/A	N/A
Total liabilities	3,488	3,488	3,488	N/A	N/A
Net debt/(funds)	1,648	1,641	1,684	N/A	N/A
Shareholders' equity	1,018	1,018	1,018	N/A	N/A
Cash flow from operations	283	N/A	N/A	N/A	N/A
Capital expenditure	169	172	174	N/A	N/A
Free cash flow	-179	7	29	N/A	N/A
Change in working capital	-139	0	0	N/A	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	N/A	12.1	10.2	N/A	11.1
EV/EBITDA (adj) (x)	24.8	13.2	12.1	N/A	16.7
Equity FCF yield (%)	N/A	N/A	N/A	N/A	N/A
EV/sales (x)	N/A	N/A	N/A	N/A	N/A
EV/IC (x)	N/A	N/A	N/A	N/A	N/A
Dividend yield (%)	0.0	6.2	7.4	N/A	4.5
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A
Working capital/sales (%)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics				
Volume growth (%)	N/A	N/A	N/A	N/A
Price growth (%)	N/A	N/A	N/A	N/A
Sales/fixed assets (x)	N/A	N/A	N/A	N/A
Capex/depreciation (x)	N/A	N/A	N/A	N/A
Post retirement (deficit)	N/A	N/A	N/A	N/A
Restructuring cash-out	N/A	N/A	N/A	N/A

Stock Rating	2-EQUAL WEIGHT
Sector View	2-NEUTRAL
Price (28-Jun-2012)	ILS 1.89
Price Target	ILS 2.50
Ticker	ORL.TA

## Investment case

**Why a 2-Equal Weight?** ORL has surpassed our expectations in the last three years with the upgrades adding significantly to profitability. The merger with Carmel Olefins is providing synergies but with strong price performance we see better value elsewhere.

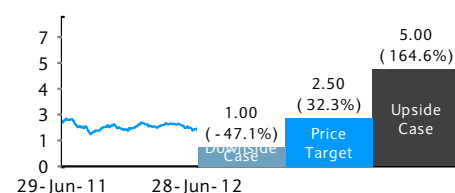
## Upside case ILS 5.00

Further widening of crack spreads and return of natural gas delivery from the Egyptian pipeline may lead to ORL beating our expectations.

## Downside case ILS 1.00

A delay in bringing the hydrocracker online would have negative impact on profitability and revenues.

## Upside/downside scenarios



Source: Barclays Research

Source: Company data, Barclays Research  
Note: FY End Dec



## COMPANY SNAPSHOT

Ormat Industries Ltd.

Israel Power &amp; Utilities

Income statement (\$mn)	2011A	2012E	2013E	2014E	CAGR
Revenue	440	413	441	N/A	N/A
EBITDA (adj)	66	73	81	N/A	N/A
EBIT (adj)	66	73	81	N/A	N/A
Pre-tax income	-6	54	62	N/A	N/A
Net income	-38	74	85	N/A	N/A
EPS (adj) (\$)	-0.19	0.23	0.32	N/A	N/A
Diluted shares	N/A	N/A	N/A	N/A	N/A
DPS (\$)	0.84	0.00	0.00	N/A	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	14.9	17.6	18.4	N/A	17.0
EBIT (adj) margin (%)	14.9	17.6	18.4	N/A	17.0
Pre-tax margin (%)	-1.3	13.0	14.1	N/A	8.6
Net margin (%)	-8.6	18.0	19.2	N/A	9.5
ROIC (%)	3.4	3.5	3.8	N/A	3.6
ROA (%)	3.3	3.3	3.5	N/A	3.4
ROE (%)	-3.8	5.3	7.4	N/A	3.0

Balance sheet and cash flow (\$mn)	CAGR				
Tangible fixed assets	1,793	2,063	2,123	N/A	N/A
Intangible fixed assets	32	32	32	N/A	N/A
Cash and equivalents	114	54	62	N/A	N/A
Total assets	2,254	2,460	2,529	N/A	N/A
Short and long-term debt	148	148	148	N/A	N/A
Other long-term liabilities	71	71	71	N/A	N/A
Total liabilities	1,193	807	807	N/A	N/A
Net debt/(funds)	169	229	221	N/A	N/A
Shareholders' equity	858	886	923	N/A	N/A
Cash flow from operations	-11	108	124	N/A	N/A
Capital expenditure	270	270	60	N/A	N/A
Free cash flow	-374	-216	2	N/A	N/A
Change in working capital	0	0	0	N/A	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	N/A	21.0	15.1	N/A	18.1
EV/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A
Equity FCF yield (%)	-15.0	-8.7	0.1	N/A	-7.9
EV/sales (x)	N/A	N/A	N/A	N/A	N/A
EV/IC (x)	N/A	N/A	N/A	N/A	N/A
Dividend yield (%)	17.2	0.0	0.0	N/A	5.7
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A
Working capital/sales (%)	0.0	0.0	0.0	N/A	0.0

## Selected operating metrics

Volume growth (%)	N/A	N/A	N/A	N/A
Price growth (%)	N/A	N/A	N/A	N/A
Sales/fixed assets (x)	0.2	0.2	0.2	N/A
Capex/depreciation (x)	N/A	N/A	N/A	N/A
Post retirement (deficit)	N/A	N/A	N/A	N/A
Restructuring cash-out (\$mn)	0	0	0	N/A

Stock Rating	2-EQUAL WEIGHT
Sector View	2-NEUTRAL
Price (28-Jun-2012)	ILS 19.33
Price Target	ILS 36.00
Ticker	ORMT.TA

## Investment case

**Why a 2-Equal Weight?** ORMT is one of the largest geothermal power companies in North America. The stock has been impacted by the overhang of the North Brawley project construction and financing concerns. The company is starting to turn the corner, but the stock still trades at a high multiple.

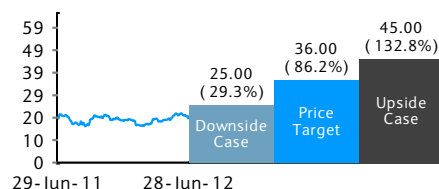
## Upside case ILS 45.00

The upside case is a discounted cash flow which assumes 15% net income growth to 2020 and a 15% discount rate.

## Downside case ILS 25.00

The downside case would continue to assume financing problems and uses an EBITDA valuation.

## Upside/downside scenarios



Source: Barclays Research

Source: Company data, Barclays Research

Note: FY End Dec



## Valuation Methodology and Risks

### Israel Oil & Gas: E&P

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

**Valuation Methodology:** We use a sum of the parts valuation which values each of the reserves individually using a 10% discount rate. We model Mari and Noa at \$761m, Tamar at \$7.8b and then multiply the NPV by the working interest. Leviathan is divided into two projects a) Leviathan gas whose NPV is \$7.1bn and on which we apply a 80% chance of success b) Leviathan Oil whose NPV is \$7.7bn and COS is 12%.

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

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

**Valuation Methodology:** We use a sum of the parts valuation which values each of the reserves individually using a 10% discount rate. We model Mari and Noa at \$761m, Tamar at \$7.8b and then multiply the NPV by the working interest. Leviathan is divided into two projects a) Leviathan gas whose NPV is \$7.1bn and on which we apply a 80% chance of success b) Leviathan Oil whose NPV is \$7.7bn and COS is 12%.

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

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

**Valuation Methodology:** We use a sum of the parts valuation which values each of the reserves individually using a 10% discount rate. We model Mari and Noa at \$761m, Tamar at \$7.8b and then multiply the NPV by the working interest. Leviathan is divided into two projects a) Leviathan gas whose NPV is \$7.1bn and on which we apply a 80% chance of success b) Leviathan Oil whose NPV is \$7.7bn and COS is 12%.

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

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

**Valuation Methodology:** We use a sum of the parts valuation which values each of the reserves individually using a 10% discount rate. We value Tamar at \$7.8b and then multiply the NPV by the working interest.

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

#### Ratio Oil Exploration (RATIL IT / RATIp.TA)

**Valuation Methodology:** We use a sum of the parts valuation which values each of the reserves individually using a 10% discount rate. Leviathan is divided into two projects a) Leviathan gas whose NPV is \$7.1bn and on which we apply a 80% chance of success b) Leviathan Oil whose NPV is \$7.7bn and COS is 12%.

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

### Israel Power & Utilities

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

**Valuation Methodology:** We use a sum-of-the-parts model to value the Delek Group. We use market cap for most of the publicly traded assets as well as DCF for the E&P and US retail fuel business, which comes to ILS 12,804m and various methodologies including price-to-book of 1x Republic insurance, 18x annualized earnings for IDE, purchase price less debt for Delek Europe to arrive at a value of ILS 2,516m for the privately held subsidiaries. We then subtract ILS 6,937m in net debt and apply a 5% conglomerate discount to arrive at our ILS 9,949m valuation. There are 11.7 million shares outstanding; on a diluted basis we derive our ILS 831 price target.

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

#### Oil Refineries Ltd. (ORL IT / ORL.TA)

**Valuation Methodology:** Our price target for ORL shares is derived using a discounted cash flow methodology, using a 12% discount rate, in line with that which we use in the wider European refining sector. Our calculation includes our estimate of value created from future growth based on the company's past and expected future return spread over its cost of capital. The cash flows in our DCF calculation comprise both dollar and local currencies. Our price target is set in local currency.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Our ORL share price target and recommendation depend on our estimates of profitability and cash flow and the rate at which we discount the cash flows. These estimates in turn are based on assumptions for oil prices and downstream margins. These assumptions depend on the Barclays European Oil & Gas equity research teams estimates for future energy supply-demand patterns, exchange rates, commodity prices. All of our estimates are subject to revision and may be materially different from eventual outcomes. In addition individual refineries are subject to crude supply disruptions or operational failures.

#### Ormat Industries Ltd. (ORMT IT / ORMT.TA)

**Valuation Methodology:** Our price target to ILS36 premised upon the average of 2 methodologies. ILS 38 from the 6.8x 2010E EV/EBITDA premised upon our 12E of \$73M, and ILS 34 from a DCF calculation.

### Valuation Methodology and Risks

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Risks include shareholder concentration, credit, regulation, commodity prices and geological changes that impact commodity prices.

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Source: Barclays Research.

## ANALYST(S) CERTIFICATION(S)

We, David Kaplan and Lydia Rainforth, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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### Primary Stocks (Ticker, Date, Price)

Avner Oil Exploration - LP (AVNRp.TA, 28-Jun-2012, ILS 2.16), 2-Equal Weight/1-Positive  
 Delek Drilling - LP (DEDRp.TA, 28-Jun-2012, ILS 11.80), 2-Equal Weight/1-Positive  
 Delek Energy Systems Ltd. (DLEN.TA, 28-Jun-2012, ILS 1330.00), 1-Overweight/1-Positive  
 Delek Group Ltd. (DEKKG.TA, 28-Jun-2012, ILS 569.90), 1-Overweight/2-Neutral  
 Isramco Negev 2 LP (ISRAp.TA, 28-Jun-2012, ILS 0.47), 1-Overweight/1-Positive  
 Oil Refineries Ltd. (ORL.TA, 28-Jun-2012, ILS 1.89), 2-Equal Weight/2-Neutral  
 Ormat Industries Ltd. (ORMT.TA, 28-Jun-2012, ILS 19.33), 2-Equal Weight/2-Neutral  
 Ratio Oil Exploration (RATIp.TA, 28-Jun-2012, ILS 0.29), 1-Overweight/1-Positive

### Materially Mentioned Stocks (Ticker, Date, Price)

Afren Plc (AFRE.L, 28-Jun-2012, GBP 0.98), 1-Overweight/1-Positive  
 Bowleven PLC (BLVN.L, 28-Jun-2012, GBP 0.54), 1-Overweight/1-Positive  
 Cairn Energy (CNE.L, 28-Jun-2012, GBP 2.56), 2-Equal Weight/1-Positive  
 Cove Energy (COVE.L, 28-Jun-2012, GBP 2.67), 1-Overweight/1-Positive  
 Enquest (ENQ.L, 28-Jun-2012, GBP 1.05), 2-Equal Weight/1-Positive  
 JKC Oil & Gas (JKX.L, 28-Jun-2012, GBP 0.97), 2-Equal Weight/1-Positive  
 Max Petroleum (MXP.L, 28-Jun-2012, GBP 0.04), 1-Overweight/1-Positive  
 Premier Oil (PMO.L, 28-Jun-2012, GBP 3.31), 1-Overweight/1-Positive  
 Rockhopper Exploration (RKH.L, 28-Jun-2012, GBP 2.44), 1-Overweight/1-Positive  
 Salamander Energy (SMDR.L, 28-Jun-2012, GBP 1.62), 1-Overweight/1-Positive  
 Soco International (SIA.L, 28-Jun-2012, GBP 2.79), 3-Underweight/1-Positive  
 Tullow Oil (TLW.L, 28-Jun-2012, GBP 14.30), 1-Overweight/1-Positive

### Other Material Conflicts

AVNRp.TA: The Corporate and Investment Banking Division of Barclays Bank PLC is acting as corporate broker to Tullow Oil PLC.

The Corporate and Investment Banking Division of Barclays Bank PLC is acting as corporate broker to Bowleven Plc.

**Guide to the Barclays Fundamental Equity Research Rating System:**

**IMPORTANT DISCLOSURES CONTINUED**

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal Weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe").

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

**Stock Rating**

**1-Overweight** - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**2-Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**3-Underweight** - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**RS-Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

**Sector View**

**1-Positive** - sector coverage universe fundamentals/valuations are improving.

**2-Neutral** - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**3-Negative** - sector coverage universe fundamentals/valuations are deteriorating.

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

**European Oil & Gas: E&P**

Afren Plc (AFRE.L)	Bowleven PLC (BLVN.L)	Cairn Energy (CNE.L)
Cove Energy (COVE.L)	Enquest (ENQ.L)	JXX Oil & Gas (JXX.L)
Max Petroleum (MXP.L)	Premier Oil (PMO.L)	Rockhopper Exploration (RKH.L)
Salamander Energy (SMDR.L)	Soco International (SIA.L)	Tullow Oil (TLW.L)

**Israel Oil & Gas: E&P**

Avner Oil Exploration - LP (AVNRp.TA)	Delek Drilling - LP (DEDRp.TA)	Delek Energy Systems Ltd. (DLEN.TA)
Isramco Negev 2 LP (ISRAp.TA)	Ratio Oil Exploration (RATIp.TA)	

**Israel Power & Utilities**

Delek Group Ltd. (DELKG.TA)	Oil Refineries Ltd. (ORL.TA)	Ormat Industries Ltd. (ORMT.TA)
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Barclays Equity Research has 2353 companies under coverage.

43% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 53% of companies with this rating are investment banking clients of the Firm.

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