

**Ashot Ashkelon Industries
Limited**

**Interim Financial Statements
as at June 30, 2011
(Unaudited)**

THIS TRANSLATION IS FROM THE HEBREW VERSION AND HAS BEEN PREPARED FOR CONVENIENCE ONLY. IN CASE OF ANY DISCREPANCY, THE HEBREW VERSION WILL PREVAIL.

Financial Statements at June 30, 2011

Contents

	<u>Page</u>
Balance Sheets	3
Statements of Operations	5
Statements of Changes in Shareholders' Equity	6
Statements of Cash Flows	9

Balance Sheets

	As at June 30		As at December 31
	2011	2010	2010
	Unaudited		Audited
	NIS in thousands		
Current assets			
Cash and cash equivalents	5,827	34,383	38,616
Restricted bank deposit	-	310	285
Trade receivables	28,965	35,402	28,291
Investment in financial instruments	62,936	52,148	80,645
Other accounts receivables	19,744	15,420	19,011
Financial derivative	1,651	1,526	1,297
Inventory	151,302	119,917	124,217
Total current assets	270,425	259,106	292,362
Non-current assets			
Investment in financial instruments	-	8,989	-
Financial derivative	3,172	5,665	4,055
Non-current inventory	10,027	17,923	24,872
Benefits to employees	20,913	23,488	22,413
Fixed assets	90,786	90,611	88,535
Intangible assets	7,745	8,523	8,238
Total non-current assets	132,643	155,199	148,113
Total assets	403,068	414,305	440,475

 Avi Felder

Chairman of the Board of Directors

 Dan Katz

Chief Executive Officer

 Eli Zucker

Vice President Finance and Control

Date of approval of the financial statements: August 22, 2011

Balance Sheets

	As at June 30		As at December 31
	2011	2010	2010
	Unaudited		Audited
NIS thousands			
Current liabilities			
Short-term credits from banks and others	6,358	5,758	5,824
Trade payables	34,963	27,801	29,635
Other accounts payables	26,378	25,059	26,771
Provisions	2,085	1,511	2,883
Current installments of debentures	20,369	20,498	20,972
Customer advances	73,901	54,964	59,475
Total current liabilities	164,054	135,591	145,560
Long-term liabilities			
Loans from banks	5,004	4,895	6,365
Other liabilities	1,172	2,609	1,832
Liability for early retirement pensions	7,122	6,920	7,157
Liability for employees benefits	2,731	2,774	2,528
Debentures	34,342	49,263	50,453
Customer advances	55,022	96,901	104,052
Total long-term liabilities	105,393	163,362	172,387
Total liabilities	269,447	298,953	317,947
Shareholders equity			
Outstanding share capital	93,144	(*)93,144	93,144
Additional paid-in capital	18,234	18,234	18,234
Capital funds	24,374	24,374	24,374
Perpetual liabilities	129,906	123,845	126,648
Accumulated deficit	(132,037)	(*)(144,245)	(139,872)
Total shareholders equity	133,621	115,352	122,528
Total liabilities and equity	403,068	414,305	440,475

(*)Reclassified

Statements of Operations

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2011	2010	2011	2010	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Sales	124,863	110,413	61,149	52,828	222,333
Cost of sales	(101,793)	(*) (86,884)	(49,189)	(*) (42,810)	(*) (181,813)
Gross profit	23,070	23,529	11,960	10,018	40,520
Other Income (expenses)	206	(35)	206	(37)	108
Research & Development expenses	(231)	(*) -	(135)	(*) -	(*) -
Selling and Marketing expenses	(2,367)	(2,317)	(1,196)	(1,197)	(4,770)
General and Administrative expenses	(6,463)	(5,716)	(3,253)	(2,854)	(13,163)
Operating profit	14,215	15,461	7,582	5,930	22,695
Financing income	1,929	1,340	836	370	4,789
Financing expenses	(4,929)	(6,604)	(2,599)	(4,392)	(10,021)
Financing expenses, net	(3,000)	(5,264)	(1,763)	(4,022)	(5,232)
Profit before taxes	11,215	10,197	5,819	1,908	17,463
Taxes on income	(122)	(90)	(77)	(45)	(180)
Profit for the period	11,093	10,107	5,742	1,863	17,283
Basic and diluted earnings per share (in NIS)	0.372	0.433	0.182	0.002	0.64

(*)Reclassified

Statements of Changes in Shareholders' Equity

	For the period of six months ended June 30, 2011 (Unaudited)						
	Outstanding share capital	Additional paid-in capital	Capital from transactions with interested party	Re-evaluation fund	Perpetual liabilities	Accumulated losses	Total
	(Unaudited)						
NIS thousands							
Balance as at January 1, 2011 (Audited)	93,144	18,234	691	23,683	126,648	(139,872)	122,528
Accrued interest and linked differences on perpetual capital notes	-	-	-	-	3,258	(3,258)	-
Income for the period	-	-	-	-	-	11,093	11,093
Balance as June 30, 2011 (Unaudited)	93,144	18,234	691	23,683	129,906	(132,037)	133,621

	For the period of six months ended June 30, 2010 (Unaudited)						
	Outstanding share capital	Additional paid-in capital	Capital from transactions with interested party	Re-evaluation fund	Perpetual liabilities	Accumulated losses	Total
	(Unaudited)						
NIS thousands							
Balance as at January 1, 2010 (Audited)	(*) 93,144	18,234	691	23,683	122,853	(*) (153,360)	105,245
Accrued interest and linked differences on perpetual capital notes	-	-	-	-	992	(992)	-
Income for the period	-	-	-	-	-	10,107	10,107
Balance as at June 30, 2010 (Unaudited)	93,144	18,234	691	23,683	123,845	(144,245)	115,352

(*)Reclassified

Statements of Changes in Shareholders' Equity (cont'd)

	For the period of three months ended June 30, 2011 (Unaudited)						
	Outstanding share capital	Additional paid-in capital	Capital from transactions with interested party	Re-evaluation fund (Unaudited)	Perpetual liabilities	Accumulated losses	Total
	NIS thousands						
Balance as at April 1, 2011 (Unaudited)	(*) 93,144	18,234	691	23,683	128,011	(135,884)	127,879
Accrued interest and linked differences on perpetual capital notes	-	-	-	-	1,895	(1,895)	-
Income for the period	-	-	-	-	-	5,742	5,742
Balance as June 30, 2011 (Unaudited)	93,144	18,234	691	23,683	129,906	(132,037)	133,621

	For the period of three months ended June 30, 2010 (Unaudited)						
	Outstanding share capital	Additional paid-in capital	Capital from transactions with interested party	Re-evaluation fund (Unaudited)	Perpetual liabilities	Accumulated losses	Total
	NIS thousands						
Balance as at April 1, 2010 (Unaudited)	(*) 93,144	18,234	691	23,683	122,029	(*) (144,292)	113,489
Accrued interest and linked differences on perpetual capital notes	-	-	-	-	1,816	(1,816)	-
Income for the period	-	-	-	-	-	1,863	1,863
Balance as at June 30, 2010 (Unaudited)	93,144	18,234	691	23,683	123,845	(144,245)	115,352

(*)Reclassified

Statements of Changes in Shareholders' Equity (cont'd)

	For the year ended December 31, 2010 (Audited)						Total
	Outstanding share capital	Additional paid-in capital	Capital from transactions with interested party	Re-evaluation fund	Perpetual liabilities	Accumulated losses	
	Audited						
	NIS thousands						
Balance as at January 1, 2010 (Audited)	93,144	18,234	691	23,683	122,853	(153,360)	105,245
Accrued interest and linked differences on perpetual capital notes	-	-	-	-	3,795	(3,795)	-
Income for the period	-	-	-	-	-	17,283	17,283
Balance as at December 31, 2010 (Audited)	<u>93,144</u>	<u>18,234</u>	<u>691</u>	<u>23,683</u>	<u>126,648</u>	<u>(139,872)</u>	<u>122,528</u>

Statements of Cash Flows

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2011	2010	2011	2010	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities					
Profit for the period	11,093	10,107	5,742	1,863	17,283
Adjustments to reconcile net income to net cash provided by (used in) operating activities (Appendix A):					
Income tax paid	(33,234)	19,996	(20,234)	24,897	35,514
	(122)	(90)	(77)	(45)	(180)
Net cash provided by operating activities	(22,263)	30,013	(14,569)	26,715	52,617
Cash flow from investment activities					
Proceeds from sale of financial derivative	1,450	1,497	1,450	1,497	6,047
Investment in financial instruments	(9,153)	(16,342)	(7,301)	(1,725)	(92,690)
Proceeds from financial instruments	25,491	4,640	24,571	4,261	62,578
Investment in intangible assets	(37)	(1,045)	-	(779)	(1,443)
Decrease (increase) in deposits	285	(8)	279	(13)	17
Purchase of fixed assets	(7,353)	(2,519)	(3,136)	(605)	(5,104)
Interest received	1,399	770	643	572	1,578
Proceeds from sale of fixed assets	-	43	-	43	43
Net cash used in investment activities	12,082	(12,964)	16,506	3,251	(28,974)
Cash flows from financing activities					
Receipt of long-term loans	-	-	-	-	3,100
Repayments of debentures	(18,506)	(17,797)	(18,506)	(17,797)	(17,797)
Repayment of long-term loans	(2,176)	(2,552)	(1,081)	(1,193)	(4,710)
Short-term bank credits, net	757	-	800	-	43
Interest paid	(2,608)	(3,367)	(2,424)	(3,160)	(5,980)
Net cash used in financing activities	(22,533)	(23,716)	(21,211)	(22,150)	(25,344)
Increase (decrease) in cash and cash equivalents	(32,714)	(6,667)	(19,274)	7,816	(1,701)
Balance of cash and cash equivalents as at the beginning of the period	38,616	40,634	25,116	26,146	40,634
Effect of changes in exchange rate on cash balances	(75)	416	(15)	421	(317)
Cash and cash equivalents as at the end of the period	5,827	34,383	5,827	34,383	38,616

Statements of Cash Flows (cont'd)

For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
2011	2010	2011	2010	2010
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands

**Appendix A –
Adjustments to reconcile net income to net cash
provided from operating activities:**

**Income and expenses not
involving cash flows:**

Depreciation and amortization	4,537	5,373	2,041	2,733	10,342
Loss on impairment of fixed assets and intangible assets	361	53	194	42	217
Loss on sale of fixed assets	-	32	-	32	32
Adjustments of long-term liabilities	(68)	77	(35)	132	(149)
Loss(gain) from financial derivative	(921)	546	(467)	1,034	(2,165)
Adjustments of debentures	1,792	273	991	1,036	1,625
Adjustments of financial instruments	1,371	53	997	(140)	(836)
Taxes on income	122	90	77	45	180
Financing expenses, net	1,284	2,509	1,797	2,315	5,422
	8,478	9,006	5,595	7,229	14,668

**Changes in assets and
liability items:**

Changes in inventory	(12,240)	(10,843)	(6,214)	(7,781)	(22,092)
Changes in trade receivables	(674)	19,493	(3,044)	10,747	26,604
Changes in other receivables	(348)	1,088	3,794	1,235	(1,646)
Changes in benefits to employees	1,500	(238)	770	376	837
Changes in trade payables, subcontractors and service providers	5,677	6,766	386	2,385	7,682
Changes in liability for employees	111	(461)	181	(461)	(292)
Changes in customer advances	(34,604)	(6,055)	(17,750)	9,628	5,607
Changes in provisions	(798)	(1,447)	(1,005)	(1,219)	(75)
Changes in other accounts payables	(301)	2,967	(2,930)	2,697	4,307
Changes in liability for early retirement pensions	(35)	(280)	(17)	61	(86)
	(41,712)	10,990	(25,829)	17,668	20,846
	(33,234)	19,996	(20,234)	24,897	35,514