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Follow Up Report Regarding Emergency Inventory Agreement

Further to the Company's Immediate Report of September 1, 2011 (Document No. 2011-01-261618), the Company ("ORL") reports as follows:

In the framework of maintenance administrative work that the Company conducted, as from August 2011, on the subject of inventory levels, it found that in 2002 at the time when ORL was still a government corporation, an agreement was signed for the first time with the State of Israel relating to the holding of an emergency inventory level of transportation diesel relating to a quantity which today stands at 44 thousand tons ("**Emergency Inventory**" and the "**Agreement**"). The Agreement was amended in 2004 and 2005 and extended or renewed since then, from time to time, with certain amendments – and correct as of the date of the Report, it is in force until the end of 2011. This Agreement has not, up to now, been expressed in ORL's reports, including those included in the Company's privatization prospectus of February 2007.

According to the Agreement, ORL pledged to maintain a balance of transportation diesel at a level, as defined in the Agreement, so that it will immediately be able to supply to the State or to whosoever the State instructs, at the time of an emergency situation (as defined in the Agreement); in such a situation, the State will pay ORL the dollar value of this inventory at ORL's rate as it was at November 2002 with certain adjustments (the "**Fixed Price**"). On the date of this Report, the Fixed Priced stands at 241 dollars per ton.

In consideration for holding the emergency inventory, the State pays ORL periodic payments as stated in the Agreement. In addition, at the end of the agreement period, a settling of accounts will be prepared between the parties where, should the inventory price of ORL's rate on the date of completing the Agreement be higher than the fixed priced, ORL will pay the difference to the State; and should the inventory price of ORL's rate on the date of termination of the Agreement be lower than the fixed price, the State will pay the difference to ORL. As mentioned, the Agreement is in force until the end of 2011 and up to the present time there has been no settling of accounts regarding the value of this emergency inventory.

The Company's Management examined the accounting consequence of the Agreement, while keeping the Board of Directors informed, with the assistance of professional consultants and the cooperation of its Auditor. The Company's Management stated that because, according to the Agreement, the Company is obliged to sell the transportation diesel at the fixed price, and should such a sale not be made, at the end of the period of the Agreement, the Company will receive or pay to State in cash the difference between the price of the inventory ORL's rate on the date of termination of the Agreement and the fixed price, and therefore this Agreement falls under International Reporting Standard 9 – Financial Instruments (and International Accounting Standard 39 which was implemented by the Company up to and including December 31, 2010), and meets the definition of a derivative in accordance with this Standard. Consequently, the

Company intends to restate within a week, and subject to completing the discussions in the Balance Sheet and Audit Committee with the approval of the Company's Board of Directors, its financial statements for the first and second quarters of 2011 and for the year 2010 – including comparative figures for comparative periods, in order to reflect in them the amount of the Company's entitlement or obligation due to the Agreement at its fair value through the statement of income each period.

The following is the effect of the restatement on the consolidated statement of financial position

Group	Item	December	December	December	January	June 30,	March	June 30,	March
		31, 2010	31, 2009	31, 2008	1, 2008	2011	31, 2011	2010	31, 2010
		Decrease (increase) following the restatement				Decrease (increase) following the restatement			
		(in dollars thousands)				(in dollars thousands)			
Non-current liabilities	Deferred tax assets	381	-	-		3,592	7,670	-	-
Current liabilities	Financial derivatives	(22,151)	(17,278)	(14,727)		(32,712)	(35,057)	(19,542)	(21,505)
Non-current liabilities	Deferred tax liability	4,771	3,990	3,682		26,912	(324)	4,300	4,966
Capital	Retained earnings	16,999	13,288	11,045	21,863	26,208	27,711	15,242	16,539
Assets (liabilities and equity) after the restatement *									
Non-current assets	Deferred tax assets	688	-	-		3,930	7,997	-	-
Current liabilities	Financial derivatives	(85,443)	(51,986)	(19,021)		(46,430)	(106,114)	(26,368)	(64,432)
Non-current liabilities	Deferred tax liability	(53,808)	(134,474)	(62,145)		(60,767)	(54,001)	(137,102)	(121,888)
Capital	Retained earnings	(391,598)	(399,253)	(47,393)	(276,426)	(339,398)	(319,836)	(350,879)	(317,543)

* Balance of assets and liabilities also including the effects of the reclassification.

The following is the effect of the restatement on the consolidated statement of comprehensive income

		For the year ended December 31,		
		2010	2009	2008
		Expense (income) as a result of the restatement		
		(in dollars thousands)		
Group	Item			
Cost of sales	Revaluation of open derivative transactions	4,873	2,551	(15,223)
Taxes on income	Taxes on income (tax benefit)	(1,162)	(308)	4,405
Loss (earnings) for the period		3,711	2,243	(10,818)
Basic and diluted loss (earnings) per share		0.002	0.001	(0.006)

		Balance of expense (income) after the restatement		
Cost of sales	Revaluation of open derivative transactions	32,052	41,157	(22,688)
Taxes on income	Taxes on income (tax benefit)	(82,781)	(13,006)	(102,887)
Loss (earnings) for the period		(73,069)	(347,001)	98,390
Loss (earnings) per basic and diluted share		(0.030)	(0.174)	0.049

		Expense (income) as a result of the restatement		
		For the 6-month period ended		For the 9-month period ended
		June 30, 2011	June 30, 2010	Sept, 30, 2010
		(in dollar thousands)		
Group	Item			
Cost of sale	Revaluation of open derivative transactions	10,561	2,264	4,075
Taxes on income	Taxes on income (tax benefit)	(1,352)	(310)	(708)
Loss (earnings) for the period		9,209	1,954	3,367
Basic and diluted loss (earnings) per share		0.004	0.001	0.002

		Balance of expense (income) after the restatement		
Cost of sales	Revaluation of derivative open transactions	(48,739)	(35,768)	859
Taxes on income	Taxes on income (tax benefit)	11,188	1,774	(8,030)
Loss (earnings) for the period		(15,171)	(26,730)	(49,823)
Basic and diluted loss (earnings) per share		(0.006)	(0.011)	(0.020)

The following is the effect of the restatement on the consolidated statement of comprehensive income (Cont'd)

		Expense (income) as a result of the restatement				
		For the 3-month period ended				
Group	Item	June 30, 2011	Mar.31, 2011	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010
		(in dollars thousands)				
Cost of sales	Revaluation of open derivative transactions	(2,345)	12,906	1,811	(1,963)	4,227
Taxes on income	Taxes on income (tax benefit)	842	(2,194)	(398)	666	(976)
Loss (earnings) for the period		(1,503)	10,712	1,413	(1,297)	3,251
Basic and diluted loss (earnings) per share		-	0.005	0.001	(0.001)	0.002
		Balance of expense (income) after the restatement				
Cost of sales	Revaluation of open derivative transactions	(66,466)	17,727	36,627	(44,639)	8,871
Taxes on income	Taxes on income (tax benefit)	7,905	3,283	(9,804)	15,296	(13,522)
Loss (earnings) for the period		(19,754)	4,583	(23,093)	(33,568)	6,838
Basic and diluted loss (earnings) per share		(0.008)	0.002	(0.009)	(0.014)	0.003

ABOUT OIL REFINERIES LTD.

Oil Refineries Ltd. (ORL), located in the bay area of the city of Haifa, operates Israel's largest integrated refining and petrochemical group. It is one of the leading refineries in the Eastern Mediterranean area and integrates, on-site, petrochemical businesses. ORL runs sophisticated and state-of-the-art industrial facilities with a refining capacity of 9.8 million tons of crude oil per year and a Nelson Complexity Index of 7.4, providing a variety of quality products used in industrial operation, transportation, private consumption, agriculture and infrastructure. The Company's petrochemical sector produces Polymers (through its ownership of Carmel Olefins Ltd), Aromatics (through its ownership of Gadiv Petrochemical Industries Ltd), and Lube-Oils (through its ownership of Haifa Basic Oils Ltd). The Company's shares are listed on the Tel Aviv Stock Exchange under the ticker ORL. For additional information please visit www.orl.co.il.