

# Oil Refineries Ltd.



## Condensed Consolidated Financial Statements

**June 30, 2011**

**(Unaudited)**

This translation of the financial statement is for convenience purposes only.  
The only binding version of the financial statement is the Hebrew version.

# Condensed Consolidated Financial Statements June 30, 2011

(Unaudited)

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## **Directors' Report on the State of the Company's Affairs** **For the Period Ended June 30, 2011**

The Board of Directors is pleased to present the Directors' Report on the State of the Company's Affairs for the period ended June 30, 2011 ("the Reporting Period"). The report is presented under the assumption that the Company's Periodic Report for 2010 ("the Periodic Report") is available to the reader.

### **1. Description of the Company and its Business Environment**

#### **1.1 General**

Oil Refineries Ltd. ("the Company" or "ORL") and its subsidiaries ("the Group") are industrial companies involved in three synergetic fields of operations, reported as segments: refinery, petrochemicals and trade. The Groups' core operations are the production of oil products, raw materials for the petrochemical industry and raw materials for the chemicals and plastics industry. The Company also engages in trade in crude oil and oil products and distillates other than for operational purposes, logistics and infrastructure services, and the supply of electricity and steam to neighboring plants. The Group's petrochemicals segment is made up of three operations: polymers, through Carmel Olefins Ltd. Carmel Olefins); aromatics, through Gadiv Petrochemical Industries Ltd. "Gadiv"); and basic oils and waxes, through Haifa Basic Oils Ltd. ("Haifa Basic Oils"). The plants of these companies are downstream facilities of the Company and they receive most or all of the required feedstock from the Company on an ongoing basis through pipelines, and return all or part of the products of their facilities to the Company, as well as the feedstock not used in their operations.

#### **1.2 Implementation of the strategic plan**

According to strategic plan approved by the Company's Board of Directors in November 2007, the Company is establishing the project for clean fuel production (hydrocracker) at a total investment of USD 500 million. The hydrocracker is expected to start running by the end of the second quarter of 2012. Up to the end of the Reporting Period, the Company had invested USD 200 million in this plant and the project is progressing according to the planned timetable.

In 2010, the Company signed an agreement with a syndicate of financiers led by Bank Hapoalim Ltd. Under the agreement, the syndicate provided up to USD 600 million (without collateral) for partial funding of the project for establishment of the hydrocracker, the Company's other investments and the Company's long-term debt due between 2009 and 2012. As of the reporting date, the Company has withdrawn USD 400 million on account of funding in this agreement.

Additionally, in 2010, the Company finalized and signed a financing agreement with a foreign bank and the Export-Import Bank of the United States, together with another export credit agency in Germany, for an additional USD 300 million credit and collateral for acquisition of equipment for the hydrocracker project. As of the reporting date, the Company has withdrawn USD 53 million on account of funding in this agreement.

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Following the acquisition of the shares of Carmel Olefins, the Company merged the headquarters operations and is taking steps for immediate realization of the advantages of the merger of the companies and optimization of the operational synergy arising from the merger. In the opinion of the Company, the integration and synergy between the various operations contribute to an increase in aggregate margins flowing to the Company from all operating segments and decrease the volatility of Group profits in the long term, since business turnover in the areas of the Company's operations and those of its subsidiaries do not necessarily overlap. In addition, the joint management streamlines operations of the companies and reduces expenses.

In the Reporting Period, the plants of the Company were connected to the national natural gas pipeline and the Group started to consume natural gas in its plants. In addition to the agreement for supply of natural gas from Egypt and in view of repetitive sabotage of Egypt's natural gas pipeline that supplies gas to EMG, which disrupts gas supply by EMG, in the Reporting Period, the Company entered into an agreement with Yam Tethys Group to acquire a total quantity of BCM 1.2 for the Company and its subsidiaries. For further information see Notes 7A and 7B to the condensed financial statements. The Company believes that gas supply agreements with two suppliers allow rapid conversion to ongoing use of natural gas for all its needs.

After conversion of the Group's plants to natural gas, natural gas will be used as combustion material, instead of fuel oil. Following the conversion to natural gas, the Company is able and its subsidiaries will be able to comply with requirements to reduce air emissions at their plants according to the personal orders. The Company also believes that conversion to natural gas will result in improved operational efficiency.

In addition, as part of the potential synergy, the Group is investing USD 45 million to optimize the existing flows at the refinery as raw material for polymer production. The annual return on investment is estimated at USD 30 million. The expected annual return on the USD 60 million investment to increase propylene production capacity is estimated at USD 50 million.

The expected date of conversion of the plants of the subsidiaries to natural gas, the expected reduction of expenses from use of natural gas as well as the costs of the aforesaid projects and their return on investment are forward-looking information based, inter alia, on the Company's estimates regarding the costs for completing the project, prices of fuel oil and polymer products, the volume of natural gas consumption and other factors. Therefore, there is no certainty as to when the Group's conversion to natural gas will be completed, the extent of cost reductions following conversion to natural gas, the aforesaid project costs and the return on the investment.

As part of the strategic plan, which includes increasing the investment in environmental quality, safety and security and in enhancing operational reliability, up to the end of the Reporting Period, the Company invested USD 126 million in these areas.

The investments include infrastructure and preparations for receiving natural gas in the Company's plants, systems to control air emissions and upgrading of the protection systems in the production plants.

The Company also routinely implements the instructions and requirements applicable under environmental quality laws.

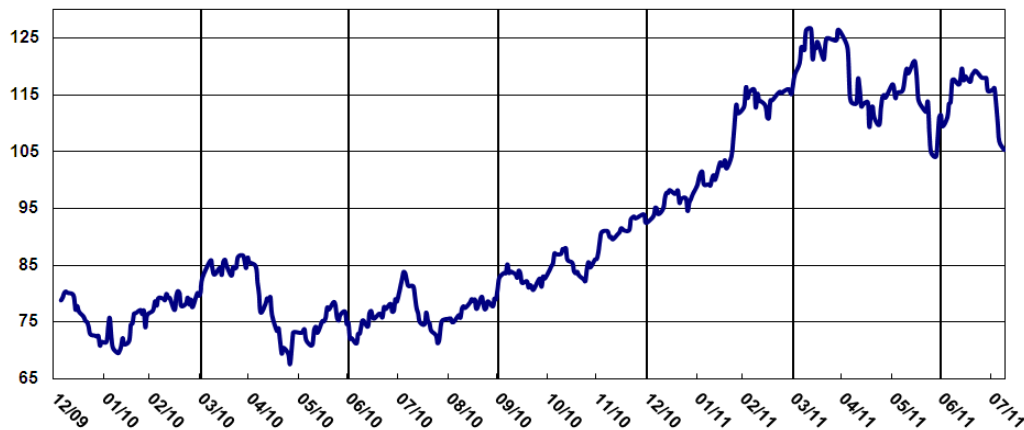
**1.3 Business environment and Group profitability**

**Refining**

At the beginning of 2011, a wave of political instability and riots erupted in Middle Eastern countries, including Libya, which is one largest oil producers in the world. These riots led to instability in global markets and crude oil prices soared to a record USD 125 per barrel in April 2011. In May 2011, prices started to drop following publication of weak macro-economic information in the United States and Europe, lower demand in OECD countries and the strengthening of the dollar. Prices continued to drop in June 2011 following the decision in the United States to release 60 million barrels of crude oil and oil products from strategic stockpiles. Subsequent to the Reporting Period, in July 2011, crude oil prices started to rise again, returning to the level prior to the decision in the United States to release crude oil from strategic stockpiles, while the prices remained high due to the shortage of supply from Libya. Throughout this period, instability continued in Arab countries and consequently, the decreases were contained to a certain extent. In Egypt, the riots resulted in a change in regime, alongside opposition to the gas supply agreement with Israel. The earthquake and tsunami in Japan also affected global markets, with the paralysis of refining capacity (over 1 million barrels per day) and significantly impaired production capacity of petrochemical products.

In the Reporting Period, crude oil prices continued to rise and in April 2011, reached the highest level since the recession at the end of 2008. In the Reporting Period, Brent crude oil prices fell, trading at USD 111 per barrel at the end of the Reporting Period.

**Brent crude oil prices in 2010-2011 (USD/ barrel)**



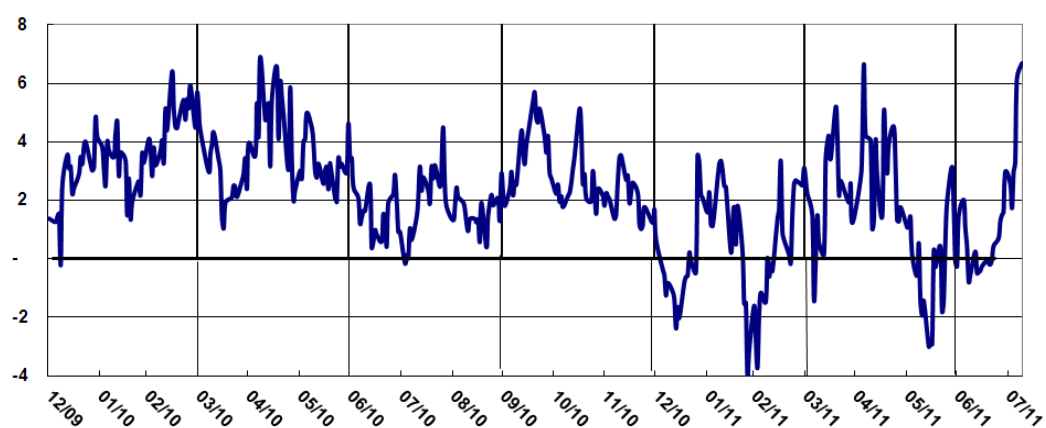
Source: Reuters

The disparity in crude oil prices and the changes in the prices of oil products in the Reporting Period resulted in highly volatile refining margins. The events Japan paralyzed refining capacity, affecting margins in East Asia and the west coast of the United States but not affecting margins in the Mediterranean, with high oil prices and no recovery in demand for oil products. The benchmark margin<sup>1</sup> was between minus USD 4 and USD 7 per barrel. The average margin in the Reporting Period was USD 1.1 per barrel. In the corresponding period last year, the average benchmark margin was USD 3.5 per barrel.

<sup>1</sup> The margin publicized by Reuters for an example of a Mediterranean refinery having the capability of cracking Ural-type crude oil. For further information, see section 1.6.2.4 of the Periodic Report as of December 31, 2010.

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**Refining margin publicized by Reuters for an example of a Mediterranean refinery having the capability of cracking Ural-type crude oil in 2010-2011 (USD/barrel)**



Refining operations decreased by 353,000 tons in the Reporting Period compared to the corresponding period last year. In the fourth quarter of 2010, the Company shut down its plants for periodic maintenance, resuming full production in the first quarter of 2011.

**Refining volume and utilization of production plants in the refining segment (thousands of tons)**

	<b>1-6.2011</b>	<b>1-6.2010</b>
Refining volume	4,136	4,489
Utilization of production plants	85.8%	93.2%

Utilization of the plants in the refining segment depends on many factors, including mechanical availability, availability of raw materials, optimization of production and economic feasibility. In the second quarter of 2010, based on availability and feasibility, utilization reached a record 98% compared with 93% in the corresponding period last year. In the Reporting Period, these factors led to utilization of 86%, representing a lower refining quantity compared to the corresponding period last year.

**Breakdown of the Company's output by the main product groups in the refining segment (thousands of tons)**

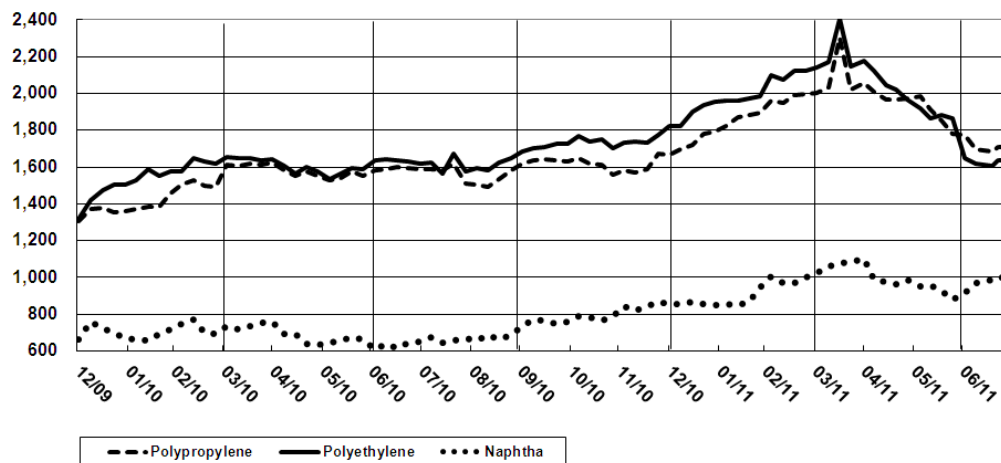
	<b>1-6.2011</b>	<b>1-6.2010</b>
Diesel fuel	1,207	1,367
Gasoline	762	858
Kerosene	409	460
Fuel oil	690	546
HVGO	193	301
Other	562	607
<b>Total</b>	<b>3,823</b>	<b>4,139</b>

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## Petrochemicals

**Polymer** prices (polyethylene and polypropylene) increased during the Reporting Period. Polypropylene prices rose from USD 1,700 per ton at the beginning of the period to over USD 2,300 per ton at the end of April and fell to USD 1,780 at the end of the period. There was a similar trend regarding polyethylene prices. The change in trend following the price hike in the first quarter is mainly due to a decrease in raw material prices and pressure from customers following the sharp increase in prices. The difference between polymer prices and naphtha prices remained stable in the Reporting Period and were higher than in the corresponding period last year.

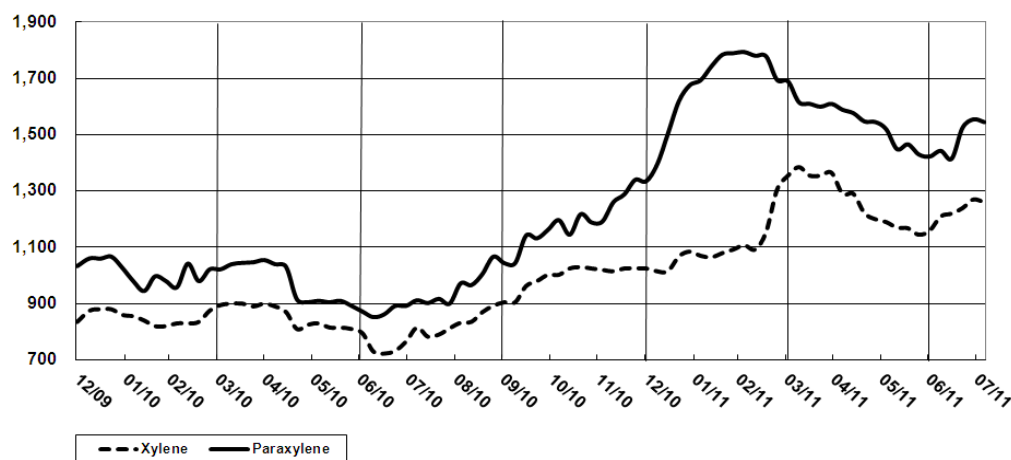
### Polymer and naphtha prices in 2010-2011 (USD/ton)



Source: ICIS

**Aromatics** margins increased significantly in the Reporting Period. The considerable increase in demand for polyester, mainly in Asia following the cotton shortage, resulted in demand in the entire xylene chain, therefore there was a sharp increase in prices of xylene, specifically paraxylene, alongside an increase in the margins of these products. Paraxylene prices increased from USD 1,400 per ton at the beginning of the period to USD 1,800 per ton in February 2011, mainly due to high demand and disruption of production in some countries, followed by a decrease in prices alongside a decrease in raw material prices and demand that was lower than expected. In continuation of the trend, aromatics margins increased (paraxylene prices compared to xylene prices) to a record level of USD 700 per ton in February 2011, but fell subsequently to USD 280 per ton.

### Paraxylene and xylene prices in 2010-2011 (USD/ton)



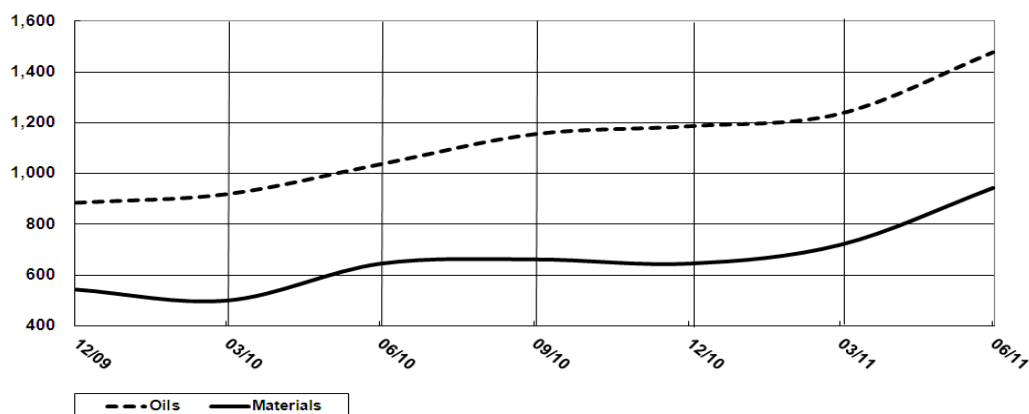
Source: PLATTS

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Prices of **oils** reported by ICIS<sup>2</sup> for export cargo from Europe increased during the period from USD 1,090 per ton to USD 1,450 per ton for export. Wax prices remained stable in the first six months of 2001, although towards the end of the period, prices started to drop.

The period was characterized by growing customer demand, in both the oils market and the waxes market, including growing demand from Turkey and renewed demand from China. On the other hand, there was reduction in supply due to maintenance works at the plants in CIS countries, breakdowns in European oils production plants and a further decrease in supply of waxes due to the conversion of plants to production of advanced oils (without production capacity for waxes). In addition, prices were affected by volatile raw material prices.

### Product and raw material prices in 2010-2011 (USD/ton)



### Output in the petrochemicals segment (in thousands of tons):

	1-6.2011	1-6.2010
Aromatics (Gadiv)	266	266
Polymers (Carmel Olefins)	360	363
Oils (Haifa Basic Oils)	33	34
<b>Total</b>	<b>659</b>	<b>663</b>

**Consolidated profit** in the Reporting Period amounted to USD 24 million, compared to a USD 29 million in the corresponding period last year. The following table summarizes the consolidated financial results for the Reporting Period and the corresponding period last year (in USD millions).

	1-6.2011	1-6.2010
Operating profit (not including other expenses)	102	61
Other expenses (1)	(14)	(22)
Financing expenses, net	(48)	(8)
Company's share in losses of investees	(3)	--
Income tax	(13)	(2)
<b>Profit for the period</b>	<b>24</b>	<b>29</b>

(1) Amortization of excess cost of acquisition of Carmel Olefins and Haifa Basic Oils

<sup>2</sup> Chemical Industry News and Intelligence

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## Operating profit and EBITDA (in USD millions)

	Operating profit		EBITDA	
	1-6.2011	1-6.2010	1-6.2011	1-6.2010
Refining – adjusted (1)	(26)	28	(1)	47
Petrochemicals - polymers	49	31	72	55
Petrochemicals - aromatics	12	13	16	16
Petrochemicals - oils	7	5	8	6
Trade	(12)	(8)	(12)	(8)
Adjustments	1	(3)	1	(3)
<b>Total consolidated (with adjustments)</b>	<b>31</b>	<b>66</b>	<b>83</b>	<b>113</b>
<b>Total consolidated (without adjustments)</b>	<b>102</b>	<b>61</b>	<b>154</b>	<b>108</b>

(1) For details of the adjustment, see section 3.1.2 below.

## 2. Financial position

### 2.1 Current assets

At June 30, current assets amounted to USD 2.175 billion, representing 46% of total assets, compared to USD 1.935 billion, representing 44% of total assets at December 31, 2010. The increase of USD 240 million is mainly due to an increase of USD 307 million in trade receivables, which is mainly due to an increase in prices and increase in trade receivables of Group companies following the return to full production, offset by a decrease of USD 81 million in deposits, following a decrease in deposits on hedging of inventory and repayment of other deposits.

### 2.2 Non-current assets

At June 30, 2011, non-current assets amounted to USD 2.556 billion, compared to USD 2.438 billion at December 31, 2010. The difference of USD 118 million is mainly due to a net increase of USD 112 million in property, plant and equipment, due to investments of USD 178 million in the period (mainly investment in the hydrocracker) less depreciation and amortization of USD 66 million in the period and an increase of USD 25 million in financial derivatives.

### 2.3 Current liabilities

At June 30, 2011, current liabilities amounted to USD 1.792 billion, representing 50% of total liabilities, compared to USD 1.592 billion, representing 49% of total liabilities at December 31, 2010. The increase of USD 200 million is mainly due to an increase of USD 435 million in trade payables offset by a decrease of USD 170 million in short-term credit, a decrease of USD 15 million in other payables and a decrease of USD 50 million in financial derivatives.

### 2.4 Non-current liabilities

At June 30, 2011, non-current liabilities amounted to USD 1.824 billion, compared to USD 1.641 billion at December 31, 2010. The increase of USD 183 million is mainly due to an increase in liabilities of USD 177 million to banks resulting from the long-term loan of USD 266 million received, offset by repayments of USD 63 million in the period and an increase of USD 22 million in current maturities

### 2.5 Capital

At June 30, 2011, capital amounted to USD 1.115 billion, representing 24% of the statement of financial position, compared to USD 1.141 billion, representing 26% of the statement of financial position at December 31, 2010. The decrease of USD 26 million is mainly due to initial application of IFRS 9 (for further information, see Note 3A2 to the consolidated interim financial statements as of June 30, 2011) amounting to USD 47 million offset by profit of USD 24 million in the period.

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3. Results of the Group's operations

3.1 The following table presents selected information of the Group for the six months period (USD millions)

	Petrochemicals												Consolidated	
	Refining		Trade		Polymers		Aromatics		Oils		Adjustments to consolidated			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	<b>Six months ended June 30</b>													
Revenue	3,586	2,645	129	96	615	535	328	268	53	39	--	--	4,711	3,583
Inter-company operations	663	488	--	--	--	--	22	22	--	--	(685)	(510)	--	--
<b>Total sales</b>	<b>4,249</b>	<b>3,133</b>	<b>129</b>	<b>96</b>	<b>615</b>	<b>535</b>	<b>350</b>	<b>290</b>	<b>53</b>	<b>39</b>	<b>(685)</b>	<b>(510)</b>	<b>4,711</b>	<b>3,583</b>
Cost of sales	4,151	3,053	138	101	214	250	7	23	24	11	--	--	4,534	3,438
Inter-company operations	22	22	--	--	326	224	317	237	20	22	(685)	(505)	--	--
<b>Total cost of sales</b>	<b>4,173</b>	<b>3,075</b>	<b>138</b>	<b>101</b>	<b>540</b>	<b>474</b>	<b>324</b>	<b>260</b>	<b>44</b>	<b>33</b>	<b>(685)</b>	<b>(505)</b>	<b>4,534</b>	<b>3,438</b>
<b>Gross profit (loss)</b>	<b>76</b>	<b>58</b>	<b>(9)</b>	<b>(5)</b>	<b>75</b>	<b>61</b>	<b>26</b>	<b>30</b>	<b>9</b>	<b>6</b>	<b>--</b>	<b>(5)</b>	<b>177</b>	<b>145</b>
Selling, general and administrative expenses	31	35	3	3	26	29	14	16	2	1	(1)	--	75	84
Inter-company operations	--	--	--	--	--	1	--	1	--	--	--	(2)	--	--
	31	35	3	3	26	30	14	17	2	1	(1)	(2)	75	84
<b>Operating profit (loss) for segments</b>	<b>45</b>	<b>23</b>	<b>(12)</b>	<b>(8)</b>	<b>49</b>	<b>31</b>	<b>12</b>	<b>13</b>	<b>7</b>	<b>5</b>	<b>1</b>	<b>(3)</b>	<b>102</b>	<b>61</b>
Amortization of excess cost arising from acquisition of investees													(14)	(22)
<b>Operating profit</b>													<b>88</b>	<b>39</b>
Financing expenses, net													(48)	(8)
Company's share in losses of equity accounted investees, net of tax													(3)	--
Profit before income tax													37	31
Income tax													(13)	(2)
<b>Profit for the period</b>													<b>24</b>	<b>29</b>

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The following table presents a description of the main reasons for the increase of USD 41 million in segment consolidated operating profit in the period (in USD million):

	<b>1-6.2011 compared to 1-6.2010</b>
Decrease in the adjusted refining margin in the refining segment	(42)
Increase in margins in the petrochemicals segment	31
Changes in adjustments – see details in the table in section 3.1.2 below	76
Decrease in sales	(25)
Increase in other revenue	14
Increase in gross profit from the trade segment	(4)
Increase in production expenses	(18)
Increase in selling and administrative expenses	9
	<b>41</b>

### 3.1.1 Revenue

Revenue in the **refining segment** amounted to USD 4.249 billion in the Reporting Period, compared to USD 3.133 billion in the corresponding period last year. The increase in revenue was mainly due to the increase in the average price of oil products. The average price per ton of the product index in the Mediterranean area, similar to the Company's product index, amounted to USD 915 in the Reporting Period, compared to USD 665 in the corresponding period last year.

In the Reporting Period, consumption of distillates remained stable, specifically gasoline for transportation in the local market (fuel oil, diesel and kerosene), compared to the corresponding period last year.

Revenue in the **trade segment** amounted to USD 129 billion in the Reporting Period, compared to USD 96 billion in the corresponding period last year.

#### **Revenue in the petrochemicals segment**

Revenue of polymers operations increased by USD 80 million in the Reporting Period compared to the corresponding period last year. The increase is mainly due to an increase of USD 131 million in selling prices offset by a decrease of USD 51 million in sales (mainly due to the return to the standard level of inventory after the periodic maintenance).

Revenue of **aromatics operations** increased by USD 60 million in the Reporting Period compared to the corresponding period last year. The increase is mainly due to an increase of USD 74 million in prices offset by a decrease of USD 14 million in sales.

Revenue of **oils operations** increased by USD 14 million in the Reporting Period mainly due to an increase in selling prices.

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### 3.1.2 Operating profit

Operating profit in the refining **segment** amounted to USD 45 million in the Reporting Period, compared to USD 23 million in the corresponding period last year.

To present the results of the Company's operations on an economic basis and for comparison with the benchmark margin, the accounting effects are adjusted in the refining segment as follows: (in USD millions)

	<b>1-6.2011</b>	<b>1-6.2010</b>
Profit from buying and selling timing differences, for inventory that is not hedged by derivatives (*)	(29)	1
Elimination of the provision for impairment of inventory, net	10	6
Loss due to the effect of changes in fair value of derivatives on prices of goods, mainly due to accounting under IFRS	(52)	(2)
<b>Total effect</b>	<b>(71)</b>	<b>5</b>

(\*) Inventory of 355,000 tons. Changes in the value of this inventory do not generate cash flow exposure for the Company.

The following table summarizes the comparison of the Company's refining margins with the benchmark margin.

	<b>1-6.2011</b>	<b>1-6.2010</b>
<b>Benchmark margin (dollar/barrel)</b>	<b>1.1</b>	<b>3.5</b>
<b>Adjusted margin (dollar/barrel)</b>	<b>2.6</b>	<b>3.9</b>
<b>Adjusted margin (dollar/ton)</b>	<b>18.9</b>	<b>28.9</b>
Net of the effect – buying and selling timing differences	7.1	(0.3)
Elimination of the provision for impairment of inventory	(2.4)	(1.4)
Accounting method for derivatives according to IFRS	12.7	0.6
<b>Accounting margin (dollar/ton)</b>	<b>36.3</b>	<b>27.8</b>

In the Reporting Period, adjusted refining margins decreased to USD 18.9 per ton (USD 2.6 per barrel), compared to USD 28.9 per ton (USD 3.9 per barrel) in the corresponding period last year. In the Reporting Period, the benchmark margin was USD 8.0 per ton (USD 1.1 per barrel), compared to USD 25.6 per ton (USD 3.5 per barrel) in the corresponding period last year.

It is noted that there are differences in a number of parameters between the Company's refining margin and the benchmark margin. These include composition of crude oil (the Company also refines crude oil types that are not Ural), composition and quality of the products produced by the refineries and the difference generated due to the fact that the quote takes into account purchase and sale on the same day, while in practice, there is a gap between the purchase date of the crude and the selling date of distillates produced from the crude oil. Accordingly, comparison to the benchmark margin could provide insight in relation to development trends of the Company's refining margin, and does not constitute an exact criterion for estimating the Company's refining margin in the short term.

## Oil Refineries Ltd.

The following table presents a description of the main reasons for the increase in operating profit in the refining segment in the Reporting Period, compared to the corresponding period last year (in USD millions):

	<b>1-6.2011 compared to 1-6.2010</b>
Decrease in adjusted refining margin	(42)
Increase in sales	(10)
Increase in other revenue	13
Increase in production expenses	(19)
Increase in selling and administrative expenses	4
Changes in adjustments – as described above	76
	<b>22</b>

The operating loss in the **trade segment** amounted to USD 12 million compared to operating loss of USD 8 million in the corresponding period last year.

Operating profit in **polymers operations** amounted to USD 49 million in the Reporting Period, compared to USD 31 million in the corresponding period last year.

The following table presents a description of the main reasons for the increase in operating profit (in USD millions):

	<b>1-6.2011 compared to 1-6.2010</b>
Increase in margin from the product index	29
Decrease in sales quantities	(13)
Increase in production expenses	(3)
Decrease in selling, administrative and general expenses	5
	<b>18</b>

The operating profit in **aromatics operations** amounted to USD 12 million in the Reporting Period, compared to USD 13 million in the corresponding period last year.

The following table presents a description of the main reasons for the decrease in operating profit (in USD millions):

	<b>1-6.2011 compared to 1-6.2010</b>
Decrease in sales quantities	(1)
Decrease in margin from the product index	(3)
Increase in other revenue	1
Decrease in selling, administrative and general expenses	2
	<b>(1)</b>

## Oil Refineries Ltd.

Operating profit of **oils operations** amounted to USD 7 million in the Reporting Period, compared to USD 5 million in the corresponding period last year.

The following table presents a description of the main reasons for the increase in operating profit (in USD millions):

	<b>1-6.2011 compared to 1-6.2010</b>
Decrease in sales quantities	(1)
Increase in margin from the product index	5
Increase in production expenses	(1)
Increase in selling, administrative and general expenses	(1)
	<b>2</b>

### **3.1.3 Other expenses**

In the Reporting Period, other expenses amounted to USD 14 million, representing amortization of excess acquisition costs of the balance of shares in Carmel Olefins and Haifa Basic Oils compared to USD 22 million in the corresponding period last year.

### **3.1.4 Financing expenses**

Net consolidated financing expenses amounted to USD 48 million in the Reporting Period compared to USD 8 million in the corresponding period last year.

The following table presents details of the principal changes in financing expenses (in USD millions):

	<b>1-6.2011 compared to 1-6.2010</b>
Increase in short-term interest mainly due to an increase in the scope of credit	3
Decrease in profits from securities and loan provided	6
Effect of exchange differences on financial items, net	8
Increase in interest on loan and debentures	8
Changes in fair value of hedge transactions	42
Changes in fair value of public debentures	(27)
	<b>40</b>

\* See Note 3(A)(2) to the condensed consolidated interim financial statements as of June 30, 2011.

### **3.1.5 Income tax**

Tax expenses amounted to USD 13 million in the Reporting Period, compared to USD 2 million in the corresponding period last year. The change is mainly due to the change in pre-tax profit compared to the corresponding period last year.

### **3.1.6 Company's share in losses of investees**

The Company's share in losses of investees amounted to USD 3 million in the Reporting Period and was mainly due to losses of investees.

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3.2 The following table presents selected information of the Group for the three months period (USD millions)

	Petrochemicals												Consolidated	
	Refining		Trade		Polymers		Aromatics		Oils		Adjustments to consolidated			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	<b>Three months ended June 30</b>													
Revenue	2,014	1,412	76	29	313	274	221	141	29	22	--	--	2,653	1,878
Inter-company operations	365	242	--	--	--	--	12	11	--	--	(377)	(253)	--	--
Total sales	2,379	1,654	76	29	313	274	233	152	29	22	(377)	(253)	2,653	1,878
Cost of sales	2,320	1,599	79	33	107	123	32	18	12	8	--	--	2,550	1,781
Inter-company operations	12	11	--	--	172	110	185	120	12	11	(381)	(252)	--	--
Total cost of sales	2,332	1,610	79	33	279	233	217	138	24	19	(381)	(252)	2,550	1,781
<b>Gross profit (loss)</b>	<b>47</b>	<b>44</b>	<b>(3)</b>	<b>(4)</b>	<b>34</b>	<b>41</b>	<b>16</b>	<b>14</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>(1)</b>	<b>103</b>	<b>97</b>
Selling, general and administrative expenses	18	21	1	1	14	14	9	9	1	1	--	1	43	47
Inter-company operations	--	--	--	--	--	1	--	--	--	--	--	(1)	--	--
	18	21	1	1	14	15	9	9	1	1	--	--	43	47
<b>Operating profit (loss) for segments</b>	<b>29</b>	<b>23</b>	<b>(4)</b>	<b>(5)</b>	<b>20</b>	<b>26</b>	<b>7</b>	<b>5</b>	<b>4</b>	<b>2</b>	<b>4</b>	<b>(1)</b>	<b>60</b>	<b>50</b>
Amortization of excess cost arising from acquisition of investees													(7)	(7)
<b>Operating profit</b>													<b>53</b>	<b>43</b>
Financing income (expenses), net													(24)	4
Company's share in losses of equity accounted investees, net of tax													(4)	--
Profit before income tax													25	47
Income tax													(7)	(15)
<b>Profit for the period</b>													<b>18</b>	<b>32</b>

## Oil Refineries Ltd.

The following table presents a description of the main reasons for the increase of USD 10 million in segment consolidated operating profit in the second quarter (in USD million):

	<b>4-6.2011 compared to 4-6.2010</b>
Decrease in the adjusted refining margin in the refining segment	(53)
Increase in margins in the petrochemicals segment	6
Changes in adjustments – see details in the table in section 3.2.2 below	66
Decrease in sales	(15)
Increase in other revenue	15
Increase in production expenses	(13)
Increase in selling and administrative expenses	4
	<b>10</b>

### 3.2.1 Revenue

Revenue in the **refining segment** amounted to USD 2.379 billion in the second quarter, compared to USD 1.654 billion in the corresponding period last year. The increase in revenue was mainly due to the increase in the average price of oil products. The average price per ton of the product index in the Mediterranean area, similar to the Company's product index, amounted to USD 961 in the Reporting Period, compared to USD 676 in the corresponding period last year.

In the second quarter, there was an increase of 1% in consumption of distillates and similar increase of 1% in the consumption of gasoline for transportation in the local market (fuel oil, diesel and kerosene) compared to the corresponding period last year

Revenue in the **trade segment** amounted to USD 76 million in the second quarter, compared to USD 29 million in the corresponding period last year.

#### **Revenue in the petrochemicals segment**

Revenue of **polymers operations** increased by USD 39 million in the second quarter compared to the corresponding period last year. The increase is due to an increase of USD 67 million in selling prices offset by a decrease of USD 28 million in sales.

Revenue of **aromatics operations** increased by USD 81 million in the second quarter compared to the corresponding period last year. The increase is due to an increase of USD 55 million in selling prices and an increase of USD 26 million in sales.

Revenue of **oils operations** increased by USD 7 million in the second quarter. The increase in revenue is mainly due to an increase in selling prices compared to the corresponding period last year.

## Oil Refineries Ltd.

### 3.2.2 Operating profit

Operating profit in the **refining segment** amounted to USD 29 million in the Reporting Period, compared to USD 23 million in the corresponding period last year.

To present the results of the Company's operations on an economic basis and for comparison with the benchmark margin, the accounting effects are adjusted in the refining segment as follows: (in USD millions)

	<b>4-6.2011</b>	<b>4-6.2010</b>
Profit from buying and selling timing differences, for inventory that is not hedged by derivatives (*)	9	12
Elimination of the provision for impairment of inventory, net	10	8
Loss due to the effect of changes in fair value of derivatives on prices of goods, mainly due to accounting under IFRS	(78)	(13)
<b>Total effect</b>	<b>(59)</b>	<b>7</b>

(\*) Inventory of 355,000 tons. Changes in the value of this inventory do not generate cash flow exposure for the Company.

The following table summarizes the comparison of the Company's refining margins with the benchmark margin.

	<b>4-6.2011</b>	<b>4-6.2010</b>
<b>Benchmark margin (dollar/barrel)</b>	<b>1.6</b>	<b>3.5</b>
<b>Adjusted margin (dollar/barrel)</b>	<b>1.3</b>	<b>4.6</b>
<b>Adjusted margin (dollar/ton)</b>	<b>9.6</b>	<b>33.8</b>
Net of the effect – buying and selling timing differences	(4.1)	(4.8)
Elimination of the provision for impairment of inventory	(4.7)	(3.3)
Accounting method for derivatives according to IFRS	36.8	5.2
<b>Accounting margin (dollar/ton)</b>	<b>37.6</b>	<b>30.9</b>

In the second quarter, adjusted refining margins decreased to USD 9.6 per ton (USD 1.3 per barrel) compared to USD 33.8 per ton (USD 4.6 per barrel) in the corresponding period last year. In the Reporting Period, the benchmark margin was USD 11.7 per ton (USD 1.6 per barrel), compared to USD 25.6 per ton (USD 3.5 per barrel) in the corresponding period last year.

It is noted that there are differences in a number of parameters between the Company's refining margin and the benchmark margin. These include composition of crude oil (the Company also refines crude oil types that are not Ural), composition and quality of the products produced by the refineries and the difference generated due to the fact that the quote takes into account purchase and sale on the same day, while in practice, there is a gap between the purchase date of the crude and the selling date of distillates produced from the crude oil. Accordingly, comparison to the benchmark margin could provide insight in relation to development trends of the Company's refining margin, and does not constitute an exact criterion for estimating the Company's refining margin in the short term.

## Oil Refineries Ltd.

The following table presents a description of the main reasons for the increase in operating profit in the refining segment in the second quarter compared to the corresponding period last year (in USD millions):

	<b>4-6.2011 compared to 4-6.2010</b>
Decrease in adjusted refining margin	(53)
Increase in sales	(8)
Increase in production expenses	(15)
Increase in other revenue	13
Changes in adjustments – as described above	66
Increase in selling and administrative expenses	3
	<b>6</b>

The operating loss in the **trade segment** amounted to USD 4 million in the second quarter compared to a loss of USD 5 million in the corresponding period last year.

Operating profit in **polymers operations** amounted to USD 20 million in the second quarter compared to USD 26 million in the corresponding period last year.

The following table presents a description of the main reasons for the decrease in operating profit (in USD millions):

	<b>4-6.2011 compared to 4-6.2010</b>
Increase in margin from the product index	1
Decrease in sales quantities	(9)
Decrease in selling, administrative and general expenses	2
	<b>(6)</b>

Operating profit in **aromatics operations** amounted to USD 7 million in the second quarter compared to USD 5 million in the corresponding period last year

The following table presents a description of the main reasons for the increase in operating profit (in USD millions):

	<b>4-6.2011 compared to 4-6.2010</b>
Increase in sales	2
Decrease in margin from the product index	(1)
Increase in other revenue	1
	<b>2</b>

## Oil Refineries Ltd.

Operating profit in **oils operations** amounted to USD 4 million in the second quarter compared to USD 2 million in the corresponding period last year.

The following table presents a description of the main reasons for the increase in operating profit (in USD millions):

	<b>4-6.2011 compared to 4-6.2010</b>
Decrease in sales	(1)
Increase in margin from the product index	6
Increase in production expenses	(3)
	<b>2</b>

### **3.2.3 Other expenses**

In the second quarter, other expenses amounted to USD 7 million, the same as in the corresponding period last year, representing amortization of excess acquisition costs of the balance of shares in Carmel Olefins and Haifa Basic Oils.

### **3.2.4 Financing expenses (income)**

Net consolidated financing expenses amounted to USD 24 million in the second quarter compared to USD 4 million in the corresponding period last year.

The following table presents details of the principal changes in financing expenses (in USD millions):

	<b>4-6.2011 compared to 4-6.2010</b>
Increase in short-term interest mainly due to an increase in the scope of credit	2
Decrease in profits from securities and loan provided	3
Effect of exchange differences on financial items, net	11
Changes in fair value of hedge transactions	10
Changes in fair value of public debentures	2
	<b>28</b>

\* See Note 3(A)(2) to the condensed consolidated interim financial statements as of June 30, 2011.

### **3.2.5 Income tax**

Tax expenses amounted to USD 7 million in the Reporting Period, compared to USD 15 million in the corresponding period last year. The change is mainly due to the change in pre-tax profit compared to the corresponding period last year.

### **3.2.6 Company's share in losses of investees**

The Company's share in losses of investees amounted to USD 4 million in the Reporting Period and was mainly due to losses of investees.

# Oil Refineries Ltd.

## 4. Liquidity

Total current assets less current liabilities at June 30, 2011 amounted to USD 383 million compared to USD 343 million at December 31, 2010. The current ratio at June 30, 2011 is 1.21 compared to 1.22 at December 31, 2010.

Consolidated cash flows from the Company's operating activities amounted to USD 227 million in the Reporting Period, mainly due to profit in the period less adjustment of non-cash revenue and expenses amounting to USD 71 million plus a change of USD 156 million in property items and current liabilities.

Cash used for investment activity in the Reporting Period amounted to USD 90 million, used mainly to finance investments of USD 179 million in property, plant and equipment and other assets, offset by a decrease of USD 81 million in deposit.

Net cash flows used for financing activity amounted to USD 130 million in the Reporting Period. The cash was used mainly to repay the short-term loan of USD 263 million, for periodic repayment of debentures and long-term loans of USD 79 million and payment of interest of USD 46 million, offset by a long-term loan of USD 266 million.

## 5. Sources of financing

Composition of Group financing sources and uses:

	Six months ended June 30, 2011	Year ended December 31, 2010
	USD millions	
Sources		
Decrease in cash in the period	--	29
Decrease in working capital	156	--
Decrease in deposits and marketable securities	81	12
Repayment of the loan from Haifa Early Pensions	6	13
Income tax refund	--	28
Cash from operating activities (prior to changes in working capital)	71	181
Receipt of short-term credit and deposits from customers	--	171
Long-term credit	266	397
	<b>580</b>	<b>831</b>
Uses		
Increase in cash	7	--
Increase in working capital	--	202
Payment of dividend	--	80
Investments in property, plant and equipment and other assets	179	230
Investment in associates	1	33
Investment in deposits	--	66
Interest paid, net	26	53
Receipt of short-term credit and deposits from customers	284	--
Costs of raising capital and repayment of long-term loans and debentures	83	167
	<b>580</b>	<b>831</b>

# Oil Refineries Ltd.

## 6. Long-term loans and debentures

The long term loans and debentures at June 30, 2011 (after deduction of current maturities) amounted to USD 1.674 billion, representing 35% of the statement of financial position, compared to USD 1.497 billion, representing 34% at December 31, 2010. The proceeds of the loans are used to finance investments in property, plant and equipment and to repay long-term liabilities. In the first six months of 2011, long-term loans of USD 266 million were received.

Financial leverage at June 30, 2011 (long term loans and debentures, to equity plus long term loans and debentures) is 60% and 57% at December 31, 2010.

## 7. Total financial liabilities

Current financial liabilities plus long-term loans and debentures amounted to USD 2.278 billion at June 30, 2011, representing 48% of the statement of financial position, compared to USD 2.27 billion, representing 52% of the statement of financial position at December 31, 2010. Financial leverage of total financial liabilities to banks and other credit providers is 67% similar to December 31, 2010.

The table below presents details of the Group's net financial debt at June 30, 2010 (in USD millions):

	<b>ORL</b>	<b>Subsidiaries</b>	<b>Total</b>
Short-term loan	150	183	333
Loans from banks (*)	698	266	964
Debentures (*) (**)	691	302	993
Liquid financial assets	(142)	(30)	(172)
<b>Total net financial debt</b>	<b>1,397</b>	<b>721</b>	<b>2,118</b>

(\*) Including current maturities

(\*\*) See Note 3(A)(2) to the condensed consolidated interim financial statements as of June 30, 2011.

## 8. Average volume of sources of finance in the Reporting Period

Long term loans and debentures (including current maturities) – USD 1.787 billion; short term credit – USD 487 million; trade payables – USD 836 million; trade receivables – USD 520 million.

# Oil Refineries Ltd.

## 9. Exposure to market risk and risk management methods

In the Reporting Period, the risk management policy of the Company and its subsidiaries and the organs responsible for risk management were the same as those described in the Directors' Report of December 31, 2010.

### 9.1 Summary of the differences in fair value in view of the sensitivity analysis of the price of crude oil and distillates

<u>Price change:</u>	Profit (loss)				Fair value	Profit (loss)				
	Increase					June 30, 2011	Decrease			
	+50%	20%	+10%	5%			-5%	-10%	-20%	-50%
USD thousands										
Inventory (*)	378,563	151,425	75,713	37,856	757,126	(37,856)	(75,713)	(151,425)	(378,563)	
Futures	(152,421)	(60,969)	(30,485)	(15,243)	(7,676)	15,241	30,483	60,967	152,419	
Put options	(6,350)	(4,133)	(2,511)	(1,393)	(2,764)	1,741	3,925	10,147	54,551	
Swap hedging (**)	(19,813)	(7,925)	(3,963)	(1,981)	(2,607)	1,981	3,963	7,925	19,813	
	<u>199,979</u>	<u>78,398</u>	<u>38,754</u>	<u>19,239</u>		<u>(18,893)</u>	<u>(37,342)</u>	<u>(72,386)</u>	<u>(151,780)</u>	

(\*) Excluding inventory with a fixed price

(\*\*) Assuming product index prices are unchanged

### 9.2 Consolidated linkage-based report

	NIS index linked	Foreign- currency linked (*)	NIS Unlinked	Non- monetary	Total
<b>June 30, 2011</b>					
Total assets	850,972	1,819,400	568,500	2,432,607	5,671,479
Total liabilities	883,188	2,886,184	734,363	52,809	4,556,544
<b>Net balance</b>	<b>(32,216)</b>	<b>(1,066,784)</b>	<b>(165,863)</b>	<b>2,379,798</b>	<b>1,114,935</b>
<b>December 31, 2010</b>					
Total assets	807,245	1,712,226	484,766	2,248,024	5,252,261
Total liabilities	821,885	2,612,150	626,159	51,322	4,111,516
<b>Net balance</b>	<b>(14,640)</b>	<b>(899,924)</b>	<b>(141,393)</b>	<b>2,196,702</b>	<b>1,140,745</b>

(\*) Primarily dollar

## 10. Corporate governance

The Company's Board of Directors adopted a procedure based on the recommendations of the Goshen Committee and the recommendations regarding their implementation as submitted to the Company by Adv. Dr. Yoram Danziger. The Board of Directors periodically updates its work procedures, as required by the law and as required. In the Reporting Period, the Board of Directors received a review of the most recent amendments to corporate laws regarding corporate governance. Following a comprehensive discussion of the subject, the Board of Directors instructed the Company's management to adapt the Company's documents and internal enforcement plan to the amendments of the legislation.

### 10.1 Contribution to the community and community activities

There was no change in the disclosure given in this matter in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2010.

### 10.2 Directors with accounting and financial expertise

There was no change in the requirements for the minimum number of directors having accounting and financial expertise and there was no change in the disclosure in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2010.

### 10.3 Independent directors

According to the Company's Articles of Association, as long as the Company has a controlling shareholder or a holder of a control block, at least one third of the members of the Board of Directors will be independent directors, as defined in section 219(E) of the Companies Law. At the publication date of the report, the Company has four independent directors.

### 10.4 Salaries of officers and considerations on which the Board of Directors base such salaries

In the Reporting Period, the Board of Directors approved a long- and medium-term compensation plan. For further information see section 1.17.4 of Part A in the Periodic Report for 2010. Subsequent to the Reporting Period, the general meeting approved the items in the compensation plan that required the approval of the general meeting.

In the Reporting Period, the Board of Directors approved the salary terms for the Company's new CEO. For further information, see the immediate report of April 4, 2011, ref. no. 2011-01-108246.

There was no change to the Board of Directors' considerations underlying the salaries of officers, in respect of the disclosure in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2010.

### 10.5 Approval of the financial statements

There were no changes in the identity of the Company's organs that oversee the audit regarding the procedure for approving the financial statements compared to the disclosure in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2009.

On August 7, 2011, the Audit and Balance Sheet Committee discussed the financial statements as of June 30, 2011 and formulated recommendations for the Company's Board of Directors. The committee meeting was divided into two parts. In the first part of the meeting, the Company's management reviewed the information in the financial statements and the accounting policy used when preparing the statements. The second part of the meeting was held in the presence of those members of the Board of Directors serving as committee members only, and they discussed and formulated the committee's recommendations to the Board of Directors. The following committee members attended the meeting: Dafna Schwartz (chair), Yachin Cohen and Nehama Ronen. On August 14, 2011, the Company's Board of Directors approved the financial statements in the presence of all members of the Board of Directors with the exception of David Federman, Yachin Cohen and Ory Slonim.

**10.6 Disclosure regarding the internal auditor in a reporting corporation**

In the Reporting Period, there was no change in the disclosure given in this matter in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2010.

**10.7 Peer review**

In the Reporting Period, there was no change in the disclosure given in this matter in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2010.

**11. Disclosure of financial reporting**

**11.1 Additional information contained in the auditors' report to shareholders**

Without qualifying their opinion, the auditors of the Company drew attention to:

The contents of Note 6(A) to the financial statements regarding the suits filed against the Company and its subsidiaries for legal proceedings, supervision by government authorities, other contingencies, laws and bills relating to the fuel and gas industry and infrastructure facilities. Based on the opinion of the legal counsel of the Company and its subsidiaries, the Company estimates that, at this stage, it is not possible to assess the aforementioned impact on the financial statements, if any exists, and therefore, no provisions regarding this matter were included in the financial statements.

The contents of Note 6(B) and Note 7 to the financial statements regarding the Company's dependency on services from infrastructure companies and from a natural gas supplier.

**11.2 Use of estimates and judgments**

In the Reporting Period, there was no change in the critical accounting estimates in the Company's statements compared to the description in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2010 and in the Notes to the financial statements of that year.

**11.3 Definition of insignificant transactions in the Company's financial statements**

In the Reporting Period, there was no change in the definition of an insignificant transaction compared to the description in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2010.

**12. Debentures of the corporation held by the public**

In the Reporting Period, there were no material changes in the details of the three series of debentures issued by the Company and offered to the public under a prospectus, in the details of the debenture trustees, in the conditions for call for immediate redemption of the debentures and in the Company's compliance with these conditions as well as in the collateral for the debentures as described in the Directors' Report as of December 31, 2010.

### 13. Significant events in and subsequent to the Reporting Period

A. For information about significant events in and subsequent to the Reporting Period, see Note 7 to the condensed consolidated interim financial statements as of June 30, 2010.

#### B. Impact of changes in exchange rates and prices of crude oil and oil products

(1) **Changes in exchange rates:** From the end of the Reporting Period and up to the approval date of the financial statements, there was a depreciation of 4% in the shekel-dollar exchange rate. The Company uses hedging transactions to partially offset this exposure, as part of its risk management policy. The effect of the depreciation on the Company's business results, after the results of the hedging transactions, is an income of USD 4 million.

(2) **Changes in prices of crude oil and oil products:** Subsequent to the reporting date, the price of oil, which was USD 111 per barrel at the reporting date, fell to USD 108 per barrel shortly before the publication date of the financial statements.

#### C. Change in positions

On March 20, 2011, CEO of the Company Yashar Ben Mordechai announced his resignation as CEO of the Company. On April 3, 2011, the Board of Directors appointed Pinhas Buchris as the new CEO of the Company. On May 1, 2011, Yashar Ben Mordechai ended his position as CEO of the Company and Pinhas Buchris was appointed CEO. The Board of Directors of the Company thanks Yashar Ben Mordechai for his years of service as CEO of the Company and for the achievements to which he directed the Company in this period, and wishes Pinhas Buchris success in his position.

The Board of Directors and Audit Committee approved the consultancy agreement between the Company and a consultancy company wholly owned by Yashar Ben Mordechai, to manage the hydrocracker project.

In the Reporting Period, Hanan Klachouck, General Manager of the Company's industrial sector, announced his resignation. On April 21, 2011, the Board of Directors appointed Ido Rosolio as General Manager of the Company's industrial sector. Mr. Rosolio took office at the beginning of July 2011.

The Board of Directors of the Company thanks Hanan Klachouck, the outgoing General Manager of the industrial sector, for his contribution to the Company over the years and wishes Ido Rosolio success in his position.

Subsequent to the Reporting Period, on July 31, 2011, Niva Hassid, VP Human Resources, announced her resignation.

#### D. Natural gas

For details see Note 7 to the interim condensed consolidated financial statements as of June 30, 2011.

14. The Board of Directors wishes to thank the management of the Company and the subsidiaries and their employees for their efforts and achievements during the Reporting Period. The Board of Directors expresses its appreciation of the activities and achievements in environmental protection, promotion of investments in the companies and implementation of efficiency measures.

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**Yossi Rosen**  
Chairman of the Board  
of Directors

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**Pinhas Buchris**  
CEO

August 14, 2011

## **Update to the State of the Company's Affairs in the Periodic Report as of December 31, 2010**

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970

In the Reporting Period, there were no significant changes or new events in the Company's affairs, with the exception of the following:

- A.** Update to section 1.17.4.4 regarding natural gas. For details see Notes 7A and 7B to the condensed consolidated interim financial statements as of June 30, 2011.
- B.** Update to section 1.6.16.4 regarding the dependency on the Eilat-Ashkelon oil pipeline ("EAPC"). Further to the aforesaid, EAPC's business license was extended to March 13, 2012.



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## **Auditors Report to the Shareholders of Oil Refineries Limited**

### *Introduction*

We have reviewed the accompanying financial information of Oil Refineries Limited and its subsidiaries ("the Group"), including the condensed consolidated interim statement of financial position as of June 30, 2011 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six and three months then ended. The Board of Directors and the management are responsible for preparation and presentation of the financial information for these interim periods in accordance with IAS 34, *Interim Financial Reporting*, and are also responsible for preparation of the interim financial information for these periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express an opinion on the financial information for these interim periods based on our review.

We did not review the condensed interim financial statements of consolidated companies, the consolidated assets of which represent approximately 29% of the total consolidated assets as of June 30, 2011, and the consolidated revenue of which represents approximately 14% and 13% of the total consolidated revenue for the six and three months then ended, respectively. In addition, we did not review the condensed interim financial statements of equity-accounted investees, the investment in which amounts to USD 14.054 million as of June 30, 2011, and the share of the Group in their losses is USD 3.538 million and USD 3.808 million for the six and three months then ended, respectively. The condensed interim financial information of those companies were reviewed by other accountants, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reviews of the other accountants.

### *Review scope*

We conducted our review in accordance with Accounting Standard No. 1 – *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, established by the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with accepted accounting principles in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review and the review of other accountants, nothing has come to our attention that causes us to believe that this financial information was not prepared, in all material respects, in accordance with IAS 34.

Additionally, based on our review and the review of other accountants, nothing has come to our attention that causes us to believe that this financial information is not prepared, in all material respects, in accordance with the disclosure provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our above opinion, we draw attention to the following:

1. The contents of Note 6(A) to the financial statements regarding the suits filed against the Company and its subsidiaries for legal proceedings, supervision by government authorities, other contingencies, laws and bills relating to the fuel and gas industry and infrastructure facilities. Based on the opinion of the legal counsel of the Company and its subsidiaries, the Company estimates that, at this stage, it is not possible to assess the aforementioned impact on the financial statements, if any exists, and therefore, no provisions regarding this matter were included in the financial statements.
2. The contents of Note 6(B) and Note 7 to the financial statements regarding the dependency of the Group on services from infrastructure companies and from a natural gas supplier.

Sincerely,

Somekh Chaikin  
Certified Public Accountants

Haifa, August 14, 2011

**Condensed Consolidated Interim Statement of Financial Position**  
**USD thousands**

	<b>June 30, 2011</b>	<b>June 30, 2010</b>	<b>December 31, 2010</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
<b>Current assets</b>			
Cash and cash equivalents	14,419	19,272	6,704
Deposits	45,746	65,060	126,991
Trade receivables	673,541	471,971	366,227
Other receivables	106,664	68,863	98,241
Financial derivatives	36,716	34,862(*)	27,577
Investments in financial assets at fair value through comprehensive income	111,851	96,532	106,895
Inventory	1,184,532	1,004,515	1,200,922
Current tax assets	1,714	8,006	1,819
<b>Total current assets</b>	<b>2,175,183</b>	<b>1,769,081</b>	<b>1,935,376</b>
<b>Non-current assets</b>			
Investments in equity-accounted investees	14,054	16,322	16,455
Financial assets at fair value through other comprehensive income (**)	12,289	9,130	17,701
Loan to Haifa Early Pensions Ltd.	74,672	70,133	77,014
Long term loans and debit balances	1,739	3,479	3,501
Financial derivatives	217,659	118,176(*)	192,990
Employee benefit plan assets	7,488	9,682	7,922
Deferred tax assets	338	--	307
Property, plant and equipment	2,142,504	1,900,585	2,030,414
Deferred costs	11,943	8,434	12,535
Intangible assets	73,624	86,782	78,950
<b>Total non-current assets</b>	<b>2,556,310</b>	<b>2,222,723</b>	<b>2,437,789</b>
<b>Total assets</b>	<b>4,731,493</b>	<b>3,991,804</b>	<b>4,373,165</b>

(\*) Reclassified, see Note 2(D)(1)

(\*\*) See Note 3(A)(2)(c)

**Yossi Rosen**  
**Chairman, Board of Directors**

**Pinhas Buchris**  
**CEO**

**Igal Salhov**  
**CFO**

Date of approval of the financial statements: August 14, 2011

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statement of Financial Position**  
**USD thousands**

	<b>June 30, 2011</b>	<b>June 30, 2010</b>	<b>December 31, 2010</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
<b>Current liabilities</b>			
Loans and borrowings	603,408	866,475	773,792
Trade payables	1,053,631	553,725	619,037
Other payables	87,491	122,267	102,099
Current tax liabilities	24,990	--	24,278
Financial derivatives	13,718	6,826 (*)	63,292
Other liabilities	--	13,350	--
Provisions	8,905	13,427	9,231
<b>Total current liabilities</b>	<b>1,792,143</b>	<b>1,576,070</b>	<b>1,591,729</b>
<b>Non-current liabilities</b>			
Bank loans	801,866	290,039	624,468
Debentures (**)	872,333	820,791	872,421
Liabilities for finance lease	10,053	8,591	9,491
Financial derivatives	4,871	6,700 (*)	5,195
Employee benefits	71,613	61,822	70,537
Deferred tax liabilities	63,679	141,402	58,579
<b>Total non-current liabilities</b>	<b>1,824,415</b>	<b>1,329,345</b>	<b>1,640,691</b>
<b>Total liabilities</b>	<b>3,616,558</b>	<b>2,905,415</b>	<b>3,232,420</b>
<b>Capital</b>			
Share capital	586,390	586,390	586,390
Share premium	100,242	100,242	100,242
Reserves (**)	62,697	33,636	45,516
Retained earnings (**)	365,606	366,121	408,597
<b>Total capital</b>	<b>1,114,935</b>	<b>1,086,389</b>	<b>1,140,745</b>
<b>Total liabilities and capital</b>	<b>4,731,493</b>	<b>3,991,804</b>	<b>4,373,165</b>

(\*) Reclassified, see Note 2(D)(1)

(\*\*) See Note 3(A)(2)(c)

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statement of Comprehensive Income**  
**USD thousands**

	Six months ended		Three months ended		Year ended
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	December 31, 2010
	(Unaudited)		(Unaudited)		(Audited)
<b>Revenue</b>	4,710,677	3,582,810	2,653,171	1,878,039	6,791,809
Cost of sales, refining and services	4,600,687	3,492,699(*)	2,618,718	1,829,162(*)	6,561,599
Revaluation of open positions in derivatives on prices of goods and margins, net	(59,300)	(38,032)	(64,121)	(42,676)	27,179
<b>Total cost of sales</b>	4,541,387	3,454,667	2,554,597	1,786,486	6,588,778
<b>Gross profit</b>	169,290	128,143	98,574	91,553	203,031
Selling and marketing expenses	50,286	55,995(*)	28,774	29,868(*)	99,282
General and administrative expenses	30,895	33,283(*)	16,247	18,615(*)	57,955
<b>Operating profit</b>	88,109	38,865	53,553	43,070	45,794
Financing income	35,304	59,277	28,140	29,694	89,330
Financing expenses	(82,955)	(67,716)	(52,571)	(26,026)	(140,439)
Financing income (expenses), net	(47,651)	(8,439)	(24,431)	3,668	(51,109)
Company's share in profits (losses) of equity accounted investees, net of tax	(3,538)	342	(3,808)	163	476
<b>Profit (loss) before taxes on income</b>	36,920	30,768	25,314	46,901	(4,839)
Tax benefits (income tax)	(12,540)	(2,084)	(7,063)	(14,630)	81,619
<b>Profit for the period</b>	24,380	28,684	18,251	32,271	76,780
Items of other comprehensive income (loss)					
Actuarial gains (losses) from a defined benefit plan, net of tax	82	(104)	(192)	(232)	(5,724)
Foreign currency translation differences for foreign operations	819	(818)	93	(494)	(309)
Effective share of the change in fair value of cash flow hedging, net of tax	(981)	--	(1,908)	--	3,529
Change in fair value of financial assets at fair value through other comprehensive income, net of tax (**)	(4,763)	(1,459)	(5,095)	(6,892)	6,143
Net change in fair value of debentures designated at fair value through other comprehensive income, attributable to change in credit risk, net of tax	1,976	--	23,250	--	--
<b>Other comprehensive income (loss) for the period, net of tax</b>	(2,867)	(2,381)	16,148	(7,618)	3,639
<b>Comprehensive income for the period</b>	21,513	26,303	34,399	24,653	80,419
<b>Earnings per share (USD)</b>					
Basic and diluted earnings per ordinary share	0.010	0.012	0.008	0.013	0.032

(\*) Reclassified, see Note 2(D)(2)

(\*\*) See Note 3(A)(2)(c)

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statement of Changes in Equity**  
**USD thousands**

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial instruments at fair value through other comprehensive income (*)	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
	Six months ended June 30, 2011									
<b>Balance at January 1, 2011 (audited)</b>	586,390	100,242	6,406	(1,310)	8,413	28,478	3,529	--	408,597	1,140,745
Cumulative effect of initial application of IFRS 9 at January 1, 2011	--	--	--	--	--	--	--	20,130	(67,453)	(47,323)
<b>Balance at January 1, 2011 subsequent to initial application of IFRS 9</b>	586,390	100,242	6,406	(1,310)	8,413	28,478	3,529	20,130	341,144	1,093,422
Profit for the period	--	--	--	--	--	--	--	--	24,380	24,380
<u>Other comprehensive income (loss):</u>										
Actuarial gains from a defined benefit plan, net of tax	--	--	--	--	--	--	--	--	82	82
Foreign currency translation differences for foreign operations	--	--	--	819	--	--	--	--	--	819
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	(981)	--	--	(981)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax (*)	--	--	--	--	(4,763)	--	--	--	--	(4,763)
Net change in fair value of debentures designated at fair value through other comprehensive income, attributable to change in credit risk, net of tax	--	--	--	--	--	--	-	1,976	--	1,976
Total other comprehensive income (loss) for the period, net of tax (*)	--	--	--	819	(4,763)	--	(981)	1,976	82	(2,867)
<b>Total other comprehensive income (loss) for the period</b>	--	--	--	819	(4,763)	--	(981)	1,976	24,462	21,513
<b>Balance at June 30, 2011 (unaudited)</b>	586,390	100,242	6,406	(491)	3,650	28,478	2,548	22,106	365,606	1,114,935

(\*) See Note 3(A)(2)

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statement of Changes in Equity (Contd.)**  
**USD thousands**

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial instruments at fair value through other comprehensive income (*)	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
	Six months ended June 30, 2010									
<b>Balance at January 1, 2010 (audited)</b>	586,390	100,242	5,824	(1,001)	2,270	28,478	412,541	1,134,744	17,183	1,151,927
Comprehensive income for the period:										
Profit for the period	--	--	--	--	--	--	28,684	28,684	--	28,684
<u>Other comprehensive loss:</u>										
Actuarial losses from a defined benefit plan, net of tax	--	--	--	--	--	--	(104)	(104)	--	(104)
Foreign currency translation differences for foreign operations	--	--	--	(818)	--	--	--	(818)	--	(818)
Change in fair value of assets classified as available for sale, net of tax	--	--	--	--	(1,459)	--	--	(1,459)	--	(1,459)
Other comprehensive loss for the period, net of tax	--	--	--	(818)	(1,459)	--	(104)	(2,381)	--	(2,381)
<b>Total other comprehensive income (loss) for the period</b>	--	--	--	(818)	(1,459)	--	28,580	26,303	--	26,303
<b>Dividend paid</b>	--	--	--	--	--	--	(75,000)	(75,000)	--	(75,000)
<b>Share-based payment</b>	--	--	342	--	--	--	--	342	--	342
<b>Acquisition of non-controlling interests in a subsidiary</b>	--	--	--	--	--	--	--	--	(17,183)	(17,183)
<b>Balance at June 30, 2010 (unaudited)</b>	<b>586,390</b>	<b>100,242</b>	<b>6,166</b>	<b>(1,819)</b>	<b>811</b>	<b>28,478</b>	<b>366,121</b>	<b>1,086,389</b>	<b>--</b>	<b>1,086,389</b>

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statement of Changes in Equity (Contd.)**  
**USD thousands**

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial instruments at fair value through other comprehensive income (*)	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
<b>Three months ended June 30, 2011</b>										
<b>(Unaudited)</b>										
<b>Balance at April 1, 2011</b>	<b>586,390</b>	<b>100,242</b>	<b>6,406</b>	<b>(584)</b>	<b>8,745</b>	<b>28,478</b>	<b>4,456</b>	<b>(1,144)</b>	<b>347,547</b>	<b>1,080,536</b>
<u>Comprehensive income for the period:</u>										
Profit for the period	--	--	--	--	--	--	--	--	18,251	18,251
<u>Other comprehensive income (loss):</u>										
Actuarial losses from a defined benefit plan, net of tax	--	--	--	--	--	--	--	--	(192)	(192)
Foreign currency translation differences for foreign operations	--	--	--	93	--	--	--	--	--	93
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	(1,908)	--	--	(1,908)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax (*)	--	--	--	--	(5,095)	--	--	--	--	(5,095)
Net change in fair value of debentures designated at fair value through profit or loss, attributable to change in credit risk, net of tax (*)	--	--	--	--	--	--	--	23,250	--	23,250
Total other comprehensive income (loss) for the period, net of tax	--	--	--	93	(5,095)	--	(1,908)	23,250	(192)	16,148
<b>Total other comprehensive income (loss) for the period</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>93</b>	<b>(5,095)</b>	<b>--</b>	<b>(1,908)</b>	<b>23,250</b>	<b>18,059</b>	<b>34,399</b>
<b>Balance at June 30, 2011</b>	<b>586,390</b>	<b>100,242</b>	<b>6,406</b>	<b>(491)</b>	<b>3,650</b>	<b>28,478</b>	<b>2,548</b>	<b>22,106</b>	<b>365,606</b>	<b>1,114,935</b>

(\*) See Note 3(A)(2).

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statement of Changes in Equity (Contd.)**  
**USD thousands**

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for available-for- sale financial assets	Capital reserve	Retained earnings	Total capital
	Three months ended June 30, 2010 (Unaudited)							
<b>Balance at April 1, 2010</b>	586,390	100,242	5,995	(1,325)	7,703	28,478	334,082	1,061,565
Comprehensive income for the period:								
Profit for the period	--	--	--	--	--	--	32,271	32,271
<u>Other comprehensive loss:</u>								
Actuarial losses from a defined benefit plan, net of tax	--	--	--	--	-	--	(232)	(232)
Foreign currency translation differences for foreign operations	--	--	--	(494)	--	--	--	(494)
Change in fair value of assets classified as available for sale, net of tax	--	--	--	--	(6,892)	--	--	(6,892)
Total other comprehensive loss for the period, net of tax	--	--	--	(494)	(6,892)	--	(232)	(7,618)
<b>Total other comprehensive income (loss) for the period</b>	--	--	--	(494)	(6,892)	--	32,039	24,653
<b>Share-based payment</b>	--	--	171	--	--	--	--	171
<b>Balance at June 30, 2010</b>	<b>586,390</b>	<b>100,242</b>	<b>6,166</b>	<b>(1,819)</b>	<b>811</b>	<b>28,478</b>	<b>366,121</b>	<b>1,086,389</b>

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statement of Changes in Equity (Contd.)**  
**USD thousands**

	Attributable to owners of the Company							Total owners' equity	Non-controlling interests	Total capital	
	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for sale financial assets	Capital reserve	Hedge fund				Retained earnings
	Year Ended December 31, 2010										
	(Audited)										
<b>Balance at January 1, 2010</b>	<b>586,390</b>	<b>100,242</b>	<b>5,824</b>	<b>(1,001)</b>	<b>2,270</b>	<b>28,478</b>	<b>--</b>	<b>412,541</b>	<b>1,134,744</b>	<b>17,183</b>	<b>1,151,927</b>
Comprehensive income for the period:											
Profit for the period	--	--	--	--	--	--	--	76,780	76,780	--	76,780
<u>Other comprehensive income (loss):</u>											
Actuarial losses from a defined benefit plan, net of tax	--	--	--	--	--	--	--	(5,724)	(5,724)	--	(5,724)
Foreign currency translation differences for foreign operations	--	--	--	(309)	--	--	--	--	(309)	--	(309)
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	3,529	--	3,529	--	3,529
Change in fair value of assets classified as available for sale, net	--	--	--	--	6,143	--	--	--	6,143	--	6,143
Total other comprehensive income (loss) for the period, net of tax	--	--	--	(309)	6,143	--	3,529	(5,724)	3,639	--	3,639
<b>Total comprehensive income for the period</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(309)</b>	<b>6,143</b>	<b>--</b>	<b>3,529</b>	<b>71,056</b>	<b>80,419</b>	<b>--</b>	<b>80,419</b>
<b>Dividend declared</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(75,000)</b>	<b>(75,000)</b>	<b>--</b>	<b>(75,000)</b>
<b>Share-based payment</b>	<b>--</b>	<b>--</b>	<b>582</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>582</b>	<b>--</b>	<b>582</b>
<b>Acquisition of non-controlling interests in a subsidiary</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(17,183)</b>	<b>(17,183)</b>
<b>Balance at December 31, 2010</b>	<b>586,390</b>	<b>100,242</b>	<b>6,406</b>	<b>(1,310)</b>	<b>8,413</b>	<b>28,478</b>	<b>3,529</b>	<b>408,597</b>	<b>1,140,745</b>	<b>--</b>	<b>1,140,745</b>

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statement of Cash Flows (Contd.)**  
**USD thousands**

	Six months ended		Three months ended		Year ended
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
<b>Cash flow from operating activities</b>					
Profit for the period	24,380	28,684	18,251	32,271	76,780
<b>Adjustments to cash flows from operating activities:</b>					
Revenue and expenses not involving cash flows (Appendix A – section A)	46,574	14,040	(18,571)	(9,440)	103,864
	70,954	42,724	(320)	22,831	180,644
Changes in assets and liabilities (Appendix A - section B)	156,349	(108,770)	161,526	94,740	(202,592)
Net income tax received (paid)	(677)	(601)	(216)	(418)	28,375
<b>Net cash from (used in) operating activities</b>	226,626	(66,647)	160,990	117,153	6,427
<b>Cash flow for investment activities</b>					
Interest received	2,820	4,997	920	155	7,153
Decrease (increase) in deposit, net	81,181	12,577	81,525	28,094	(65,646)
Dividend received from investees	122	67	--	--	67
Investment in associates	(1,259)	(2,373)	(1,259)	(2,373)	(2,373)
Disposal of investments in financial assets, net	--	12,250	--	12,250	12,253
Repayment (providing) of long-term loans from others, net	(6)	265	33	101	507
Repayment of loan from Haifa Early Pensions Ltd.	5,916	12,627	--	--	12,627
Purchase of property, plant and equipment	(178,399)	(79,286)	(43,476)	(44,019)	(228,224)
Purchase of intangible assets and deferred expenses	(199)	(1,710)	(73)	(1,665)	(1,305)
<b>Net cash from (used in) investing activities</b>	(89,824)	(40,586)	37,670	(7,457)	(264,941)
<b>Cash flow from financing activities</b>					
Short-term borrowing, net	(262,916)	265,368	(254,383)	22,961	145,023
Receipt (return) of deposits from customers, net	(21,103)	25,866	(41,358)	(160)	26,215
Interest paid	(45,680)	(31,636)	(30,512)	(21,664)	(70,146)
Transactions in derivatives, net	16,888	5,825	16,955	5,825	9,618
Long-term bank loans	266,467	--	143,017	--	396,724
Repayment of long-term bank loans	(62,901)	(62,200)	(31,464)	(30,796)	(124,687)
Repayment of debentures	(15,610)	(13,695)	(7,925)	(6,750)	(28,381)
Costs of raising credit	(5,356)	(7,073)	(2,973)	(7,073)	(13,874)
Acquisition of non-controlling interests	--	(17,183)	--	--	(17,183)
Payment for acquisition of the balance of subsidiary shares	--	--	--	--	(13,615)
Dividend paid	--	(75,000)	--	(75,000)	(79,931)
<b>Net cash from (used in) financing activities</b>	(130,211)	90,272	(208,643)	(112,657)	229,763
Net increase (decrease) in cash and cash equivalents	6,591	(16,961)	(9,983)	(2,961)	(28,751)
Effect of exchange rate fluctuations on cash and cash equivalents	1,124	1,272	994	416	494
Cash and cash equivalents at beginning of the period	6,704	34,961	23,408	21,817	34,961
<b>Cash and cash equivalents at the end of the period</b>	14,419	19,272	14,419	19,272	6,704

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statement of Cash Flows (Contd.)**  
**USD thousands**

**Appendix A: Adjustments required to present cash flows from operating activities**

	Six months ended		Three months ended		Year ended
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	December 31, 2010
	(Unaudited)		(Unaudited)		(Audited)
<b>A. Income and expenses not included in the cash flow:</b>					
Depreciation and amortization	65,600	68,768	33,027	29,792	119,271
Financing expenses (income), net	29,524	(16,303)	4,734	(13,315)	40,039
Net changes in fair value of derivatives	(56,765)	(38,037)	(61,177)	(43,723)	30,401
Changes in fair value of the loan to Haifa Early Pensions Ltd.	(2,971)	(724)	(2,671)	1,506	(8,512)
Share in the losses (profits) of equity-accounted investees	3,538	(342)	3,808	(163)	(476)
Loss (profit) from deposits and investments in financial assets, net	(4,892)	(1,748)	(3,355)	1,662	4,178
Share-based payments	--	342	--	171	582
Income tax (tax benefit)	12,540	2,084	7,063	14,630	(81,619)
	46,574	14,040	(18,571)	(9,440)	103,864
<b>B. Changes in assets and liabilities</b>					
Increase in trade receivables	(313,463)	(113,015)	(112,642)	(36,021)	(5,716)
Decrease (increase) in other receivables	(8,015)	(14,468)	(22,922)	36,292	(46,913)
Decrease (increase) in inventory	18,188	1,554	41,012	197,085	(185,552)
Increase (decrease) in trade payables	440,481	26,251	256,283	(84,157)	58,326
Increase (decrease) in other payables and provisions	17,530	(7,826)	(1,396)	(16,886)	(25,132)
Increase (decrease) in employee benefits, net	1,628	(1,266)	1,191	(1,573)	2,395
	156,349	(108,770)	161,526	94,740	(202,592)

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

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**NOTE 1 – GENERAL**

**A. Reporting entity**

- 1) Oil Refineries Ltd. (“the Company” or “ORL”) is a company domiciled and incorporated in Israel. The Company is located in Haifa Bay and its official address is POB 4, Haifa 31000. The Company’s shares are traded on the Tel Aviv Stock Exchange (“TASE”). The Company and its subsidiaries are industrial companies which operate in Israel and are engaged primarily in the production of oil products, feedstock for the petrochemical industry, materials for the plastics industry, oils, waxes and byproducts. The facilities of the subsidiaries are integrated with those of the Company. The Company also provides water treatment and power generation services (primarily electricity and steam) to a number of industries adjacent to the Haifa refinery.
- 2) The Group’s condensed consolidated interim financial statements as of June 30, 2011 include the statements of the Company and its subsidiaries (together: “the Group”) and the Group’s interests in associates.

**NOTE 2 - BASIS OF PREPARATION**

**A. Statement of compliance**

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required for full annual financial statements. They should be read together with the financial statements for the year ended December 31, 2010 (“the Annual Statements”). Additionally, these statements were prepared in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed consolidated interim financial statements were approved by the Company’s Board of Directors on August 14, 2011.

**B. Use of estimates and judgments**

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The judgment of management, when applying the Group’s accounting policy and the principal assumptions used in assessments that involve uncertainty, are consistent with those used in the annual financial statements.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**C. Capital and debt management – objectives, procedures and processes**

The policy of the Board of Directors and management is consistent with the policy applied in the Annual Statements. The Company and its subsidiaries are subject to compliance with financial covenants (see Note 14(C) to the Annual Statements).

At June 30, 2011, all the companies are in compliance with all the financial covenants that apply to them.

Financial covenants of Carmel Olefins: Further to Note 14(C) to the Annual Statements, at the end of the reporting period, Carmel Olefins has complied, for four consecutive quarters, with the financial covenants undertaken prior to the series of agreements. Accordingly, Carmel Olefins intends to take steps to terminate the series of agreements.

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

**NOTE 2 - BASIS OF PREPARATION (CONTD.)****D. Reclassification**

- 1) Current maturities of financial derivatives at June 30, 2010, presented in the past as non-current assets and non-current liabilities were classified as current assets and current liabilities to reflect their contractual repayment date.

	<b>June 30, 2010</b>		
	<b>As previously reported</b>	<b>Effect of reclassification</b>	<b>As reported in these financial statements</b>
<b>Financial derivatives presented:</b>			
In current assets	13,958	20,904	34,862
In non-current assets	139,080	(20,904)	118,176
In current liabilities	249	6,577	6,826
In non-current liabilities	13,277	(6,577)	6,700

- 2) Some of the comparative figures in the statement of comprehensive income for the six and three months ended June 30, 2010 were reclassified in order to adjust their presentation method to the presentation in the statement of comprehensive income for the six and three months ended June 30, 2011.

	<b>Six months ended June 30, 2010</b>		
	<b>As previously reported</b>	<b>Effect of reclassification</b>	<b>As reported in these financial statements</b>
Cost of sales, refining and services	(3,491,686)	(1,013)	(3,492,699)
Selling and marketing expenses	(55,874)	(121)	(55,995)
General and administrative expenses	(34,417)	1,134	(33,283)

	<b>Three months ended June 30, 2010</b>		
	<b>As previously reported</b>	<b>Effect of reclassification</b>	<b>As reported in these financial statements</b>
Cost of sales, refining and services	(1,828,033)	(1,129)	(1,829,162)
Selling and marketing expenses	(29,785)	(83)	(29,868)
General and administrative expenses	(19,827)	1,212	(18,615)

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

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**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES**

The Group's accounting policy in these condensed consolidated interim statements is the same policy applied in the Annual Statements, other than those set out in section A below.

**A. Initial application of new standards****1) Interim financial reporting**

As from January 1, 2011, the Group applies the amendment to IAS 34, *Interim Financial Reporting: Significant Events and Transactions* ("the Amendment"), published as part of the Annual Improvements to IFRSs, 2010. The Amendment expands the list of events and transactions requiring disclosure in interim financial statements. In addition, the minimum requirement for disclosure in the current standard, prior to the Amendment, was eliminated. The disclosures required according to the Amendment are reflected, as relevant, in these condensed interim financial statements.

**2) Early application of IFRS 9 (2010), *Financial Instruments***

As from January 1, 2011, the Group applies, through early adoption, IFRS 9 (2010), *Financial Instruments* ("the Standard") with a date of initial application of January 1, 2011. According to the Standard, there are two principal categories for measuring financial assets: amortized cost and fair value. Debt instruments are classified on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In addition, the investment in equity instruments is measured at fair value with fair value changes recognized in profit or loss or other comprehensive income, as the Company elects at the date of initial application. The Standard also includes an option, in certain cases, to designate financial liabilities at fair value through profit or loss, when fair value changes from changes in the Company's credit risk are, in general, recognized in other comprehensive income.

These changes in accounting policy are applied retrospectively for all financial assets and liabilities which have not been derecognized at the date of initial application. According to the exemption in the Standard, the Group elected not to restate comparative figures. Accordingly, at January 1, 2011, the Group recognized the cumulative effect of application of the Standard in retained earnings and in other items of equity as specified in section (C) below.

The accounting policies for assets and liabilities stated in comparative figures are the same as those policies described in the note on significant accounting policies in the Annual Statements.

Policies applied as from January 1, 2011 for financial instruments not derecognized at the date of initial application of IFRS 9 (2010):

**A) Non-derivative financial instruments**Initial recognition of financial assets

The Group initially recognizes loans and receivables and deposits as they are incurred. All other financial assets acquired in a regular way purchase are initially recognized on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument, meaning on the date the Group has undertaken to buy or sell the asset.

Financial assets are initially measured at fair value. When a financial asset is not subsequently measured at fair value through profit and loss, initial measurement includes transaction costs directly attributable to the acquisition or issue of the asset. Subsequent to initial recognition, the Group measures financial assets at fair value or amortized cost.

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

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**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Initial application of new Accounting Standards (contd.)**

**2) Early application of IFRS 9 (2010), Financial Instruments (contd.)**

**A) Non-derivative financial instruments (contd.)**

Financial assets measured at amortized cost

Subsequent to initial recognition, a financial asset is measured at amortized cost using the effective interest method, less impairment loss, if the objective of the business model is to hold assets to collect contractual cash flows, and the contractual terms give rise, on specific dates, to cash flows that are solely payments of principal and interest. Group policy regarding impairment is the same as the policy applied in the financial statements for the year ended December 31, 2010 for loans and receivables.

Financial assets measured at fair value

All financial assets that are not measured at amortized cost are measured subsequent to initial recognition at fair value and all fair value changes are generally recognized in profit or loss.

Nevertheless, the Standard allows an entity, on the initial recognition of an equity instrument not held for trading, to elect irrevocably to present fair value changes in the equity instrument in other comprehensive income. The Group elected to present profits or losses for equity instruments previously classified as available for sale financial assets in other comprehensive income as described below. For instruments measured at fair value through other comprehensive income, the amount presented in profit or loss is never reclassified to profit or loss and impairment is not recognized in profit and loss. Fair value changes of these instruments are recognized in capital reserve for financial assets through other comprehensive income. Dividends on equity instruments are recognized in profit or loss, unless they clearly constitute a return on an initial investment.

**B) Non-derivative financial liabilities**

The Group initially recognizes debt instruments as they are incurred. All other financial liabilities are initially recognized at the trade date when the Company becomes party to the contractual provisions of the instrument.

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is settled or annulled.

Financial liabilities (other than financial liabilities designated at fair value through profit or loss as detailed below) are initially recognized at fair value plus all attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Upon initial application of IFRS 9 (2010), the Group elected to designate certain financial liabilities, which had not been derecognized at that date, at fair value through profit or loss to reduce accounting mismatch, as described in section C below. For these financial liabilities, as from January 1, 2011, fair value changes, attributable to credit risk, are recognized in other comprehensive income.

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

**NOTE 3 – SIGNIFICANT ACCOUNTING PRINCIPLES (CONTD.)****A. Initial application of new Accounting Standards (contd.)****2) Early application of IFRS 9 (2010), *Financial Instruments* (contd.)****C) Effect of initial application of the Standard, at the date of initial application:****(1) Effect on the statement of financial position at January 1, 2011**

	Original classification according to IAS 39	Reclassified according to IFRS 9	Original carrying amount according to IAS 39	New carrying amount according to IAS 9
<b>USD thousands</b>				
<b>Financial assets</b>				
Cash and cash equivalents, deposits, trade and other receivables	Loans and receivables	Financial assets at amortized cost	Unchanged	
Investments in financial assets through other comprehensive income (***)	Available-for- sale financial assets	Fair value through other comprehensive income	Unchanged	
<b>Financial liabilities</b>				
Debentures designated at fair value through profit or loss (**)	Amortized cost	Financial liabilities designated at fair value through profit or loss	831,687	884,391

**(2) Effect on capital at January 1, 2011**

	Retained earnings	Capital reserve for financial liabilities designated at fair value	Total
<b>USD thousands</b>			
Balance prior to the effect of change in accounting policy	408,597	--	408,597
Effect of change in accounting policy			
Financial liabilities measured at amortized cost and designated at fair value through profit or loss, net of tax (*) (**)	(67,453)	20,130	(47,323)
Balance after the effect of change in accounting policy	341,144	20,130	361,274

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

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**NOTE 3 – SIGNIFICANT ACCOUNTING PRINCIPLES (CONTD.)****A. Initial application of new Accounting Standards (contd.)****2) Early application of IFRS 9 (2010), *Financial Instruments* (contd.)****C) Effect of initial application of the Standard, at the date of initial application - (contd.):****(2) Effect on capital at January 1, 2011 (contd.)**

- (\*) The effect of initial application of IFRS 9 (2010) on the opening balance of deferred taxes as of January 1, 2011 is reflected in a tax asset of USD 7.642 million. Of this amount, a tax asset of USD 10.833 million was attributed to retained earnings and a tax reserve of USD 3.241 million was attributed to capital reserve for financial liabilities designated at fair value.
- (\*\*) Upon initial application, the Group elected to designate some of its marketable CPI-linked NIS-based debentures, against which the Group holds futures contracts for converting the contractual cash flows from the debentures to USD-based cash flows at variable interest, at fair value through profit or loss. The objective of this designation is to significantly reduce accounting mismatch from measurement of related currency and interest swap contracts at fair value through profit or loss, while up to December 31, 2010, these debentures were measured at amortized cost.

Upon initial application, the Group assessed whether recognizing the change in fair value attributable to the Company's credit risk in other comprehensive income, according to the default model prescribed by the Standard, would create or aggravate accounting mismatch in profit or loss. The Group found that the change in fair value should be recognized in other comprehensive income, since a change in fair value of the futures contracts, which was determined using the applicable projected risk-free interest rate ("the Benchmark Interest Rate"), significantly offset changes to the fair value of debentures arising from changes in the Benchmark Interest Rate. Other changes to the fair value of debentures arising mainly from changes in the Group's credit risk do not have the same effect on the fair value of the futures contracts. Accordingly, recognizing changes to fair value attributable to credit risk changes in other comprehensive income does not create or aggravate accounting mismatch in profit or loss. Therefore, changes in the fair value of the debentures, attributable to changes in credit risk, are recognized in other comprehensive income as from January 1, 2011.

The Group has elected to measure changes in the fair value of these debentures, attributable to changes in credit risk, as the amount of the change in fair value that is not attributable to changes in market conditions arising from identifiable market risks (attributable mainly to the Benchmark Interest Rate, the CPI and the exchange rate), as follows:

- (1) The Group calculated the internal rate of return of the debentures at the issue date, at their fair value (based on the quoted price of the debentures on the TASE), and their cash flows at that date. The Group deducted the Benchmark Interest Rate at the issue date from this internal rate of return, to achieve the specific component attributable to the credit risk of the debentures at that date.
- (2) Upon initial application and in each subsequent reporting period, the Group calculates the present value of the debentures by discounting their cash flows at the relevant date, using the Benchmark Interest Rate for that date plus the component attributable to the credit risk as calculated in section (1) above.

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

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**NOTE 3 – SIGNIFICANT ACCOUNTING PRINCIPLES (CONTD.)****A. Initial application of new Accounting Standards (contd.)****2) Early application of IFRS 9 (2010), *Financial Instruments* (contd.)****C) Effect of initial application of the Standard, at the date of initial application:****(2) Effect on capital at January 1, 2011 (contd.)**

- (3) The difference between the fair value of the liabilities at the date of initial application and in each subsequent reporting period, based as aforesaid on the quoted price of the debentures on the TASE, and the amount calculated in section (2) above, is the amount attributable to credit risk and recognized in other comprehensive income, as aforesaid. The Group believes that this method for determining the change in fair value attributable to the credit risk is appropriate, since the only significant change in market conditions attributable to the debentures is due to changes in the Benchmark Interest Rate.

(\*\*\*) The Group intends to maintain this equity investment in the long term, accordingly, upon initial application of the Standard, the Group elected to designate this investment at fair value through other comprehensive income.

**D) Difference between the carrying amount of the financial liabilities designated at fair value and the amount to be paid upon maturity**

	<b>Carrying amount</b>	<b>Amount to be paid at the maturity date USD thousands</b>	<b>Difference</b>
Balance at January 1, 2011	884,391	828,443	55,948
Balance at June 30, 2011	903,208	876,353	26,855

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

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**NOTE 3 – SIGNIFICANT ACCOUNTING PRINCIPLES (CONTD.)**

**B. New standards and interpretations not yet adopted**

**1) IFRS 10, *Consolidated Financial Statements* ("the Standard")**

The Standard supersedes the guidelines of IAS 27, *Consolidated and Separate Financial Statements* and the guidelines of SIC 12, *Consolidation - Special Purpose Entities* for consolidation of financial statements, so that IAS 27 will continue to apply only to separate financial statements.

The Standard presents a new control model for determining whether an investor controls the investee and consequently, whether that investee should be consolidated. This model will be applied for all investees. According to the model, an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee, has the ability to affect these returns through its power over the investee and there is a correlation between power and returns.

Main changes:

- The Standard presents a model requiring judgment and analysis of all relevant facts and circumstances when assessing control and the need to determine who controls an investee.
- The Standard presents a single model of control that will be applied for all investees, whether in the scope of IAS 27 or SIC 12.
- De facto circumstances will be taken into account in assessing control, meaning consolidation of statements is required if there is effective control.
- When assessing control, all the substantive potential voting rights are taken into account. Reference should be made to the structure, reasons for the rights and terms of the potential voting rights.
- The Standard provides guidance for application and a list of indicators for assessing whether a decision maker is acting as a principal or as an agent when determining whether an investor controls the investee.
- The Standard provides guidance for those cases where an investor will assess control through silos so that the assessment will be for specific assets.
- The Standard defines protective rights, which is not defined in existing standards.
- Exposure to risks and benefits through an investee does not in itself determine that an investor controls an investee, but is one of the factors to be examined when assessing control

The Standard is effective retrospectively for annual periods commencing on or after January 1, 2013 (other than for certain exemptions). Early application is permitted, subject to disclosure and early adoption of the entire set of new standards, including the two other standards that were published at the same time: IFRS 11, *Joint Arrangements* and IFRS 12, *Disclosure of Involvement with Other Entities*. The Group has yet to assess the expected implications of adoption of the Standard on the Group's financial statements.

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

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**NOTE 3 – SIGNIFICANT ACCOUNTING PRINCIPLES (CONTD.)****B. New standards and interpretations not yet adopted (contd.)****2) IFRS 13, *Fair Value Measurement* ("the Standard")**

The Standard supersedes the guidelines for fair value measurement in other IFRSs and will serve as a single source for fair value measurement under IFRS. For this purpose, the Standard defines fair value, provides guidelines for fair value measurement and determines disclosure requirements for fair value measurement. The Standard does not prescribe new requirements for fair value measurement of assets or liabilities.

The Standard applies to assets, liabilities and equity instruments of an entity which are required or permitted to be measured at fair value or for which fair value disclosure has been made according to relevant IFRSs. However, the Standard does not apply to share-based payments within the scope of IFRS 2, *Share-based Payment* or to leasing transactions within the scope of IAS 17, *Leases*. Furthermore, the Standard does not apply to measurements that are similar to fair value but are not fair value (such as net realizable value of inventory).

The Standard is effective for annual periods beginning on January 1, 2013. Early adoption is permitted, with disclosure. The Standard will be applied prospectively and disclosure requirements will not apply to comparative information for periods prior to initial application of the Standards.

The Group has yet to assess the expected implications of adoption of the Standard on the Group's financial statements.

**3) Amendment to IAS 1, *Presentation of Financial Statements* regarding presentation of items of other comprehensive income ("the Amendment")**

The Standard changes the presentation of items of other comprehensive in financial statements, so that items of other comprehensive income which after initial recognition as comprehensive income are to be transferred to profit or loss, will be presented separately from items of other comprehensive income which are never transferred to profit or loss. The Amendment also renames the statement from "statement of comprehensive income" to "statement of income and other comprehensive income". However, companies may use other names. The Amendment is effective retrospectively for annual periods commencing on or after July 1, 2012. Early adoption is permitted, with disclosure.

The Group has yet to assess the implications of adoption of the Amendment on the Group's financial statements.

**4) Amendment to IAS 19, *Employee Benefits* ("the Standard")**

The Amendment includes a number of revisions to accounting guidelines for employee benefits.

**Main points of the amendments:**

- The Amendment eliminates the option to defer recognition of actuarial gains or losses (the corridor method), and eliminates the option to recognize actuarial gains or losses directly in profit or loss. Consequently, all actuarial gains or losses are recognized immediately in equity through other comprehensive income.
- The amendment requires immediate recognition of past service costs regardless of whether or not the benefits have vested
- Net financing income (expenses) are calculated by multiplying the net defined benefit liability (asset) by the discount rate used to measure the defined benefit liability Accordingly, the calculation of actuarial gains or losses has also changed.

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

**NOTE 3 – SIGNIFICANT ACCOUNTING PRINCIPLES (CONTD.)****B. New standards and interpretations not yet adopted (contd.)****2) Amendment to IAS 19, *Employee Benefits* ("the Standard")**

- The amendment changes the definition for short term employee benefits and other long term employee benefits so that instead of classifying benefits as long term or short term according to the entitlement period, classification will be based on the entity's expectations regarding the time of the benefit's full utilization.
- Disclosure requirements were added for defined benefit plans, to provide more comprehensive information about the characteristics of defined benefit plans and the risks associated with these plans.
- According to the Amendment, termination benefits will be recognized at the earlier of the following dates: when the entity recognizes costs for restructuring within the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, including payment of termination benefits; and when the entity can no longer withdraw the offer of those benefits.

The Amendment is effective retrospectively for annual periods commencing on or after January 1, 2013 (other than certain exemptions set out in the Amendment). Early adoption is permitted, with disclosure.

The Group has yet to assess the implications of adoption of the Amendment on the Group's financial statements.

**C. Exchange rates and linkage:**

Dollar and euro exchange rates and the CPI:

<u>As of</u>	<u>Representative exchange rate of USD 1</u>	<u>EUR-USD exchange rate</u>	<u>CPI in points (*)</u>
<b>June 30, 2011</b>	3.415	1.448	120.38
<b>June 30, 2010</b>	3.875	1.228	115.53
<b>December 31, 2010</b>	3.549	1.335	117.82

(\*) CPI on average basis 100 = 2002

<u>Rate of change in the period ended</u>	<u>%</u>	<u>%</u>	<u>%</u>
June 30, 2011 (6 months)	(3.78)	8.45	2.17
June 30, 2011 (3 months)	(1.90)	1.82	1.47
June 30, 2010 (6 months)	2.65	(14.83)	0.66
June 30, 2010 (3 months)	4.36	(8.65)	1.53
December 31, 2010 (12 months)	(5.99)	(7.39)	2.66

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

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**NOTE 4 – SEGMENT REPORTING**

The Group has three areas of operations, which are reported as business segments in the Group's financial statements and which are strategic business units. Further to Note 30 to the annual financial statements, there were no changes in the Group's operating segments.

Segment results are reported to the chief operating decision maker on the basis of operating profit with amortization adjustments of surplus cost arising on acquisition of a subsidiary.

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

**NOTE 4 – SEGMENT REPORTING (Contd.)**

	Petrochemicals										Adjustments to consolidated		Consolidated	
	Refining		Trade		Polymers		Aromatics		Oils					
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Six months ended June 30, (unaudited)													
Revenue from external sources	3,586,739	2,645,133	128,732	95,799	615,010	534,995	327,358	267,793	52,838	39,090	--	-	4,710,677	3,582,810
Revenue from inter-segment sales	662,837	487,435	--	--	--	--	22,400	22,279	--	--	(685,237)	(509,714)	--	--
Segment revenue	<u>4,249,576</u>	<u>3,132,568</u>	<u>128,732</u>	<u>95,799</u>	<u>615,010</u>	<u>534,995</u>	<u>349,758</u>	<u>290,072</u>	<u>52,838</u>	<u>39,090</u>	<u>(685,237)</u>	<u>(509,714)</u>	<u>4,710,677</u>	<u>3,582,810</u>
EBITDA	<u>69,522</u>	<u>42,817</u>	<u>(11,514)</u>	<u>(8,408)</u>	<u>71,790</u>	<u>54,350</u>	<u>15,293</u>	<u>16,186</u>	<u>7,800</u>	<u>5,402</u>	<u>818</u>	<u>(2,714)</u>	<u>153,709</u>	<u>107,633</u>
Operating profit (loss) for segments	<u>44,940</u>	<u>23,545</u>	<u>(11,514)</u>	<u>(8,408)</u>	<u>48,713</u>	<u>30,205</u>	<u>11,568</u>	<u>13,307</u>	<u>7,185</u>	<u>4,804</u>	<u>818</u>	<u>(2,714)</u>	<u>101,710</u>	<u>60,739</u>
Amortization of excess cost arising on acquisition of subsidiaries													<u>(13,601)</u>	<u>(21,874)</u>
Operating profit													<u>88,109</u>	<u>38,865</u>
Financing expenses, net													<u>(47,651)</u>	<u>(8,439)</u>
Company's share in earnings (losses) of equity-accounted investees, net of tax													<u>(3,538)</u>	<u>342</u>
Profit before income tax													<u>36,920</u>	<u>30,768</u>

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

**NOTE 4 – SEGMENT REPORTING (CONTD.)**

	Petrochemicals										Adjustments to consolidated		Consolidated	
	Refining		Trade		Polymers		Aromatics		Oils					
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	<b>Three months ended June 30, (unaudited)</b>													
Revenue from external sources	2,014,004	1,412,437	76,209	28,446	312,916	273,966	220,683	141,112	29,359	22,078	--	--	2,653,171	1,878,039
Revenue from inter-segment sales	365,385	241,685	--	--	--	--	11,919	10,989	--	--	(377,304)	(252,674)	--	--
Segment revenue	<u>2,379,389</u>	<u>1,654,122</u>	<u>76,209</u>	<u>28,446</u>	<u>312,916</u>	<u>273,966</u>	<u>232,602</u>	<u>152,101</u>	<u>29,359</u>	<u>22,078</u>	<u>(377,304)</u>	<u>(252,674)</u>	<u>2,653,171</u>	<u>1,878,039</u>
EBITDA	<u>41,200</u>	<u>32,307</u>	<u>(4,374)</u>	<u>(5,631)</u>	<u>31,772</u>	<u>37,196</u>	<u>9,161</u>	<u>6,316</u>	<u>4,828</u>	<u>2,729</u>	<u>3,993</u>	<u>(55)</u>	<u>86,580</u>	<u>72,862</u>
Operating profit (loss) for segments	<u>28,877</u>	<u>22,853</u>	<u>(4,374)</u>	<u>(5,631)</u>	<u>20,201</u>	<u>25,549</u>	<u>7,136</u>	<u>4,882</u>	<u>4,520</u>	<u>2,429</u>	<u>3,993</u>	<u>(55)</u>	<u>60,353</u>	<u>50,027</u>
Amortization of excess cost arising on acquisition of subsidiaries													<u>(6,800)</u>	<u>(6,957)</u>
Operating profit													53,553	43,070
Financing income (expenses), net													(24,431)	3,668
Company's share in earnings (losses) of equity-accounted investees, net of tax													<u>(3,808)</u>	<u>163</u>
Profit before income tax													<u>25,314</u>	<u>46,901</u>

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

**NOTE 4 – SEGMENT REPORTING (Contd.)**

	Refining	Trade	Petrochemicals			Adjustments to consolidated	Consolidated
			Polymers	Aromatics	Oils		
Year ended December 31, 2010							
(Audited)							
Revenue from external sources	5,032,975	214,642	1,012,478	451,351	80,363	--	6,791,809
Revenue from inter-segment sales	836,334	--	--	33,146	--	(869,480)	--
Segment revenue	5,869,309	214,642	1,012,478	484,497	80,363	(869,480)	6,791,809
Depreciation and amortization	41,213	--	44,303	4,831	1,212	--	91,559
EBITDA	48,842	(17,833)	109,125	27,335	8,817	(3,273)	173,013
Operating profit (loss) for segments	7,629	(17,833)	64,822	22,504	7,605	(3,273)	81,454
Amortization of excess cost arising on acquisition of subsidiaries							(35,660)
Operating profit							45,794
Financing expenses, net							(51,109)
Group's share in earnings of equity-accounted investees, net of tax							476
Loss before income tax							(4,839)

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

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**NOTE 5 – PROPERTY, PLANT AND EQUIPMENT**

At the reporting date, the balance of agreements for approved establishment works amounts to USD 214 million. For additional details of the establishment works, see Note 12(E) and (H) to the financial statements as of December 31, 2010.

At June 30, 2011, property, plant and equipment include advance payments made by the Group on account of the acquisition of property, plant and equipment in the amount of USD 68 million.

**NOTE 6 – CONTINGENT LIABILITIES, GUARANTEES AND AGREEMENTS**

**A. Lawsuits**

- 1) Further to Note 21(B) (subsections 1(a), 1(b), 4(a), 4(b), 4(c), 4(e), 4(g), 4(h) and 4(j) to the financial statements as of December 31, 2010, suits have been filed against the Group for physical injury and damage to property allegedly caused to the plaintiffs as a result of pollution of the Kishon River. There are legal proceedings against the Group, laws have been enacted and orders have been issued regarding the fuel and gas sector and the infrastructure facilities pertaining to the Group. Based on the opinion of the legal counsel of the Company and its subsidiaries, the Company estimates that, at this stage, it is not possible to assess the aforementioned impact on the financial statements as of June 30, 2011, if any, therefore, no provision regarding this matter was included in the financial statements.
- 2) Further to Note 21(B) to the financial statements as at December 31, 2010, there were no significant changes in the lawsuits and contingent liabilities of the Group during the reporting period.

**B. Agreements**

To carry out its operations, the Company is dependent upon services from the infrastructure companies Petroleum & Energy Infrastructures Ltd. ("PEI") and Eilat Ashkelon Pipeline Company Ltd. ("EAPC), which own crucial infrastructure pertaining to the unloading, shipping, storage, and production of crude oil and oil products. According to information furnished by PEI to the Company, PEI is expected to replace part of its offshore pipeline used for unloading crude oil in Haifa Bay and delivery to the Company's refinery. At this stage, there is no assessment as to when PEI will replace the pipeline section. To the best of the Company's knowledge, the replacement process is expected to continue for one month, and the Company will make preparations to reduce the effect of the shutdown to a minimum, but in any event, some reduction in the scope of refining during this period is to be expected.

**C. Guarantees**

Further to Note 21(A)(8) to the financial statements as at December 31, 2010, in the reporting period, the Company acquired additional rights in Gadot, amounting to USD 1.2 million. This acquisition is part of the funding sources that the Company provided to Gadot on November 19, 2009. After acquisition of the rights, the Company's share in Gadot amounts to 23.5%.

**Notes to the Consolidated Condensed Interim Financial Statements**  
**USD thousands**

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**NOTE 7 – MATERIAL EVENTS IN THE REPORTING PERIOD**

- A.** Further to Note 33(B) to the financial statements as of December 31, 2010 and the Company's reports regarding the natural gas pipeline to Haifa Bay and the gas supply agreement with East Mediterranean Gas SAE, ("EMG") ("the Gas Supply Agreement"), in the reporting period, the plants of the Company and its subsidiaries (ORL Group) were connected to the national natural gas pipeline and accordingly, ORL Group companies started to consume natural gas in their plants. Following recurring sabotage to the Egyptian gas pipeline, in the reporting period, the Company signed the agreement described in section B below.
- B.** On May 20, 2011, the Company signed an agreement with the Yam Tethys group for the purchase of a total quantity of 1.2 BCM ("the Contractual Quantity") for the Company and its subsidiaries, over a 27-month supply period starting from June 1, 2011 ("the Basic Agreement Period"). The consideration for the entire Contractual Quantity will be paid in installments during the basic agreement period or over a shorter period of time should ORL Group consume the full Contractual Quantity sooner than planned. The agreement does not obligate ORL Group to any volume or consumption rate during the Basic Agreement Period. If ORL Group does not consume the entire Contractual Quantity over the Basic Agreement Period, the supply period set out in the agreement will be extended for an additional period, to allow the ORL Group to consume the Contractual Quantity. The agreed consideration consists of a fixed component and a variable component which is determined according to a pricing formula based on the price of crude oil, with a minimum price but not a maximum price. The total value of the agreement is estimated at USD 350 million (based on calculation of the formula when the agreement was signed).

The Company believes that agreements for the purchase of natural gas from two different suppliers will facilitate the Group's rapid transition to ongoing use of natural gas for all its needs.

- C.** On June 30, 2011, Gadiv declared the distribution of a dividend of USD 50 million to the Company. Since the dividend will be paid from income that is not derived from profits of an approved enterprise, Gadiv or the Company will not be taxed for distribution of the dividend.
- D.** In the financial statements as of June 6, 2011, the Group recognized a provision of USD 12.218 million for impairment of inventory (the Company recognized a provision of USD 9.828 million for impairment of inventory), following the decrease in prices of some of the Group's products.

**Oil Refineries Ltd.**

**Condensed Separate Interim Financial  
Information**

**At June 30, 2011**

**(Unaudited)**



Somekh Chaikin  
18 Neviim Street, P.O. Box 4484  
Haifa 33104

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website: [www.kpmg.co.il](http://www.kpmg.co.il)

Att:

**To the Shareholders of Oil Refineries Limited.**

Dear Sirs,

**Re: Special auditors' report on the separate financial information pursuant to Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 1970**

*Introduction*

We have audited the separate financial statements presented in accordance with Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 1970 of Oil Refineries Ltd. ("the Company") as of June 30, 2011 and for the six and three month periods then ended. The separate financial information is the responsibility of the Company's management and board of directors. Our responsibility is to express an opinion on the separate interim financial information based on our review.

We did not review the separate interim financial statements of investees in which the amount of USD 459.674 million was invested as of June 30, 2011, and whose profits amounted to USD 35.011 million and USD 10.978 million, respectively for the six and three month periods then ended, respectively. The financial statements of those companies were reviewed by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the financial statements for those companies, is based on the reports of the other auditors.

*Review scope*

We conducted our review in accordance with Accounting Standard No. 1 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity established by the Institute of Certified Public Accountants in Israel. A review of separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted accounting principles in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review and the review of other accountants, nothing has come to our attention that causes us to believe that this separate interim financial information is not prepared, in all material respects, in accordance with the provisions of Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our above opinion, we draw attention to the following:

The contents of Notes 4, 5 and 6 to the separate interim financial statements, regarding suits filed against the Company for legal proceedings, supervision by government authorities, other contingencies, laws and bills relating to the fuel and gas industry and infrastructure facilities. Based on the opinion of the Company's legal counsel, the Company estimates that, at this stage, it is not possible to assess the impact, if any, of the aforementioned on the separate interim financial statements, and therefore no provision was included in the financial statements in this respect and with regard to the Company's dependence on services received from infrastructure companies and the supply of natural gas.

Somekh Chaikin  
Certified Public Accountants

Haifa, August 14, 2011

**Oil Refineries Ltd.**

**Condensed Separate Interim Financial Information**  
**USD thousands**

	As of		
	June 30, 2011	June 30, 2010	December 31, 2010
	(Unaudited)		(Audited)
<b>Current assets</b>			
Cash and cash equivalents	3,974	3,020	461
Deposits	26,006	46,203	107,698
Trade receivables	522,005	368,214	183,743
Other receivables	135,987	133,943	87,693
Financial derivatives	26,612	29,187 (*)	19,962
Investments in financial assets at fair value through comprehensive income	111,851	96,532	106,895
Inventories	967,546	865,396	1,086,864
Current tax assets	--	8,601	--
<b>Total current assets</b>	<b>1,793,981</b>	<b>1,551,096</b>	<b>1,593,316</b>
<b>Non-current assets</b>			
Investment in investees	848,125	804,830	877,717
Financial assets at fair value through comprehensive income	12,289	9,130	17,701
Loan to Haifa Early Pensions Ltd.	74,672	70,133	77,014
Long term loans and debit balances	1,488	1,334	1,443
Financial derivatives	136,807	72,152 (*)	120,333
Employee benefit plan assets	3,886	3,357	3,739
Deferred tax assets	3,088	--	1,136
Property, plant and equipment	970,284	752,196	859,734
Deferred costs	11,249	8,338	11,829
Intangible assets	3,237	4,473	3,163
<b>Total non-current assets</b>	<b>2,065,125</b>	<b>1,725,943</b>	<b>1,973,809</b>
<b>Total assets</b>	<b>3,859,106</b>	<b>3,277,039</b>	<b>3,567,125</b>

(\*) Reclassified (see Note 2A)

(\*\*) See Note 3.

**Yossi Rosen**  
**Chairman, Board of Directors**

**Pinhas Buchris**  
**CEO**

**Igal Salhov**  
**CFO**

Date of approval of the separate financial information: August 14, 2011

**The additional information attached to the separate interim financial information is an integral part thereof**

**Oil Refineries Ltd.**

Condensed Separate Interim Financial Information  
USD thousands

	As of		
	June 30, 2011	June 30, 2010	December 31, 2010
	(Unaudited)		(Audited)
<b>Current liabilities</b>			
Loans and borrowings	410,300	814,190	623,713
Trade payables	999,225	511,444	562,379
Other payables and credit balances	67,169	85,365	82,391
Current tax liability	24,732	--	22,761
Financial derivatives	10,708	6,577 (*)	62,508
Provisions	8,032	10,034	8,131
<b>Total current liabilities</b>	<u>1,520,166</u>	<u>1,427,610</u>	<u>1,361,883</u>
<b>Non-current liabilities</b>			
Bank loans	576,014	94,640	402,281
Debentures (**)	584,089	574,542	598,393
Liabilities for finance leasing	10,053	8,591	9,491
Financial derivatives	4,871	6,700 (*)	5,195
Employee benefits	48,978	40,208	49,137
Deferred tax liabilities	--	38,359	--
<b>Total non-current liabilities</b>	<u>1,224,005</u>	<u>763,040</u>	<u>1,064,497</u>
<b>Total liabilities</b>	<u>2,744,171</u>	<u>2,190,650</u>	<u>2,426,380</u>
<b>Equity</b>			
Share capital	586,390	586,390	586,390
Share premium	100,242	100,242	100,242
Reserves	62,697	33,636	45,516
Retained earnings	365,606	366,121	408,597
<b>Total capital</b>	<u>1,114,935</u>	<u>1,086,389</u>	<u>1,140,745</u>
<b>Total liabilities and capital</b>	<u>3,859,106</u>	<u>3,277,039</u>	<u>3,567,125</u>

(\*) Reclassified (see Note 2A)

(\*\*) See Note 3.

**The additional information attached to the separate interim financial information is an integral part thereof**

**Oil Refineries Ltd.**

**Condensed Separate Interim Statement of Comprehensive Income**  
**USD thousands**

	Six months ended		Three months ended		Year ended
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Unaudited)		(Audited)
<b>Revenue</b>	4,377,887	3,228,367	2,455,313	1,682,568	6,083,695
Cost of sales, refinery and services	4,366,210	3,213,152(*)	2,471,100	1,685,579 (*)	6,000,744
Revaluation of open positions in derivatives on prices of goods and margins, net	(56,442)	(38,032)	(59,869)	(42,676)	26,921
<b>Total cost of sales</b>	4,309,768	3,175,120	2,411,231	1,642,903	6,027,665
<b>Gross profit</b>	68,119	53,247	44,082	39,665	56,030
Selling and marketing expenses	14,209	18,890 (*)	8,418	10,750 (*)	31,666
Administrative and general expenses	20,266	19,220 (*)	11,066	11,693 (*)	34,057
<b>Operating profit (loss)</b>	33,644	15,137	24,598	17,222	(9,693)
Finance revenues	31,541	31,983	(5,272)	12,104	88,803
Financing expenses	(72,895)	(39,416)	(15,607)	(11,212)	(131,611)
Financing income (expenses), net	(41,354)	(7,433)	(20,879)	892	(42,808)
Company's share in profits (losses) of investees, net of tax	34,609	18,236	14,419	21,572	90,905
<b>Profit before income tax</b>	26,899	25,940	18,138	39,686	38,404
Tax benefits (taxes on income)	(2,519)	2,744	113	(7,415)	38,376
<b>Profit for the period</b>	<b>24,380</b>	<b>28,684</b>	<b>18,251</b>	<b>32,271</b>	<b>76,780</b>
<b>Items of other comprehensive income (loss)</b>					
Actuarial gains (losses) from a defined benefit plan, net	82	(104)	(192)	(232)	(5,724)
Foreign currency translation differences for foreign operations	819	(818)	93	(494)	(309)
Effective share of the change in fair value of cash flow hedging, net of tax	(981)	--	(1,908)	--	3,529
Change in fair value of available-for-sale financial assets through profit or loss, net of tax (**)	(4,763)	(1,459)	(5,095)	(6,892)	6,143
Net change in fair value of debentures designated at fair value through profit or loss, attributed to the Company's credit risk changes, net of tax	1,976	--	23,250	--	--
<b>Other comprehensive income (loss), net of tax</b>	<b>(2,867)</b>	<b>(2,381)</b>	<b>16,148</b>	<b>(7,618)</b>	<b>3,639</b>
<b>Comprehensive income for the period:</b>	<b>21,513</b>	<b>26,303</b>	<b>34,399</b>	<b>24,653</b>	<b>80,419</b>
<b>Earnings per share (dollar)</b>					
<b>Basic and diluted earnings per ordinary share</b>	0.010	0.012	0.008	0.013	0.032

(\*) Reclassified (see Note 2B)

(\*\*) See Note 3 below.

**The additional information attached to the separate interim financial information is an integral part thereof**

**Oil Refineries Ltd.**

**Condensed Separate Interim Statements of Cash Flows**  
**USD thousands**

	Six months ended		Three months ended		Year ended
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	December 31, 2010
	(Unaudited)		(Unaudited)		(Audited)
<b>Cash flows from operating activities</b>					
Profit for the period	24,380	28,684	18,251	32,271	76,780
<b>Adjustments required for presenting cash flows from ongoing operations</b>					
Revenue and expenses not involving cash flows (Appendix A – section A)	(51,777)	(39,183)	(63,323)	(44,048)	(20,241)
	(27,397)	(10,499)	(45,072)	(11,777)	56,539
Changes in assets and liabilities (Appendix A – section B)	233,396	23,499	213,099	136,183	(22,206)
Income tax received (paid), net	111	(119)	437	(50)	28,915
<b>Net cash flows from operating activities</b>	206,110	12,881	168,464	124,356	63,248
<b>Cash flow used in investing activities</b>					
Interest received	2,807	4,994	923	153	7,024
Decrease (increase) in deposit, net	81,628	11,730	81,628	27,633	(66,057)
Dividend received from investees	122	67	--	--	79,703
Acquisition of subsidiaries	--	--	--	--	(17,183)
Investments in investees	(1,259)	(19,556)	(1,259)	(2,373)	(2,373)
Disposal of financial assets, net	--	12,250	--	12,250	12,253
Repayment of long-term loans from others, net	126	80	58	(43)	408
Repayment of loan from Haifa Early Pensions Ltd.	5,916	12,627	--	--	12,627
Purchase of property, plant and equipment	(143,162)	(63,098)	(28,685)	(34,994)	(165,624)
Purchase of intangible assets and deferred expenses	(105)	(1,460)	--	(1,416)	(436)
<b>Net cash provided by (used in) investment activities</b>	(53,927)	(42,366)	52,665	1,210	(139,658)
<b>Cash flow from finance activities</b>					
Short-term borrowing, net	(236,526)	179,824	(224,624)	6,715	(61,600)
Receipt (repayment) of deposits from customers, net	(21,103)	25,866	(41,358)	(160)	26,215
Interest paid	(37,288)	(24,384)	(27,584)	(19,488)	(53,545)
Derivative transactions, net	16,888	5,825	16,955	5,825	9,618
Receipt (repayment) of a loan from an investee	(50,438)	(13,999)	(30,417)	(4,850)	7,249
Receipt of long-term loans from banks	246,467	--	123,017	--	356,724
Repayment of long-term loans from banks	(45,708)	(45,554)	(22,854)	(22,625)	(91,262)
Repayment of debentures	(15,610)	(13,695)	(7,925)	(6,750)	(28,381)
Borrowing costs	(5,356)	(6,992)	(2,973)	(6,992)	(13,793)
Dividend paid	--	(75,000)	--	(75,000)	(75,000)
<b>Net cash from (used for) financing activities</b>	(148,674)	31,891	(217,763)	(123,325)	76,225
Net increase (decrease) in cash and cash equivalents	3,509	2,406	3,366	2,241	(185)
Effect of exchange rate fluctuations on cash and cash equivalents	4	(27)	2	(30)	5
Cash and cash equivalents at the beginning of the period	461	641	606	809	641
<b>Cash and cash equivalents at the end of the period</b>	3,974	3,020	3,974	3,020	461

**The additional information attached to the separate interim financial information is an integral part thereof**

**Oil Refineries Ltd.**

**Condensed Separate Interim Statements of Cash Flows (cont.)**  
**USD thousands**

**Appendix A: Adjustments required to present cash flows from operating activities**

	Six months ended		Three months ended		Year ended
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	December 31, 2010
	(Unaudited)		(Unaudited)		(Audited)
<b>A. Income and expenses not included in cash flow:</b>					
Depreciation and amortization	24,582	19,272	12,323	9,454	41,213
Finance expenses, net	20,366	2,711	6,079	1,049	41,185
Net changes in fair value of derivatives	(56,772)	(38,037)	(61,167)	(43,723)	30,426
Net changes in the fair value of the loan to Haifa Early Pensions Ltd.	(2,971)	(724)	(2,671)	1,506	(8,512)
Share in profits of investees	(34,609)	(18,236)	(14,419)	(21,572)	(90,905)
Loss (profit) from deposits and investments in financial assets, net	(4,892)	(1,748)	(3,355)	1,662	4,178
Share-based payment transactions	--	323	--	161	550
Taxes on income (tax benefit)	2,519	(2,744)	(113)	7,415	(38,376)
	(51,777)	(39,183)	(63,323)	(44,048)	(20,241)
<b>B. Changes in assets and liabilities</b>					
Decrease (increase) in trade receivables, net	(338,262)	24,944	(112,019)	21,205	209,415
Decrease (increase) in other receivables and debt balances, net	1,872	(19,395)	(16,464)	33,046	(49,857)
Decrease (increase) in inventory, net	119,318	2,608	65,096	187,569	(218,860)
Increase (decrease) in trade payables, net	444,993	33,144	277,511	(83,532)	57,616
Increase (decrease) in other payables and provisions, net	5,685	(16,291)	1,258	(20,300)	(21,164)
Increase (decrease) in employee benefits, net	(210)	(1,511)	233	(1,805)	644
	233,396	23,499	213,099	136,183	(22,206)

**The additional information attached to the separate interim financial information is an integral part thereof**

**Oil Refineries Ltd.**

**Additional Information to the Separate Interim Financial Statements**  
**USD thousands**

**NOTE 1 – GENERAL**

**A.** The separate interim financial information is presented pursuant to the provisions of Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 1970. They should be read in conjunction with the separate financial statements for the year ended December 31, 2010 and in conjunction with the condensed consolidated interim financial statements as of June 30, 2011 ("the Consolidated Financial Statements").

**B. Definitions:**

The Company: Oil Refineries Ltd.

Subsidiaries: Companies whose financial statements are fully consolidated with the financial statements of the Company

Investees: Subsidiaries and companies in which the Company's investment is stated in the financial statements on the equity basis

**NOTE 2 – BASIS OF PREPARATION**

**Reclassification:**

**A.** Financial derivatives at June 30, 2010, previously presented in non-current assets and non-current liabilities were classified as current assets and current liabilities, and split into intangible assets and deferred expenses presented in an item for each of the forgoing items, separately.

	<b>As of June 30, 2010</b>		
	<b>As previously reported</b>	<b>Effect of reclassification</b>	<b>As reported in these financial statements</b>
Hedged financial derivatives:			
Current assets	13,958	15,229	29,187
Non-current assets	87,381	(15,229)	72,152
Current liabilities	--	6,577	6,577
Non-current liabilities	13,277	(6,577)	6,700

**B. The following figures pertain to the effect of reclassification on the relevant items:**

Certain comparative figures in the statement of comprehensive income for the six and three month periods ended June 30, 2010 were reclassified to adjust them to the manner of representation in the statement of comprehensive income for the six and three month periods ended June 30, 2011.

	<b>Six months ended June 30, 2010</b>		
	<b>As previously reported</b>	<b>Effect of reclassification</b>	<b>As reported in these financial statements</b>
Cost of sales, refinery and services	(3,214,638)	1,486	(3,213,152)
Selling expenses	(18,807)	(83)	(18,890)
Administrative and general expenses	(17,817)	(1,403)	(19,220)

**Oil Refineries Ltd.**

**Additional Information to the Separate Interim Financial Statements**  
**USD thousands**

**NOTE 2 – BASIS OF PREPARATION (CONTD.)**

**Reclassification: (contd.)**

**B. The following figures pertain to the effect of reclassification on the relevant items: (contd.)**

	Three months ended June 30, 2010		
	As previously reported	Effect of reclassification	As reported in these financial statements
Cost of sales, refinery and services	(1,686,936)	1,357	(1,685,579)
Selling expenses	(10,700)	(50)	(10,750)
Administrative and general expenses	(10,386)	(1,307)	(11,693)

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES**

For information pertaining to the Company's accounting policies, see Note 3 to the condensed consolidated interim financial statements as of June 30, 2011.

Below is a breakdown of the effect of first time application of the IFRS 9 (2010) on the Company, as of the date of the first time application:

**A. The effect on the Statement of Financial Position as of January 1, 2011:**

	Original classification according to IAS 39	Reclassification according to IFRS 9	Original carrying amount according to IAS 39	New carrying amount according to IFRS 9
USD thousands				
Financial assets				
Cash and cash equivalents, deposits, trade payables and accounts receivable	Loans and receivables	Financial assets at amortized cost:		Unchanged
Investments in financial assets through profit or loss (***)	Available-for-sale financial assets	Fair value through other comprehensive income		Unchanged
Financial liabilities				
Debentures designated at fair value through profit or loss (**)	Amortized costs	Financial liabilities measured at fair value through profit or loss	554,026	586,641

(\*) The effect of first time application of IFRS 9 (2010) on the balance of deferred taxes as of January 1, 2011 is a tax asset in the amount of USD 5.524 million, of which a tax asset in the amount of USD 7.798 million was charged to retained earnings and a tax reserve in the amount of USD 2.274 million was charged to a capital reserve for financial liabilities designated at fair value.

(\*\*) See Note 3A (2)(c)(2) to the condensed consolidated interim financial statements of June 30, 2011.

**Oil Refineries Ltd.**

**Additional Information to the Separate Interim Financial Statements**  
**USD thousands**

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**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

- B.** For the effect of the change in accounting policy on capital at January 1, 2011, see Note 3(A)(2)(c)(2) to the condensed consolidated interim financial statements as of June 6, 2011.
- C.** Below is a breakdown of the difference between the carrying amount of the financial liabilities designated at fair value and the amount payable on maturity:

	<u>Carrying amount</u>	<u>Amount payable on maturity</u>	<u>Difference</u>
	<u>in USD thousands</u>		
Balance as of January 1, 2011	<u>586,641</u>	<u>554,026</u>	<u>32,615</u>
Balance as of June 30, 2011	<u>601,465</u>	<u>585,021</u>	<u>16,444</u>

**NOTE 4 – GUARANTEES AND AGREEMENTS WITH INVESTEES**

For further information see Notes 6(B) and 6(C) to the condensed consolidated interim financial statements as of June 30, 2011.

**NOTE 5 – CONTINGENT LIABILITIES**

For further information see Note 6(A) to the condensed consolidated interim financial statements as of March 31, 2011.

**NOTE 6 – MATERIAL EVENTS IN THE REPORTING PERIOD**

For further information, see Note 7 to the condensed consolidated interim financial statements as of June 30, 2011.