

**Oil Refineries Ltd.**



**Condensed Consolidated Interim Financial Statements**

**September 30, 2010**

**(Unaudited)**

This translation of the financial statement is for convenience purposes only.

The only binding version of the financial statement is the Hebrew version.

# Oil Refineries Ltd.

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## **Directors' Report on the State of the Company's Affairs For the Period Ended September 30, 2010**

The board of directors is pleased to present the Directors' Report on the State of the Company's Affairs for the period ended September 30, 2010 ("the reporting period"). The report is presented under the assumption that the Company's Periodic Report for 2009 ("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 Group engages mainly in production of oil products 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 petrochemicals segment is made up of three operations: aromatics, through Gadiv Petrochemical Industries Ltd. (100%) ("Gadiv"); polymers, through Carmel Olefins Ltd. ("Carmel Olefins") (100%, up to December 30, 2009, the Company held 50% of Carmel Olefins shares); and basic oils and waxes, through Haifa Basic Oils Ltd. ("Haifa Basic Oils") (as from the first quarter of 2010, the Company holds 100% of the shares of Haifa Basic Oils and previously it held 50%). 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**

**1.2.1** As part of the strategic plan approved by the board of directors of the Company in November 2007 and the formulation of the financing plan (as set out below), the Company started to implement the project for establishment of the new plant at a total investment of \$500 million. The plant is expected to be operational in the second quarter of 2012. For details of the building permit, including the Company's participation in the Kishon River project, see Note 8(N) to the interim consolidated financial statements as at September 30, 2010.

At the end of June 2010, the Company signed an agreement with a syndicate of financiers led by Bank Hapoalim Ltd. Under the agreement, the syndicate will provide up to \$600 million (without collateral) for partial funding of the project for establishment of the new plant, the Company's other investments and the Company's long-term debt due between 2009 and 2012. In August 2010, the preconditions of the financing agreement were fulfilled, including signing of the financing agreement guaranteed by the Export-Import Bank of the United States (see below), and the Company withdrew \$200 million on account of this loan.

In August 2010, the Company finalized and signed a financing agreement with a foreign bank and the Export-Import Bank of the United States, together with other export credit agencies in Germany, for an additional \$300 million guarantee for the loan to be provided by a foreign bank for acquisition of equipment for the new plant. The preconditions were fulfilled in October 2010 and the Company withdrew \$6.5 million on account of the loan provided to the Company under this agreement.

**1.2.2** In June 2010, the Company implemented the second and last stage of the project to upgrade the desulfurization plant from HVGO. The upgrade increases the refinery's diesel production capacity by an additional 3-4%.

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**1.2.3** 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 Company 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.

**1.2.4** In the reporting period, there was substantial progress in the connection of the natural gas pipeline to the Company's plants. According to reports that the Company receives from Israel Natural Gas Lines (INGL), which is installing the natural gas pipeline in Israel, the connection will be completed at the end of 2010. Concurrently, the Company, Israel Chemicals Ltd. and Israel Corporation Ltd. (through OPC Rotem Ltd., a subsidiary of Israel Corporation Ltd.) are in advanced negotiations with a number of entities to purchase natural gas. The management of the Company estimates that the negotiations will be completed by that time. Therefore, after connection of the pipeline, all Group plants will start to use natural gas as combustion material in production plants, instead of fuel oil. The Company estimates that conversion to natural gas will increase operational efficiency and compliance of Group plants with future environmental requirements is dependent on the conversion.

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

The expected date of natural gas supply to plants of the Company and its subsidiaries, the completion of negotiations for acquisition of 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 their investment are forward-looking information based, inter alia, on estimates of Israel Natural Gas Lines Ltd. regarding completion of the natural gas pipeline to Haifa Bay (regarding the start of supply), Company estimates regarding the completion date of the agreement, costs for completing the project, fuel oil and polymer product prices, the volume of natural gas consumption and other factors. Therefore, there is no certainty as to when gas will be supplied to the Group, the extent of cost reductions following conversion to natural gas, the aforesaid project costs and the return on the investment.

**1.2.5** 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 \$117 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**

In the reporting period, crude oil prices continued to fluctuate and in April 2010 reached the highest level since the recession at the end of 2008, with Brent crude oil trading at \$85/barrel. The price increase was boosted by the expected recovery and strong demand for crude oil futures contracts serving also as an investment instrument. In May 2010, following the development of the debt crisis in the euro bloc and the slump in global financial markets, there was a considerable decrease in crude oil prices, which fell to \$68/ barrel. Prices rose again to a certain extent in the third quarter, reaching \$81/barrel. At the same time, global demand for crude oil increased, reaching a peak of 87 million barrels a day, with increased demand in developed countries (OECD) as well, for the first time since 2004.

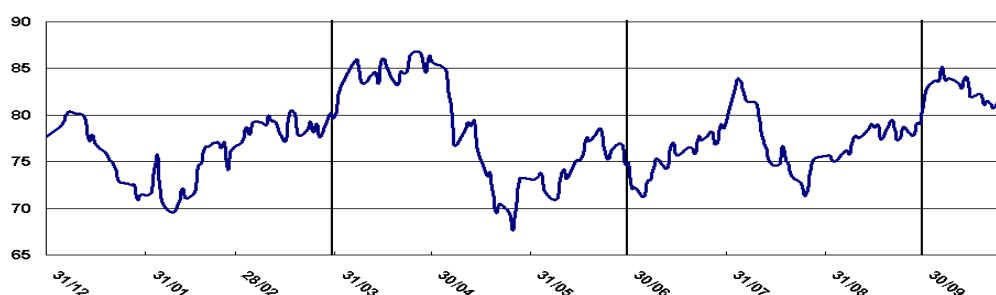
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At the end of the period there were two significant events in global markets that affected energy markets: an increase in interest in China and the workers' strike in France.

The surprise interest rate increase indicates the Chinese government's confidence in the growth rate and shift from a restraining policy to focus on continued growth. Steady growth in the Chinese domestic market results in growing demand for oil products, which are required for industrialization and urbanization. These trends are expected to positively affect future demand for Company products, resulting in improved long-term margins.

At the same time, workers went on strike in France to protest government plans to raise the retirement age. These strikes paralyzed the Fos-Lavera oil port and most refineries in the region, disrupting supply of oil products to the extent that emergency fuel reserves were tapped, resulting in a temporarily rise in refining margins.

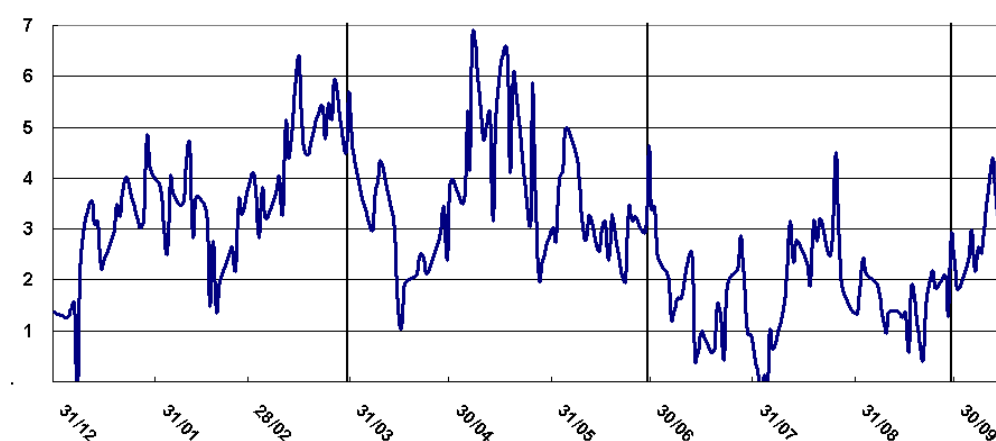
### Brent crude oil prices in 2010 (\$/barrel)



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 benchmark margin<sup>1</sup> is between zero and \$7 per barrel. The average margin was \$2.9/barrel in the reporting period and \$1.8/barrel in the third quarter. In 2009, the average benchmark margin was \$1.9 per barrel. Subsequent to the reporting date, there was a considerable increase in the benchmark margin, mainly due to the aforesaid strikes in refineries and ports in France.

### Refining margin publicized by Reuters for an example of a Mediterranean refinery having the capability of cracking Ural-type crude oil in 2010 (\$/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 explanation see section 1.6.2.4 of the Periodic Report.

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Refining operations rose by 1.3 million ton in the reporting period compared to the corresponding period last year (in the third quarter of the year, 0.5 million tons compared to the corresponding period last year). The increase is due to the increased refining capacity after upgrading and periodic maintenance of the crude distillation unit (CDU 4) in June and July 2009 by 0.3 million tons. On the other hand, in the corresponding period last year the shutdown of CDU 4 for renovation and periodic maintenance, as set out above, and the shutdown of the Company's small crude distillation unit (CDU 1) in September 2009 for optimization reduced refining by approximately one million tons.

### Refining volume and utilization of production plants in the refining sector (thousand of tons)

	1-9.2010	1-9.2009	7-9.2010	7-9.2009
Refining volume	6,803	5,536	2,314	1,765
Utilization of production plants	93.6%	81.7%	94.5%	76.5%

Following the upgrade and activation of the first stage of the desulfurization plant in July 2009, and activation of the second and last stage in June 2010, refining capacity improved and production of heavy products (fuel oil and HVGO) decreased by 3% in the reporting period compared to the corresponding period last year.

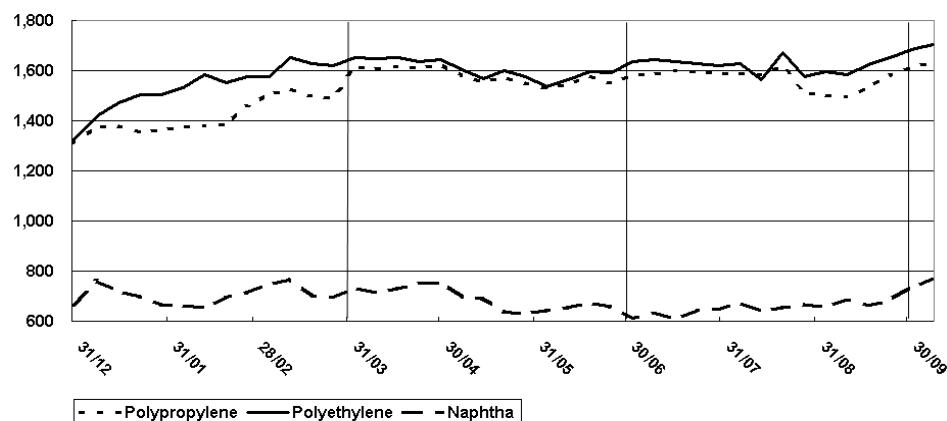
The following table presents the breakdown of the Company's output by the main product groups in the refinery segment (in thousands of tons)

	1-9.2010	1-9.2009	7-9.2010	7-9.2009
Diesel fuel	2,075	1,719	708	514
Gasoline	1,283	1,177	425	408
Kerosene	723	492	263	194
Fuel oil	851	823	304	237
HVGO	445	416	144	92
Others	897	438	289	149
<b>Total</b>	<b>6,274</b>	<b>5,065</b>	<b>2,133</b>	<b>1,594</b>

### Petrochemicals

**Polymer** margins (polyethylene and polypropylene) increased during the reporting period (mainly in the second and third quarters). Polymer prices rose from \$1,400/ton at the beginning of the period to over \$1,600/ton during the period. The price increase is mainly due to low demand. The increase in polymer margins also contributed to a relative decrease in raw material prices, mainly naphtha.

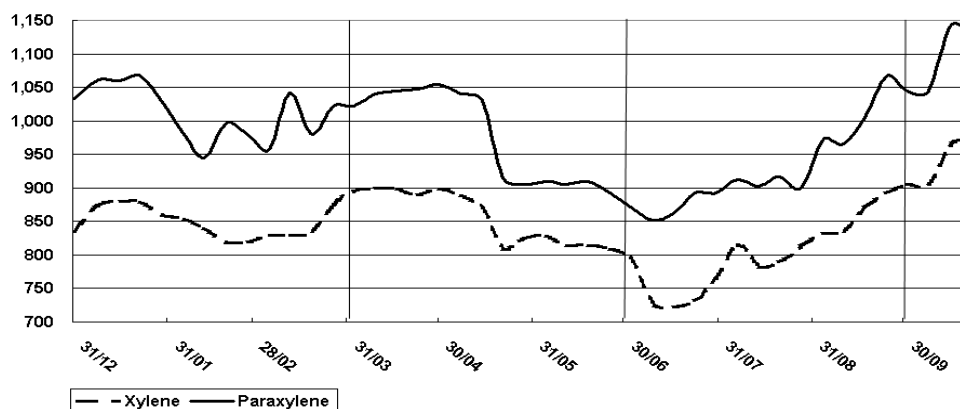
### Polymer and naphtha prices in 2010 (\$/ton)



Source: CMAI

**Aromatics** margins decreased in the second quarter, mainly due to return to production of plants in Asia after renovations: The large increase in demand for polyester, mainly in Asia following production of winter textiles, led to greater demands in the entire xylene chain, therefore there was a sharp increase in xylene and paraxylene prices alongside an increase in the margins of these products. Aromatics prices (mainly paraxylene) fluctuated around \$900/ton at the beginning of the period and rose to \$1,050/ton towards the end of the period.

**Paraxylene prices compared to xylene prices in 2010 (\$/ton)**



Source: PLATTS

Prices of **oils** reported by ICIS<sup>2</sup> for export cargo from Europe increased during the period from \$775/ton to \$1,020/ton for export. The period was characterized by growing customer demand alongside a reduction in supply due to maintenance works at the plants in CIS countries, breakdowns in European oils production plants and the conversion of plants to production of advanced oils (without production capacity for waxes). Prices of raw materials, which are oil products, were relatively stable.

**The following table presents the output in the petrochemicals segment (in thousands of tons)**

	1-9.2010	1-9.2009	7-9.2010	7-9.2009
Aromatics (Gadiv)	387	346	121	117
Polymers (Carmel Olefins) (1)	543	263	180	93
Oils (Haifa Basic Oils) (2)	51	-	17	-
<b>Total</b>	<b>981</b>	<b>609</b>	<b>318</b>	<b>210</b>

- (1) In the corresponding period last year, the Company's financial statements included only 50% of the results of the polymer operations.
- (2) Included as part of investee profits in the corresponding period last year, therefore not consolidated

<sup>2</sup> Chemical industry news and intelligence [www.icis.com](http://www.icis.com)

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The consolidated profit in the reporting period amounted to \$53 million, compared to a profit of \$167 million in the corresponding period last year. The following table summarizes the consolidated financial results for the nine months ended September 30, 2010 and the corresponding period last year (in \$ millions):

	1-9.2010	1-9.2009
Operating profit (not including other expenses)	102	174
Other expenses (1)	(29)	(7)
Financing expenses, net	(28)	(8)
Tax benefit	7	3
Profits of investees	1	5
<b>Profit for the period</b>	<b>53</b>	<b>167</b>

- (1) In the first half of 2010, there was amortization of excess cost of acquisition of Carmel Olefins and Haifa Basic Oils. In 2009, there was a loss due to the change in the accounting method in the Company's holdings in Israel Petrochemicals Enterprises Ltd.

### Operating profit and EBITDA (in \$ millions)

	Operating profit		EBITDA	
	1-9.2010	1-9.2009	1-9.2010	1-9.2009
Refining – adjusted (1)	24	64	55	96
Petrochemicals – polymers (2)	57	8	91	28
Petrochemicals - aromatics	20	21	24	26
Petrochemicals – oils (3)	8	-	9	-
Trade	(13)	-	(13)	-
Adjustments	(5)	-	(5)	-
<b>Total consolidated (adjusted)</b>	<b>91</b>	<b>93</b>	<b>161</b>	<b>150</b>
<b>Total consolidated (unadjusted)</b>	<b>102</b>	<b>174</b>	<b>172</b>	<b>231</b>

- (1) For details of the adjustment, see section 3.1.2 below.
- (2) In the corresponding period last year, the Company's financial statements included only 50% of the results of the polymer operations.
- (30) Included as part of investee profits in the corresponding period last year, therefore not consolidated

## 2. Financial position

### 2.1 Current assets

At September 30, 2010, current assets amounted to \$1.986 billion, representing 46% of total assets, compared to \$1.663 billion, representing 43% of total assets at December 31, 2009. The increase of \$323 million is mainly due to an increase of \$141 million in trade receivables, following an increase in sales and prices, as well as an increase of \$174 million in inventory, due to larger inventory and higher prices.

### 2.2 Non-current assets

At September 30, 2010, non-current assets amounted to \$2.340 billion, compared to \$2.221 billion at December 31, 2009. The difference of \$119 million is mainly due to an increase of \$75 million in financial derivatives following changes in interest, CPI and exchange rates in the reporting period, an increase of \$8 million in deferred expenses for raising capital and a net increase of \$33 million in property, plant and equipment and intangible assets.

### **2.3 Current liabilities**

At September 30, 2010, current liabilities amounted to \$1.615 billion, representing 50% of total liabilities, compared to \$1.291 billion, representing 47% of total liabilities at December 31, 2009. The increase of \$324 million is mainly due to a net increase of \$156 million in short-term bank loans, an increase of \$132 million in trade payables, an increase of \$12 million in other payables and an increase of \$24 million in the income tax credit balance, due to the income tax refund received for 2008.

### **2.4 Non-current liabilities**

At September 30, 2010, non-current liabilities amounted to \$1.592 billion, compared to \$1.442 billion at December 31, 2009. The increase of \$150 million is mainly due to an increase of \$143 million in liabilities to banks following raising of long-term loans, offset by repayments in the period, an increase of \$17 million in debentures due to the effect of revaluation and after repayments for the period and an increase of \$17 million in financial derivatives offset by a decrease of \$16 million in other long-term liabilities following payment to complete the transaction for acquisition of the balance of Domo Polypropylene BV shares.

### **2.5 Equity**

At September 30, 2010, equity amounted to \$1.119 billion, representing 26% of the statement of financial position, compared to \$1.152 billion (including non-controlling interests), representing 30% of the statement of financial position at December 31, 2009. The decrease of \$33 million in equity is mainly due to payment of a dividend of \$75 million, acquisition of non-controlling interests in Haifa Basic Oils amounting to \$17 million and the offset of profit of \$53 million in the reporting period and an increase of \$6 million in capital reserves.

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**3. Results of the Group's operations**

**3.1 The following table presents selected information of the Group for the nine months period**

	Petrochemicals										Adjustments to consolidated		Consolidated	
	Refining		Trade		Polymers		Aromatics		Oils					
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	<b>Nine months ended September 30</b>													
Revenue	3,951	2,683	130	422	772	289	383	253	59	-	-	-	5,295	3,647
Inter-company operations	735	324	-	29	-	-	31	30	-	-	(766)	(383)	-	-
<b>Total sales</b>	<b>4,686</b>	<b>3,007</b>	<b>130</b>	<b>451</b>	<b>772</b>	<b>289</b>	<b>414</b>	<b>283</b>	<b>59</b>	<b>-</b>	<b>(766)</b>	<b>(383)</b>	<b>5,295</b>	<b>3,647</b>
Cost of sales	4,571	2,786	139	449	321	146	27	9	17	-	-	-	5,075	3,390
Inter-company operations	31	30	-	-	351	116	343	234	33	-	(758)	(380)	-	-
<b>Total cost of sales</b>	<b>4,602</b>	<b>2,816</b>	<b>139</b>	<b>449</b>	<b>672</b>	<b>262</b>	<b>370</b>	<b>243</b>	<b>50</b>	<b>-</b>	<b>(758)</b>	<b>(380)</b>	<b>5,075</b>	<b>3,390</b>
<b>Gross profit (loss)</b>	<b>84</b>	<b>191</b>	<b>(9)</b>	<b>2</b>	<b>100</b>	<b>27</b>	<b>44</b>	<b>40</b>	<b>9</b>	<b>-</b>	<b>(8)</b>	<b>(3)</b>	<b>220</b>	<b>257</b>
Selling, general and administrative expenses	49	46	4	2	41	17	23	18	1	-	-	-	118	83
Inter-company operations	-	-	-	-	2	2	1	1	-	-	(3)	(3)	-	-
	49	46	4	2	43	19	24	19	1	-	(3)	(3)	118	83
<b>Operating profit (loss) for segments</b>	<b>35</b>	<b>145</b>	<b>(13)</b>	<b>-</b>	<b>57</b>	<b>8</b>	<b>20</b>	<b>21</b>	<b>8</b>	<b>-</b>	<b>(5)</b>	<b>-</b>	<b>102</b>	<b>174</b>
Loss from loss of material impact in an equity-accounted investee													-	(7)
Amortization of the excess cost arising from acquisition of investees													(29)	-
<b>Operating profit</b>													<b>73</b>	<b>167</b>
Financing expenses, net													(28)	(8)
Share in profits (losses) of investees, net of tax													1	5
Profit before income tax													46	164
Income tax													7	3
<b>Profit for the period</b>													<b>53</b>	<b>167</b>

## Oil Refineries Ltd.

The following table presents a description of the main reasons for the decrease of \$72 million in consolidated operating profit in the period (in \$ million):

	<b>1-9.2010 compared to 1-9.2009</b>
Increase in sales turnover	24
Decrease in income from sale of services	(3)
Decrease in gross profit from the trade segment	(11)
Changes in adjustments – see details in the table in section 3.1.2 below	(70)
Decrease in adjusted margins in the refining segment	(70)
Increase in margins in the petrochemicals segment	63
Decrease in production expenses	13
Increase in selling and administrative expenses	(18)
	<b>(72)</b>

### 3.1.1 Sales

Sales in the **refining segment** amounted to \$4.685 billion in the reporting period, compared to \$3.007 billion in the corresponding period last year. The increase in sales 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 \$661 in the reporting period, compared to \$483 in the corresponding period last year.

In the reporting period, there was an increase of 2% in consumption of distillates and an increase of 3% in the consumption of gasoline for transportation in the local market (fuel oil, diesel and jet fuel) compared to the corresponding period last year.

Sales in the **trade segment** amounted to \$130 million, in the reporting period, compared to \$451 million in the corresponding period last year.

#### **Sales in the petrochemical segment**

Sales of **polymers operations** increased by \$483 million in the reporting period compared to the corresponding period last year. The increase is due to an increase of \$231 million in selling prices and an increase of \$252 million in the quantity of sales due to an increase in the Company's holdings of Carmel Olefins.

Sales of **aromatics operations** increased by \$131 million in the reporting period compared to the corresponding period last year. The increase is due to an increase of \$77 million in selling prices, an increase of \$50 million in selling quantities and an increase of \$4 million in revenue from processing and other fees.

Sales of **oils operations** amounted to \$59 million in the reporting period. In the corresponding period last year, the results of Haifa Basic Oils were included under profits of investees.

### 3.1.2 Operating profit

Operating profit in the **refining segment** amounted to \$35 million in the reporting period, compared to \$145 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)

	1-9.2010	1-9.2009	7-9.2010	7-9.2009
Profit from buying and selling timing differences, for inventory that is not hedged by derivatives (*)	(9)	(34)	(10)	(39)
Elimination of the provision for impairment of inventory, net	3	(75)	(3)	11
Loss (profit) due to the effect of changes in fair value of derivatives on prices of goods, mainly due to accounting under IFRS	(5)	28	(2)	(6)
<b>Total effect</b>	<b>(11)</b>	<b>(81)</b>	<b>(15)</b>	<b>(34)</b>

(\*) Inventory of 600,000 tons Changes in the value of this inventory do not generate cash flow exposure for the Company. As from September 2009, the Company hedges part of this inventory through options in the event of a material decrease in crude oil prices.

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

	1-9.2010	1-9.2009	7-9.2010	7-9.2009
<b>Benchmark margin (dollar/barrel)</b>	<b>2.9</b>	<b>2.1</b>	<b>1.7</b>	<b>1.6</b>
<b>Adjusted margin (dollar/barrel)</b>	<b>3.1</b>	<b>4.9</b>	<b>1.7</b>	<b>8.1</b>
<b>Adjusted margin (dollar/ton)</b>	<b>23.1</b>	<b>36.0</b>	<b>12.3</b>	<b>60.1</b>
Net of the effect – Buying and selling timing differences	(1.3)	(6.3)	(4.4)	(23.6)
– Provision for impairment of inventory at the reporting date	0.4	(13.7)	(1.5)	6.9
– Accounting method for derivatives according to IFRS	(0.7)	5.1	(0.9)	(3.6)
<b>Accounting margin (dollar/ton)</b>	<b>24.7</b>	<b>50.9</b>	<b>19.1</b>	<b>80.4</b>

In the reporting period, adjusted refining margins decreased to \$23.1 per ton (\$3.1 per barrel), compared to \$36 per ton (\$4.9 per barrel) in the corresponding period last year. In the reporting period, the benchmark margin was \$21.1 per ton (\$2.9 per barrel), compared to \$15.3 per ton (\$2.1 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.

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

	<b>1-9.2010 compared to 1-9.2009</b>
Decrease in margin less refining operations	(70)
Increase in sales	29
Decrease in income from sale of services	(7)
Decrease in production expenses	11
Increase in selling, administrative and general expenses	(3)
Changes in adjustments – as described above	(70)
	<b>(110)</b>

Operating loss in the trade segment amounted to \$13 million in the reporting period compared to a balance in the corresponding period last year.

Operating profit in **polymers operations** amounted to \$57 million (100% of the holdings) in the reporting period, compared to a profit of \$8 million in the corresponding period last year (50% of the holdings).

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

	<b>1-9.2010 compared to 1-9.2009</b>
Increase in margin from the basket of products	54
Decrease in sales quantities	(10)
Decrease in production expenses	3
Increase in selling, administrative and general expenses	(7)
Total effect of the increase in holdings in Carmel Olefins	9
	<b>49</b>

The operating profit in **aromatics operations** amounted to \$20 million in the reporting period, compared to \$21 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>1-9.2010 compared to 1-9.2009</b>
Increase in sales volume	5
Increase in processing fees	4
Decrease in products index margin	(5)
Increase in selling, administrative and general expenses	(5)
	<b>(1)</b>

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The operating profit in **oils operations** amounted to \$8 million in the reporting period. In the corresponding period last year, the results of Haifa Basic Oils were included under profits of investees, according to the Company's holdings of 50% in Haifa Basic Oils.

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

	<b>1-9.2010 compared to 1-9.2009</b>
Increase in products index margin	14
Increase in production and other expenses	(2)
Total effect of the increase in the holdings in Haifa Basic Oils	(4)
	<b>8</b>

### **3.1.3 Other expenses**

In the reporting period, other expenses amounted to \$29 million, representing amortization of excess acquisition costs of the balance of shares in Carmel Olefins and Haifa Basic Oils. In the corresponding period last year, other expenses amounted to \$7 million and were due to the change in the accounting method of the Company's holdings in Israel Petrochemical Enterprises Ltd. ("IPE").

### **3.1.4 Finance expenses**

Net consolidated finance expenses amounted to \$28 million in the reporting period compared to \$8 million in the corresponding period last year.

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

	<b>1-9.2010 compared to 1-9.2009</b>
Increase in short-term interest mainly due to an increase in the scope of credit	(5)
Decrease in profits from securities and loan provided	(5)
Changes in fair value of hedge transactions	(10)
	<b>(20)</b>

### **3.1.5 Income tax**

Tax revenue amounted to \$7 million in the reporting period, compared to revenue of \$3 million in the corresponding period last year. The change is mainly due to the decrease in pre-tax profit compared to the corresponding period last year, offset by tax revenue of \$7 million after the Tax Authority approved the request for a pre-ruling for Carmel Olefins (see Note 8S to the financial statements), compared to tax revenue of \$36 million in the corresponding period last year, due to the decrease in future tax rates following the amendment to the Economic Arrangements Law

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

The Company's share in the earnings of investees amounted to \$1 million in the reporting period, compared to earnings of \$5 million in the corresponding period last year. The change in the earnings of investees is mainly due to the profits of IPE, which were recognized in profits of investees in the corresponding period last year. As from May 7, 2009, accounting of the holding in IPE was changed to available for sale securities, and as from this date, the change in the investment in IPE is recognized in capital reserve.

Oil Refineries Ltd.

3.2 The following tables present selected information of the Group for the three months period

	Petrochemicals										Adjustments to consolidated		Consolidated	
	Refining		Trade		Polymers		Aromatics		Oils					
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	Three months ended September 30													
Revenue	1,306	1,042	34	192	237	113	116	107	20	-	-	-	1,713	1,454
Inter-company operations	248	135	-	11	-	-	8	11	-	-	(256)	(157)	-	-
<b>Total sales</b>	<b>1,554</b>	<b>1,177</b>	<b>34</b>	<b>203</b>	<b>237</b>	<b>113</b>	<b>124</b>	<b>118</b>	<b>20</b>	<b>-</b>	<b>(256)</b>	<b>(157)</b>	<b>1,713</b>	<b>1,454</b>
Cost of sales	1,520	1,070	38	205	72	48	5	7	5	-	-	-	1,640	1,330
Inter-company operations	8	11	-	-	127	49	106	98	12	-	(253)	(158)	-	-
<b>Total cost of sales</b>	<b>1,528</b>	<b>1,081</b>	<b>38</b>	<b>205</b>	<b>199</b>	<b>97</b>	<b>111</b>	<b>105</b>	<b>17</b>	<b>-</b>	<b>(253)</b>	<b>(158)</b>	<b>1,640</b>	<b>1,330</b>
<b>Gross profit (loss)</b>	<b>26</b>	<b>96</b>	<b>(4)</b>	<b>(2)</b>	<b>38</b>	<b>16</b>	<b>13</b>	<b>13</b>	<b>3</b>	<b>-</b>	<b>(3)</b>	<b>1</b>	<b>73</b>	<b>124</b>
Selling, general and administrative expenses	14	15	-	1	10	7	6	7	1	-	-	-	31	30
Inter-company operations	-	-	-	-	1	1	-	-	-	-	(1)	(1)	-	-
	15	15	-	1	11	8	6	7	1	-	(1)	(1)	31	30
<b>Operating profit (loss) for segments</b>	<b>12</b>	<b>81</b>	<b>(4)</b>	<b>(3)</b>	<b>27</b>	<b>8</b>	<b>7</b>	<b>6</b>	<b>2</b>	<b>-</b>	<b>(2)</b>	<b>2</b>	<b>42</b>	<b>94</b>
Amortization of the excess cost arising from acquisition of investees													(7)	-
<b>Operating profit (loss)</b>													35	94
Finance income (expenses), net													(20)	(17)
Share in losses of investees, net of tax													-	1
Profit (loss) before taxes on income													15	78
Tax benefits (income tax)													10	22
<b>Net profit (loss) for the period</b>													<b>25</b>	<b>100</b>

## Oil Refineries Ltd.

The following table presents a description of the main reasons for the decrease of \$52 million in consolidated operating profit in the third quarter (in \$ million):

	<b>7-9.2010 compared to 7-9.2009</b>
Increase in sales turnover	7
Decrease in gross profit from the trade segment	(2)
Changes in adjustments – see details in the table in section 3.1.2 above	(19)
Decrease in adjusted margins in the refining segment	(86)
Increase in margins in the petrochemicals segment	10
Decrease in production and other expenses	30
Total effect of the increase in holdings in Carmel Olefins	8
	<b>(52)</b>

The following table presents the Group's operating results on an economic basis, with adjustment of the accounting effects in the refining segment (in \$ million):

	<b>Operating profit</b>		<b>EBITDA</b>	
	<b>7-9.2010</b>	<b>7-9.2009</b>	<b>7-9.2010</b>	<b>7-9.2009</b>
Refining – adjusted (1)	(3)	48	8	60
Petrochemicals – polymers (2)	27	8	37	14
Petrochemicals - aromatics	7	6	8	8
Petrochemicals – oils (3)	2	-	2	-
Trade	(4)	(3)	(4)	(3)
Adjustments	(2)	2	(2)	1
<b>Total consolidated (adjusted)</b>	<b>27</b>	<b>60</b>	<b>49</b>	<b>80</b>
<b>Total consolidated (unadjusted) adjustments)</b>	<b>42</b>	<b>94</b>	<b>64</b>	<b>114</b>

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

(2) In the corresponding period last year, the Company's financial statements included only 50% of the results of the polymer operations.

(3) Included as part of investee profits in the corresponding period last year, therefore not consolidated

### 3.2.1 Sales

Sales in the **refining segment** (carried out through the Company) amounted to \$1.553 billion in the third quarter of 2010, compared to \$1.177 billion in the corresponding period last year. The increase in sales 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 \$657 in the reporting period, compared to \$591 in the corresponding period last year.

In the third quarter of 2010, there was an increase of 2% in consumption of distillates and an increase of 3% in the consumption of gasoline for transportation in the local market ( fuel oil, diesel for transportation and jet fuel) compared to the corresponding period last year.

Sales in the **refining segment** (carried out through the Company) amounted to \$34 million in the third quarter of 2010, compared to \$203 million in the corresponding period last year.

### Sales in the petrochemical segment

Sales of **polymers operations** increased by \$124 million in the third quarter compared to the corresponding period last year. The increase is due to an increase of \$44 million in selling prices and an increase of \$80 million in sales due to an increase in the Company's holdings of Carmel Olefins.

Sales of **aromatics operations** increased by \$6 million in the third quarter compared to the corresponding period last year. The increase is due to an increase of \$10 million in sales, offset by a decrease of \$4 million in selling prices.

Sales of **oils operations** amounted to \$20 million in the third quarter of 2010. In the corresponding period last year, the results of Haifa Basic Oils were included under profits of investees.

### 3.2.2 Operating profit

Operating profit in the **refining segment** amounted to \$12 million in the third quarter of 2010, compared to a profit of \$81 million in the corresponding period last year.

The following table presents a description of the main reasons for the decrease in operating profit in the **refining segment** in the third quarter of 2010, compared to the corresponding period last year (in USD millions):

	7-9.2010 compared to 7-9.2009
Decrease in margin less refining operations	(86)
Changes in adjustments (as described above)	(19)
Increase in sales	13
Decrease in production expenses	22
Decrease in selling, administrative and general expenses	1
	<b>(69)</b>

The operating loss in the **trade segment** amounted to \$4 million in the third quarter of 2010, compared to operating loss of \$3 million in the corresponding period last year.

Operating profit in **polymers operations** amounted to \$27 million (100% of the holdings) in the third quarter of 2010, compared to a profit of \$8 million in the corresponding period last year (50% of the holdings).

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

	7-9.2010 compared to 7-9.2009
Increase in margin from the basket of products	8
Decrease in scope of sales	(7)
Decrease in production expenses	10
Total effect of the increase in holdings in Carmel Olefins	8
	<b>19</b>

The operating profit in **aromatics operations** amounted to \$7 million in the third quarter of 2010, compared to \$6 million in the corresponding period last year.

## Oil Refineries Ltd.

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

	<b>7-9.2010 compared to 7-9.2009</b>
Increase in sales volume	1
Decrease in products index margin	(1)
Decrease in selling, administrative and general expenses	1
	<b>1</b>

The operating profit of **oils operations** amounted to \$2 million in the third quarter of 2010. In the corresponding period last year, the results of Haifa Basic Oils were included under profits of investees, according to the Company's holdings of 50% in Haifa Basic Oils.

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

	<b>7-9.2010 compared to 7-9.2009</b>
Increase in product index margin	3
Increase in production and other expenses	(1)
	<b>2</b>

### **3.2.3 Finance income/expenses**

Net consolidated financing expenses amounted to \$20 million in the third quarter, compared to expenses of \$17 million in the corresponding period last year.

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

	<b>7-9.2010 compared to 7-9.2009</b>
Increase in interest on loan and debentures	(1)
Decrease in short-term interest	2
Change in value of securities and loan provided	(2)
Revaluation, net	(7)
Fair value of hedging	5
	<b>(3)</b>

### **3.2.4 Income tax**

Tax revenue in the Group amounted to \$10 million in the third quarter, compared to revenue of \$22 million in the corresponding period last year. The change is mainly due to the decrease in pre-tax profit compared to the corresponding period last year, offset by tax revenue of \$7 million after the Tax Authority approved the request for a preruling for Carmel Olefins (see Note 8S to the financial statements), compared to tax revenue of \$36 million in the corresponding period last year, due to the decrease in future tax rates following the amendment to the Economic Arrangements Law.

#### 4. Liquidity

Total current assets less current liabilities at September 30, 2010 amounted to \$371 million compared to \$372 million at December 31, 2009. The current ratio at September 30, 2010 is 1.23 compared to 1.29 at December 31, 2009.

Consolidated cash flows used for operating activities in the reporting period amounted to \$48 million in the reporting period, (in the third quarter, the cash flow from operating activities amounted to \$19 million), mainly due to profit in the period less adjustment of non-cash revenue and expenses amounting to \$147 million (in the third quarter, \$104 million), offset by an increase of \$224 million in current assets and liabilities (in the third quarter, \$115 million), plus income tax refunds of \$29 million (in the third quarter, \$30 million).

Cash flows used for investment activity amounted to \$110 million in the reporting period, used mainly to finance investments in property, plant and equipment.

Net cash flows from finance activity amounted to \$154 million in the reporting period, mainly from short-term credit received of \$158 million, deposits and payments in advance from trade receivables of \$26 million, and long-term loans of \$240 million, offset by repayment of debentures and long-term loans of \$114 million, payment of interest of \$44 million, payment of a dividend of \$75 million and acquisition of non-controlling interests of \$31 million.

#### 5. Sources of financing

Composition of Group financing sources and uses:

	Nine months ended September 30, 2010	Year ended December 31, 2009
	Unaudited	Audited
	<b>USD millions</b>	
<b>Sources</b>		
Decrease in cash in the period	4	-
Decrease in deposits and marketable securities	6	-
Repayment of the loan from Haifa Early Pensions	13	-
Income tax refund	29	43
Cash from operating activities (prior to changes in working capital)	147	268
Receipt of short-term credit and deposits from customers	184	310
Investment in associates	-	7
Dividend received	-	5
Long-term credit	240	-
	<b>623</b>	<b>633</b>
<b>Uses</b>		
Increase in cash	-	20
Increase in working capital	224	220
Payment of dividend	75	-
Investments in property, plant and equipment and other assets	135	181
Investment in associates	33	-
Increase in deposits and marketable securities	-	40
Interest paid, net	42	46
Costs of raising capital and repayment of long-term loans and debentures	114	126
	<b>623</b>	<b>633</b>

## 6. Long-term loans and debentures

The long term loans and debentures at September 30, 2010 (after deduction of current maturities) amounted to \$1.372 billion, representing 32% of the statement of financial position, compared to \$1.211 billion, representing 31% at December 31, 2009. The proceeds of the loans are used to finance investments in property, plant and equipment and to finance working capital. In the third quarter of 2010, long-term loans of \$240 million were received: The Company received loans of \$200 million to finance the project for the new plant, other Company investments and, under certain conditions, to repay the long-term loan due between 2009 and 2013. Carmel Olefins received loans of \$40 million.

Financial leverage at September 30, 2010 (long term loans and debentures, to shareholders' equity plus long term loans and debentures) is 55% at September 30, 2010 and 51% at December 31, 2009.

## 7. Total financial liabilities

Current financial liabilities plus long-term loans and debentures amounted to \$2.132 billion at September 30, 2010, representing 49% of the statement of financial position, compared to \$1.815 billion, representing 47% of the statement of financial position at December 31, 2009. Financial leverage of total financial liabilities to banks and other credit providers is 66% compared to 61% at December 31, 2009.

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

	<b>ORL</b>	<b>Subsidiaries</b>	<b>Total</b>
Short-term loan	458	149	607
Loans from banks (*)	363	269	632
Debentures (*)	637	264	901
Liquid financial assets	(168)	(50)	(218)
<b>Total net financial debt</b>	<b>1,290</b>	<b>632</b>	<b>1,922</b>

(\*) Including current maturities

## 8. Average volume of sources of finance in the reporting period

Long term loans and debentures (including current maturities) – \$1.434 billion; short term credit – \$539 million; trade payables – \$608 million; trade receivables – \$431 million.

## 9. Pro forma statement

- 9.1** On December 31, 2009, the Company completed the acquisition of a further 50% in Carmel Olefins, and subsequent to the acquisition, the Company holds 100% of the share capital of Carmel Olefins.
- 9.2** The acquisition of Carmel Olefins Ltd. is a pro forma event as defined in section 9A of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. As such, the Company is attaching the pro forma statements of comprehensive income to these statements, based on the assumption that the transaction was completed on January 1, 2007.
- 9.3** All the assumptions used to prepare the pro forma statements are set out in Note 4 to the pro forma statements.
- 9.4** Further to the analysis of the Group's operating results set out in section 3 above, the changes in the pro forma statement in the first nine months of 2010 are due to the attributable amortization of excess cost in different periods.

## Oil Refineries Ltd.

- 9.5** There was no change in the pro forma operating cycle compared to the Company's operating cycle.
- 9.6** Pro forma cost of sales was \$7 million less than the Company's cost of sales in the first nine months of 2010, mainly due to amortization of inventory amounting to \$6 million, due to attribution of excess cost in the pro forma statement of 2007, while in the Company's statements, amortization was recorded in the first quarter of 2010.
- 9.7** There was no change in the pro forma selling expenses compared to the selling expenses of the Company.
- 9.8** There was no change in the pro forma general and administrative expenses compared to the Company's general and administrative expenses.
- 9.9** Total pro forma profit in the first nine months of 2010 amounted to \$59 million compared to \$53 million. The difference is mainly due to recognition of amortization of inventory arising from attribution of excess cost in the pro forma consolidated statements of 2007, while in the statements of the Company, amortization was recognized in the first quarter of 2010.

## 10. 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 March 31, 2009.

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

Price change:	Profit (loss)				Fair value September 30, 2010	Profit (loss)			
	Increase					Decrease			
	50% +	20% +	10%+	5%+		5%-	10%-	20%-	50% -
USD thousands									
Inventory (*)	377,861	151,145	75,572	37,786	755,723	(37,786)	(75,572)	(151,145)	(377,861)
Futures	(194,436)	(77,776)	(38,889)	(19,445)	(13,247)	19,441	38,885	77,772	194,432
Call options	(32,278)	(15,535)	(6,735)	(2,996)	4,387	2,195	3,650	4,961	5,256
Put options	(1,099)	(1,015)	(785)	(505)	(14,092)	888	2,400	8,767	79,871
Swap hedging (**)	(953)	(381)	(191)	(95)	263	95	191	381	953
	<u>149,095</u>	<u>56,438</u>	<u>28,972</u>	<u>14,745</u>		<u>(15,167)</u>	<u>(30,446)</u>	<u>(59,264)</u>	<u>(97,349)</u>

(\*) Excluding inventory with a fixed price

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

## 10.2 Consolidated linkage-based report

	CPI-linked shekels	Foreign- currency linked (*)	NIS Unlinked	Non- monetary	Total
<b>September 30, 2010</b>					
Total assets	787,481	1,695,473	480,837	2,204,556	5,168,347
Total liabilities	(797,987)	(2,520,701)	(599,531)	(131,554)	(4,049,773)
<b>Net balance</b>	<b>(10,506)</b>	<b>(825,228)</b>	<b>(118,694)</b>	<b>2,073,002</b>	<b>1,118,574</b>

## Oil Refineries Ltd.

	CPI-linked shekels	Foreign- currency linked (*)	NIS Unlinked	Non- monetary	Total
<b><u>December 31, 2009</u></b>					
Total assets	743,088	1,415,771	435,379	2,117,351	4,711,589
Total liabilities	(764,289)	(2,080,404)	(580,378)	(134,591)	(3,559,662)
<b>Net balance</b>	<b>(21,201)</b>	<b>(664,633)</b>	<b>(144,999)</b>	<b>1,982,760</b>	<b>1,151,927</b>

(\*) Primarily dollar

The Company's management views the product inventory, consisting of commodities with a turnover of a month, as a financial item. Accordingly, it is included in the table above.

## 11. Corporate governance

### 11.1 Directors with accounting expertise

In the reporting period, another two directors with accounting expertise were appointed: Prof. Arie Ovadia and Eran Schwartz. Other than the aforesaid, 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, 2009.

### 11.2 Independent directors

The Company's articles of association include a provision whereby 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 the section 219(E) of the Companies Law. At the publication date of the report, the Company has four independent directors.

### 11.3 Salaries of senior officers and considerations on which the board of directors bases such salaries

Management estimates that the remuneration of the senior officers are appropriate, fair and reasonable, taking into consideration the size of the Company, scope and complexity of its operations and business, the tasks and degree of responsibility of the senior officers who dedicate their effort and time to promote the affairs of the Company and their contribution to the development of the Company's affairs. In determining the salaries of senior officers, as well as bonuses paid to them, the Company takes into consideration achievements in the areas of business and finance, degree of responsibility, specific contribution, and compliance with targets and work plans.

The Company has a policy of granting bonuses to its senior officers, at the discretion of the board of directors. The board of directors is currently assessing a bonus policy based on predefined criteria, together with external advisors.

### 11.4 Approval of the financial statements

In the reporting period, Prof. Arie Ovadia, a director with accounting and financial expertise, was appointed to the audit and balance sheet committees. There were no further changes in the procedure for the Company's approval of the financial statements and 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.

The financial statements as at September 30, 2010 were discussed at the audit committee on November 14, 2010 in the presence of chairman of the board Ory Slonim, committee members Yachin Cohen, Dafna Schwartz, Nehama Ronen, Avisar Paz, and with the participation of chairman of the board of directors Yossi Rosen, vice chairman David Federman, Eran Schwartz and alternate director Uzi Netanel. The financial statements were discussed and approved in full by the board of directors of the Company on November 21, 2010 in the presence of all members of the board of directors.

## **11.5 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, 2009.

## **11.6 Peer review**

Further to the directive of the Israel Securities Authority dated July 28, 2005, requiring disclosure as to consent to perform a peer review, the purpose of which was, as set out in the directive, to start a process of monitoring the operations of CPA firms, the board of directors, on January 8, 2007 approved the granting of the Company's consent to the peer review.

## **12. Disclosure of financial reporting**

### **12.1 Additional information contained in the auditors' report to shareholders**

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

**12.1.1** The contents of Note 7A (subsections 1 and 2) to the condensed consolidated 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 Group and its subsidiaries, the Company estimates that, at this stage, it is not possible to assess the aforementioned impact on this financial information, if any exists, and therefore, no provisions regarding this matter were included.

**12.1.2** The contents of Note 7(B) to the condensed consolidated financial statements regarding the dependency of the Group on services from infrastructure companies.

### **12.2 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, 2009 and in the Notes to the financial statements of that year.

### **12.3 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, 2009.

## **13. Debentures of the corporation held by the public**

**13.1** 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 at December 31, 2009, with the exception of changes in the debenture rating as set forth in section 11.2 below.

## 13.2 Debenture rating

The table below describes the rating of the debentures in circulation:

Series	Date of issue	Rating proximate to date of issue	Rating on the date of the periodic report	Rating company	Date and reference of immediate report on the updated rating <sup>3</sup>
Series A	December 3, 2007	AA/Stable	A-/Stable	S&P Maalot	March 25, 2010, ref. 2010-01-430986
Series B	December 3, 2007	AA/Stable	A-/Stable	S&P Maalot	March 25, 2010, ref. 2010-01-430986
Series C	December 3, 2007	AA/Stable	A-/Stable	S&P Maalot	March 25, 2010, ref. 2010-01-430986

On March 25, 2010, Maalot announced that the rating of the Company's debentures had been downgraded to A- with stable outlook.

## 14. Significant events during and subsequent to the reporting period

### A. 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 an appreciation of 0.6% in the shekel-dollar exchange rate. The Company, as part of its risk management policy, uses hedging transactions to offset part of this exposure. The effect of the appreciation on the corporation's business results, after the results of the hedging transactions, is estimated at \$0.3 million in finance expenses.
- (2) **Changes in prices of crude oil and oil products:** Subsequent to the reporting date, the price of oil, which was \$81/barrel at the reporting date, rose to \$83/barrel shortly before the publication date of the financial statements. The Company estimates that this change is not expected to have a material impact on the inventory balance at the reporting date.

### B. Periodic maintenance in Group plants

As part of the routine and periodic maintenance plan for the Company's facilities, and as acceptable in the refining industry, every few years, each major facility is shut down for periodic maintenance for 30 to 45 days. The Company shut down the majority of its downstream plants (such as the continuous catalytic reformer and hydrodesulfurization plants) as from October 24, 2010, for 45 days. The Company will adapt the refining levels in the crude refining units during this period to requirements and the options of producing semi-finished products. To carry out the maintenance work on joint systems, reduce expenses and achieve overall optimization, periodic maintenance work will also be carried out in the polymer production facilities at Carmel Olefins' and the aromatics production facilities at Gadiv. This combined measure is possible due to completion of the merger of operations between the Group companies. The Group companies are preparing to produce inventory before the shutdown period, to enable the supply of orders in this period and reduce the effect of the periodic maintenance on the Group's operating results.

<sup>3</sup> The immediate reports included in this position are presented as a reference.

**C. Appointment of a CEO at Carmel Olefins**

On June 27, 2010, the board of directors of Carmel Olefins resolved to appoint Rami Shlomo as CEO of Carmel Olefins. Rami Shlomo also serves as CEO of the Company's petrochemicals segment and CEO of Gadiv. Charles Sheffer, who served as CEO of Carmel Olefins until that time, was appointed as deputy CEO of the Company. The appointment of the new CEO at Carmel Olefins is part of the reorganization in the Company subsequent to the acquisition of 100% of Carmel Olefins and the integration of Carmel Olefins in the Company's petrochemicals segment.

**D.** For further details of material events in the reporting period, see Note 8 to the interim consolidated financial statements as at September 30, 2010.

**E. Disclosure of the expected cash flow for financing the repayment of Carmel Olefins liabilities<sup>4</sup>**

As reflected in the financial statements of Carmel Olefins, Carmel Olefins has positive working capital of \$93 million.

The following table describes the expected cash flow of Carmel Olefins for repayment of its liabilities for its debentures:

	Oct 1 – Dec 31, 2010	2011	Jan 1 – Sep 30 2012
	(USD thousands)		
<b>Sources</b>			
Cash balance at beginning of period	15,079	2,500	2,500
Cash flow from operating activities (before interest)	5,260	172,507	90,987
Repayment of short-term deposit	--	19,395	--
Short-term credit received	16,181	--	21,938
<b>Total sources</b>	<b>36,520</b>	<b>194,402</b>	<b>115,425</b>
<b>Uses</b>			
Investments in property, plant and equipment, Carmel Olefins	11,591	41,451	13,893
Cost of periodic treatment, Carmel Olefins	12,036	10,000	--
Repayment of short-term credit	--	36,618	--
Liability for repayment of debentures (interest)	--	12,553	12,587
Liability for repayment of long-term loans (principal + interest)	10,393	42,270	35,833
Payment of dividend	--	49,010	50,612
<b>Total uses</b>	<b>34,020</b>	<b>191,902</b>	<b>112,925</b>
<b>Cash balance at end of period</b>	<b>2,500</b>	<b>2,500</b>	<b>2,500</b>

<sup>4</sup> Following the instruction under section 36(A)(b) of the Securities Law of November 18, 2010, Carmel Olefins presents the expected cash flow report based on the separate financial information (separate statement).

## Oil Refineries Ltd.

(1) Cash flow assumptions

- Margin forecast according to CMAI
- Euro-dollar exchange rate according to CMAI: €1 = \$1.361
- Shekel-dollar exchange rate: \$1 = NIS 3.665
- Carmel Olefins does not take into account index differentials due to hedging transactions on debentures
- Periodic maintenance at Carmel Olefins in the last quarter of 2010.
- Carmel Olefins anticipates an increase in the LIBOR interest rates during these years.
- Carmel Olefins expects that in the second half of 2011, it will return to the financial covenants that applied shortly before it entered into the series of agreements with the banks (see Note 17C(b) to the annual financial statements as at December 31, 2009). Accordingly, the exempting financial covenants will be cancelled and the underlying restrictions will be lifted. The financial covenants that applied prior to signing the series of agreements with the banks will be reinstated.

- (2) At the approval date of the financial statements, the board of directors of Carmel Olefins examined the market situation and the business and cash flow forecasts of Carmel Olefins. The board of directors of Carmel Olefins estimates that, based on this information, it is able to repay its liabilities.

The cash flow statement of Carmel Olefins is based on its assessments and forecasts of prices and costs. This forecast is forward looking information, the realization of which is not certain and is not under the control of Carmel Olefins alone, Therefore, there is no certainty that the information, assessments or forecasts will materialize, in full or in part, and this could result in a cash flow that differs from the forecast.

- 15.** The board of directors wishes to thank the managements of Company and the subsidiaries and their employees for their efforts and achievements during the course of the reporting period, and in particular for the efforts and cooperation in the completion of the merger of ORL and Carmel Olefins and Haifa Basic Oils.

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Yossi Rosen  
Chairman of the board of directors

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Yashar Ben Mordechai  
CEO

November 21, 2010

## **Update to the State of the Company's Affairs in the Periodic Report as at December 31, 2009**

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 those set out in the Directors' Report and in Note 8 to the condensed financial statements as at September 30, 2010 ("Note 8") and below.

- A. Update to section 1.6.23.4: In the reporting period, the Company signed a financing agreement with a syndicate of financiers led by Bank Hapoalim Ltd. Under the agreement, the syndicate will provide a credit line of up to \$600 million. For further details, see Note 8(K).
- B. Update to section 1.6.23.4.1: Subsequent to the reporting period, the Company signed a financing agreement with a finance institute in the US for a credit line of up to \$300 million. For further details, see Note 8(L).
- C. Update to section 1.7.12.1: In the reporting period, and as part of the integration of Carmel Olefins in the Company's petrochemicals segment, following officers ended their employment at Carmel Olefins: the deputy CEO who was in charge of marketing at Carmel Olefins, and who serves as CEO of the Company, VP human resources and administration, and the manager of the acquisitions and agreements division. These positions have not been filled. There was also reshuffling in the position of CEO and CFO at Carmel Olefins. Further to the aforesaid, the finance, human resource and administration, marketing and sales and purchases and agreements divisions were integrated with the parallel systems in the Company.
- D. Update to section 1.7.20.5: In the reporting period, the agreement for acquisition of the balance of Domo shares by Carmel Olefins was revised.

For further details, see Note 8(Q).



## **Auditors Report for 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 at September 30, 2010 and the condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the nine 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), 5730-1970. 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 30% of the total consolidated assets as at September 30, 2010, and the consolidated revenue of which represents approximately 16% and 15% of the total consolidated revenue for the three and nine 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 \$16.58 million as at September 30, 2010, and the share of the Group in their profits is \$600,000 and \$258,000 for the three and nine 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 is 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), 5730-1970.



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

1. The contents of Note 7(A) 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 cannot assess the aforementioned impact on this financial information, if any exists, and therefore, no provisions regarding this matter were included.
2. The contents of Note 7(B) regarding the dependency of the Group on services from infrastructure companies.

Yours sincerely,

Somekh Chaikin  
Certified Public Accountants

Haifa, November 21, 2010

Oil Refineries Ltd.

Condensed Consolidated Interim Statement of Financial Position  
USD thousands

	September 30,		December 31
	2010	2009	2009
	(Unaudited)		(Audited)
<b>Current assets</b>			
Cash and cash equivalents	31,342	7,468	34,961
Deposits	84,846	77,247	77,637
Trade receivables	501,637	312,088	360,876
Other receivables and debt balances	73,518	79,491	62,495
Financial derivatives	-	522	-
Investments in financial assets at fair value through comprehensive income	102,957	108,588	107,034
Inventory	1,190,655	868,216	1,016,453
Current tax assets	807	46,530	3,957
<b>Total current assets</b>	<u>1,985,762</u>	<u>1,500,150</u>	<u>1,663,413</u>
<b>Non-current assets</b>			
Investments in equity-accounted investees	16,580	35,844	13,673
Investments in available-for-sale financial assets	11,165	10,510	10,909
Loan to Haifa Early Pensions Ltd.	74,142	73,126	76,053
Long term loans and debit balances	3,701	2,965	3,951
Financial derivatives	196,052	112,975	120,671
Employee benefit plan assets	10,536	5,877	9,993
Property, plant and equipment	1,936,241	1,163,691	1,891,659 (*)
Deferred costs	9,154	310	1,366 (*)
Intangible assets	82,204	22,689	93,187
<b>Total non-current assets</b>	<u>2,339,775</u>	<u>1,427,987</u>	<u>2,221,462</u>
<b>Total assets</b>	<u>4,325,537</u>	<u>2,928,137</u>	<u>3,884,875</u>

(\*) Reclassified, see Note 3 (A)

**Yossi Rosen**  
Chairman of the Board

**Yashar Ben Mordechai**  
CEO

**Igal Salhov**  
CFO

Date of approval of financial statements: November 21, 2010

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

Oil Refineries Ltd.

Condensed Consolidated Interim Statement of Financial Position  
USD thousands

	September 30,		December 31,
	2010	2009	2009
	(Unaudited)		(Audited)
<b>Current liabilities</b>			
Loans and borrowings	760,178	488,394	603,685
Trade payables	673,699	427,229	542,025
Other payables and credit balances	118,225	81,997	105,903
Current tax liability	23,828	-	-
Financial derivatives	27,585	26,954	28,051
Provisions	11,507	14,385	11,582
<b>Total current liabilities</b>	<u>1,615,022</u>	<u>1,038,959</u>	<u>1,291,246</u>
<b>Non-current liabilities</b>			
Bank loans	501,807	272,074	358,310
Debentures	869,816	736,253	853,205
Liabilities for finance lease	9,187	8,816	8,768
Other long-term liabilities (**)	-	7,581	15,973
Financial derivatives	19,872	5,558	3,111
Employee benefits	59,201	50,967	63,871
Deferred tax liabilities	132,058	66,664	138,464
<b>Total non-current liabilities</b>	<u>1,591,941</u>	<u>1,147,913</u>	<u>1,441,702</u>
<b>Total liabilities</b>	<u>3,206,963</u>	<u>2,186,872</u>	<u>2,732,948</u>
<b>Capital</b>			
<b>Non-controlling interests (*)</b>	-	-	17,183
Share capital	586,390	472,478	586,390
Share premium	100,242	-	100,242
Reserves	41,103	34,919	35,571
Retained earnings	390,839	233,868	412,541
<b>Total equity attributed to shareholders of the Company</b>	<u>1,118,574</u>	<u>741,265</u>	<u>1,134,744</u>
<b>Total capital</b>	<u>1,118,574</u>	<u>741,265</u>	<u>1,151,927</u>
<b>Total liabilities and capital</b>	<u>4,325,537</u>	<u>2,928,137</u>	<u>3,884,875</u>

(\*) See Note 8(C).

(\*\*) See Note 8(Q)

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

Oil Refineries Ltd.

Condensed Consolidated Interim Statement of Comprehensive Income  
USD thousands

	Nine months ended		Three months ended		Year ended
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009	December 31, 2009
	(Unaudited)		(Unaudited)		(Audited)
<b>Revenue</b>	5,295,924	3,647,109	1,713,114	1,454,708	5,141,480
Cost of sales, refinery and services	5,099,596	(*) 3,351,108	1,609,393	(*) 1,338,626	(*) 4,839,640
Revaluation of open positions in derivatives on prices of goods and margins, net	(3,216)	39,395	34,816	(8,468)	38,606
<b>Total cost of sales</b>	5,096,380	3,390,503	1,644,209	1,330,158	4,878,246
<b>Gross profit</b>	199,544	256,606	68,905	124,550	263,234
Selling and marketing expenses	(80,117)	(*) (54,357)	(24,243)	(*) (19,907)	(*) (74,067)
General and administrative expenses	(45,897)	(*) (28,405)	(9,997)	(*) (10,952)	(*) (39,340)
Negative goodwill arising on a business combination	-	-	-	-	137,000
Profit from revaluation of a prior holding due to increase in control	-	-	-	-	77,561
Loss from the loss of material impact in a former equity-accounted investee, net of tax	-	(7,091)	-	-	(7,091)
<b>Operating profit</b>	73,530	166,753	34,665	93,691	357,297
Finance income	87,632	62,390	28,355	18,119	61,223
Finance expenses	(115,894)	(70,275)	(48,178)	(34,477)	(86,866)
Financing expenses, net	(28,262)	(7,885)	(19,823)	(16,358)	(25,643)
Company's share in profits of equity accounted investees, net of tax	600	4,711	258	873	4,892
<b>Profit before income tax</b>	45,868	163,579	15,100	78,206	336,546
Tax benefit	7,322	3,149	9,406	21,912	12,698
<b>Profit for the period</b>	53,190	166,728	24,506	100,118	349,244
<b>Items of other comprehensive income (loss)</b>					
Actuarial gains from a defined benefit plan, net of tax	108	8,702	212	2,023	4,859
Foreign exchange translation differences	(176)	168	642	195	77
Group's share in other comprehensive income of an equity-accounted investee	-	10,433	-	-	10,433
Effective share of the change in fair value of cash flow hedging	4,995	-	4,995	-	-
Change in fair value of available-for-sale financial assets, net of tax	210	1,777	1,669	954	2,270
<b>Other comprehensive income for the period, net of tax</b>	5,137	21,080	7,518	3,172	17,639
<b>Comprehensive income for the period:</b>	<b>58,327</b>	<b>187,808</b>	<b>32,024</b>	<b>103,290</b>	<b>366,883</b>
<b>Earnings per share (dollar)</b>					
Basic and diluted earnings per ordinary share	0.022	0.083	0.010	0.050	0.175

(\*) Reclassified, for details see Note 2(D) below

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

Oil Refineries Ltd.

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

	Attributable to shareholders of the Company										
	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	Hedge fund	Retained earnings	Total	Non-controlling interests	Total capital
	Nine months ended September 30, 2010 (Unaudited)										
<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
<u>Comprehensive income for the period:</u>											
Profit for the period	-	-	-	-	-	-	-	53,190	53,190	-	53,190
<u>Other comprehensive profit (loss):</u>											
Effective share of the change in fair value of cash flow hedging	-	-	-	-	-	-	4,995	-	4,995	-	4,995
Foreign exchange translation differences	-	-	-	(176)	-	-	-	-	(176)	-	(176)
Change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	210	-	-	-	210	-	210
Actuarial gains from a defined benefit plan, net of tax	-	-	-	-	-	-	-	108	108	-	108
Total other comprehensive income (loss) for the period, net of tax	-	-	-	(176)	210	-	4,995	108	5,137	-	5,137
<b>Total comprehensive income for the period</b>	-	-	-	(176)	210	-	4,995	53,298	58,327	-	58,327
<b>Dividend paid</b>	-	-	-	-	-	-	-	(75,000)	(75,000)	-	(75,000)
<b>Share-based payment</b>	-	-	503	-	-	-	-	-	503	-	503
<b>Acquisition of non-controlling interests</b>	-	-	-	-	-	-	-	-	-	(17,183)	(17,183)
<b>Balance at September 30, 2010</b>	586,390	100,242	6,327	(1,177)	2,480	28,478	4,995	390,839	1,118,574	-	1,118,574

The accompanying notes are an integral part of the financial statements

Oil Refineries Ltd.

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

	Share capital	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
Nine months ended September 30, 2009							
(Unaudited)							
<b>Balance at January 1, 2009 (audited)</b>	<b>472,478</b>	<b>3,986</b>	<b>(1,078)</b>	<b>(10,433)</b>	<b>28,478</b>	<b>58,438</b>	<b>551,869</b>
<u>Comprehensive income for the period:</u>							
Profit for the period	-	-	-	-	-	166,728	166,728
<u>Other comprehensive income:</u>							
Foreign exchange translation differences	-	-	168	-	-	-	168
Group's share in other comprehensive income of an equity-accounted investee	-	-	-	10,433	-	-	10,433
Change in fair value of available-for-sale financial assets, net of tax	-	-	-	1,777	-	-	1,777
Actuarial gains from a defined benefit plan, net of tax	-	-	-	-	-	8,702	8,702
Total other comprehensive income for the period, net of tax	-	-	168	12,210	-	8,702	21,080
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>168</b>	<b>12,210</b>	<b>-</b>	<b>175,430</b>	<b>187,808</b>
<b>Share-based payment</b>	<b>-</b>	<b>1,588</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,588</b>
<b>Balance at September 30, 2009</b>	<b>472,478</b>	<b>5,574</b>	<b>(910)</b>	<b>1,777</b>	<b>28,478</b>	<b>233,868</b>	<b>741,265</b>

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

Oil Refineries Ltd.

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	Hedge fund	Retained earnings	Total capital
<b>Three months ended September 30, 2010</b>									
<b>(Unaudited)</b>									
<b>Balance at July 1, 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>-</b>	<b>366,121</b>	<b>1,086,389</b>
<u>Comprehensive income for the period:</u>									
Profit for the period	-	-	-	-	-	-	-	24,506	24,506
<u>Other comprehensive income:</u>									
Effective share of the change in fair value of cash flow hedging	-	-	-	-	-	-	4,995	-	4,995
Foreign exchange translation differences	-	-	-	642	-	-	-	-	642
Change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	1,669	-	-	-	1,669
Actuarial gains from a defined benefit plan, net of tax	-	-	-	-	-	-	-	212	212
Total other comprehensive income for the period, net of tax	-	-	-	642	1,669	-	4,995	212	7,518
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>642</b>	<b>1,669</b>	<b>-</b>	<b>4,995</b>	<b>24,718</b>	<b>32,024</b>
Share-based payment	-	-	161	-	-	-	-	-	161
<b>Balance at September 30, 2010</b>	<b>586,390</b>	<b>100,242</b>	<b>6,327</b>	<b>(1,177)</b>	<b>2,480</b>	<b>28,478</b>	<b>4,995</b>	<b>390,839</b>	<b>1,118,574</b>

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

Oil Refineries Ltd.

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

	Share capital	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 September 30, 2009							
(Unaudited)							
<b>Balance at July 1, 2009</b>	<b>472,478</b>	<b>5,149</b>	<b>(1,105)</b>	<b>823</b>	<b>28,478</b>	<b>131,727</b>	<b>637,550</b>
<u>Comprehensive income for the period:</u>							
Profit for the period	-	-	-	-	-	100,118	100,118
<u>Other comprehensive income:</u>							
Foreign exchange translation differences	-	-	195	-	-	-	195
Change in fair value of available-for-sale financial assets, net of tax	-	-	-	954	-	-	954
Actuarial gains from a defined benefit plan, net of tax	-	-	-	-	-	2,023	2,023
Total other comprehensive income for the period, net of tax	-	-	195	954	-	2,023	3,172
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>195</b>	<b>954</b>	<b>-</b>	<b>102,141</b>	<b>103,290</b>
<b>Share-based payment</b>	<b>-</b>	<b>425</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>425</b>
<b>Balance at September 30, 2009</b>	<b>472,478</b>	<b>5,574</b>	<b>(910)</b>	<b>1,777</b>	<b>28,478</b>	<b>233,868</b>	<b>741,265</b>

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

Oil Refineries Ltd.

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

	Attributable to shareholders of the Company						Retained earnings	Total equity	Non-controlling interests	Total capital
	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				
	Year ended December 31, 2009									
	(Audited)									
<b>Balance at January 1, 2009</b>	<b>472,478</b>	-	<b>3,986</b>	<b>(1,078)</b>	<b>(10,433)</b>	<b>28,478</b>	<b>58,438</b>	<b>551,869</b>	-	<b>551,869</b>
Allotment of shares	113,912	100,242	-	-	-	-	-	214,154	-	214,154
<u>Comprehensive income for the period:</u>										
Profit for the period	-	-	-	-	-	-	349,244	349,244	-	349,244
<u>Other comprehensive income:</u>										
Foreign exchange translation differences	-	-	-	77	-	-	-	77	-	77
Group's share in other comprehensive income of an equity-accounted investee	-	-	-	-	10,433	-	-	10,433	-	10,433
Change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	2,270	-	-	2,270	-	2,270
Actuarial gains from a defined benefit plan, net of tax	-	-	-	-	-	-	4,859	4,859	-	4,859
Total other comprehensive income for the period, net of tax	-	-	-	77	12,703	-	4,859	17,639	-	17,639
<b>Total comprehensive income for the period</b>	-	-	-	<b>77</b>	<b>12,703</b>	-	<b>354,103</b>	<b>366,883</b>	-	<b>366,883</b>
Share-based payment	-	-	<b>1,838</b>	-	-	-	-	<b>1,838</b>	-	<b>1,838</b>
Non-controlling interests	-	-	-	-	-	-	-	-	<b>17,183</b>	<b>17,183</b>
<b>Balance at December 31, 2009</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>412,541</b>	<b>1,134,744</b>	<b>17,183</b>	<b>1,151,927</b>

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

Oil Refineries Ltd.

Condensed Consolidated Interim Statement of Cash Flows  
USD thousands

	Nine months ended		Three months ended		Year ended
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009	December 31, 2009
	(Unaudited)		(Unaudited)		(Audited)
<b>Cash flows from operating activities</b>					
Profit for the period	53,190	166,728	24,506	100,118	349,244
<b>Adjustments to cash flows from operating activities:</b>					
Revenue and expenses not involving cash flows (Appendix A – section A)	94,006	106,087	79,966	8,726	(81,224)
Changes in assets and liabilities (Appendix A – section B)	147,196	272,815	104,472	108,844	268,020
Income tax received (paid), net	(224,241)	(171,748)	(115,471)	45,815	(219,828)
	29,523	(445)	30,124	(245)	43,478
<b>Net cash from (used for) operating activities</b>	(47,522)	100,622	19,125	154,414	91,670
<b>Cash flow used in investing activities</b>					
Interest received	7,677	1,638	2,680	40	2,272
Decrease (increase) in deposit, net	(6,648)	(50,440)	(19,225)	22,109	(40,895)
Dividend received from investees	67	4,453	-	-	4,453
Acquisition of a subsidiary consolidated for the first time	-	-	-	-	7,537
Acquisition of investees	(2,373)	-	-	-	-
Disposal of investments in financial assets, net	12,304	-	54	-	1,500
Repayment (providing) of long-term loans from others, net	468	(440)	203	(2,028)	(392)
Repayment of loan from Haifa Early Pensions Ltd.	12,627	-	-	-	-
Purchase of property, plant and equipment	(133,926)	(135,289)	(54,640)	(44,627)	(178,863)
Purchase of intangible assets and deferred expenses, net	(457)	(2,239)	1,253	(2,239)	(2,498)
<b>Net cash used for investing activities</b>	(110,261)	(182,317)	(69,675)	(26,745)	(206,886)
<b>Cash flow from finance activities</b>					
Short-term borrowing, net	157,655	224,071	(107,713)	(80,876)	318,588
Receipt (repayment) of deposits from customers, net	26,140	(8,367)	274	(5,482)	(8,276)
Interest paid	(43,554)	(43,613)	(11,918)	(15,513)	(56,868)
Derivative transactions, net	4,331	2,671	(1,494)	-	8,361
Receipt of long-term loans from banks	240,000	-	240,000	-	7,500
Repayment of long-term loans from banks	(93,429)	(81,252)	(31,229)	(27,803)	(106,662)
Repayment of debentures	(20,901)	(19,200)	(7,206)	(6,914)	(26,097)
Costs of raising capital	(10,611)	-	(3,538)	-	(1,342)
Acquisition of non-controlling interests	(17,183)	-	-	-	-
Payment for acquisition of the balance of subsidiary shares	(13,615)	-	(13,615)	-	-
Dividend paid	(75,000)	-	-	-	-
<b>Net cash from (used for) financing activities</b>	153,833	74,310	63,561	(136,588)	135,204
Net increase (decrease) in cash and cash equivalents	(3,950)	(7,385)	13,011	(8,919)	19,988
Effect of exchange rate fluctuations on cash and cash equivalents	331	13	(941)	(440)	133
Cash and cash equivalents at the beginning of the year	34,961	14,840	19,272	16,827	14,840
<b>Cash and cash equivalents at the end of the period</b>	31,342	7,468	31,342	7,468	34,961

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

**Oil Refineries Ltd.**

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

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

	Nine months ended		Three months ended		Year ended
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009	December 31, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
<b>A. Income and expenses not included in cash flows</b>					
Depreciation and amortization	99,244	57,501	30,476	19,902	79,054
Negative goodwill arising on acquisition	-	-	-	-	(137,000)
Financing expenses, net	14,796	21,856	31,099	28,602	36,509
Net changes in fair value of derivatives	1,785	41,370	39,822	(8,636)	42,103
Changes in fair value of the loan to Haifa Early Pensions Ltd.	(5,612)	(9,243)	(4,888)	(4,372)	(8,467)
Share in the profits of equity-accounted investees	(600)	(4,711)	(258)	(873)	(4,892)
Profit from revaluation of a prior investment due to increase in control	-	-	-	-	(77,561)
Loss from the loss of material impact in a former equity-accounted investee	-	7,091	-	-	7,091
Profit from deposits and investments in financial assets, net	(8,788)	(6,216)	(7,040)	(4,410)	(7,201)
Share-based payments	503	1,588	161	425	1,838
Tax benefit	(7,322)	(3,149)	(9,406)	(21,912)	(12,698)
	94,006	106,087	79,966	8,726	(81,224)
<b>B. Changes in assets and liabilities</b>					
Increase in trade receivables	(140,849)	(58,807)	(27,834)	(34,461)	(66,138)
Decrease (increase) in other receivables, net	(21,756)	14,389	(7,288)	14,899	33,941
Increase in inventory, net	(182,932)	(298,183)	(184,486)	(82,345)	(379,795)
Increase in trade payables	140,149	159,742	113,898	124,972	173,879
Increase (decrease) in other payables and provisions, net	(14,214)	21,092	(6,388)	22,576	27,094
Increase (decrease) in employee benefits, net	(4,639)	(9,981)	(3,373)	174	(8,809)
	(224,241)	(171,748)	(115,471)	45,815	(219,828)

**The accompanying notes are an integral part of the financial statements.**

Notes to Interim Consolidated 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. Up to the sale of Oil Refinery Ashdod Ltd. (“ORA”), the Company had two operational sites: in Haifa Bay and in Ashdod. On September 28, 2006, the Company sold all of its shares in ORA. On February 21, 2007, as part of implementation of the privatization that was decided upon on December 26, 2007, the State sold all the shares it held in Company in a private and public offering. Israel Corporation Ltd. (“Israel Corp.”) acquired 36.8% of the Company’s shares and Petroleum Capital Holdings Ltd. (“PCH”) acquired 9.2% of the Company’s shares.

On December 30, 2009, a transaction was completed between the Company and Israel Petrochemical Enterprises Ltd. (“IPE”) and the Company acquired IPE’s share (50%) in Carmel Olefins Ltd. (“Carmel Olefins”) in return for the allocation of 431,610,944 ordinary shares of the Company, par value NIS 1 each. Subsequent to completion of the transaction and at the reporting date, Israel Corp. holds 37.08% of the Company’s shares and IPE holds 30.72% of the Company’s shares (of which 12.96% are held through PCH, a private company wholly owned and controlled by IPE).

3. The Group’s condensed consolidated interim financial statements as at September 30, 2010 include the statements of the Company and its subsidiaries (hereinafter 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, 2009 (“the annual report”). Additionally, these statements were prepared in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The condensed consolidated interim financial statements were approved by the Company’s board of directors on November 21, 2010.

**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. It is clarified that actual results might 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.

Notes to Interim Consolidated Financial Statements  
USD thousands

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

**B. Use of estimates and judgments (contd.)**

Estimates and their underlying assumptions are reviewed on an ongoing basis. Changes to the accounting estimates are recognized in the period in which such estimates are revised and in all future periods affected by them.

For information on the change made on December 31, 2009 in the useful life of the facilities of the Company and Carmel Olefins, see Note 2(D)(2 and 3) to the annual financial statements as at December 31, 2009.

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

Policy of the board of directors and management is consistent with the policy applied in the annual financial statements. The Company and the subsidiary Carmel Olefins are subject to compliance with financial covenants, including a minimum balance of equity (see Note 17(C) to the annual financial statements as at December 31, 2009). As from August 2010, the Company is in compliance with the new financial covenants set out in Note 8(M). As from the reporting period, Gadiv Petrochemical Industries Ltd. (“Gadiv”) is also subject to the covenants set out in Note 8(0).

At September 30, 2010, all the companies are in compliance with all the financial covenants that apply to them.

**D. Reclassification**

Some of the comparative figures in the statement of comprehensive income for the nine and three months ended September 30, 2009 and for the year ended December 31, 2009 were reclassified in order to adjust their presentation method to the presentation in the statement of comprehensive income for the nine and three months ended September 30, 2010.

	<b>Nine months ended September 30, 2009</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	(3,360,451)	9,343	(3,351,108)
Selling expenses	(31,275)	(23,082)	(54,357)
General and administrative expenses	(42,144)	13,739	(28,405)

	<b>Nine months ended September 30, 2009</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	(1,340,590)	1,964	(1,338,626)
Selling expenses	(13,425)	(6,482)	(19,907)
General and administrative expenses	(15,470)	4,518	(10,952)

	<b>Year ended December 31, 2009</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	(4,850,744)	11,104	(4,839,640)
Selling expenses	(44,509)	(29,558)	(74,067)
General and administrative expenses	(57,794)	18,454	(39,340)

Notes to Interim Consolidated 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 sections A, B and C below.

**A. Initial application of new Accounting Standards**

The changes in the accounting policy for the preparation of the condensed consolidated interim financial statements and their effect are described below:

**Leases**

As from January 1, 2010, the Company applies IAS 17 – *Leases: Classification of Leases of Land and Buildings* (revised) (“the Amendment”), which was issued in the framework of the *Improvements to IFRS* project, 2009.

The Amendment eliminates the requirement to classify a lease of land as an operating lease when the title is not expected to pass to the lessee at the end of the lease term. Under the Amendment, classification of the land lease should be based on the criteria for classifying a lease as a finance or operating lease.

The Amendment also states that when a lease includes both land and building elements, an entity should determine the classification of each element, based on the criteria in the Amendment, taking account of the fact that land normally has an indefinite economic life.

The Group assessed the classification of the land lease on the basis of the information available when signing the lease agreement, as set out below:

1. The Company leases land from the State under a non-capitalized lease for 49 years with an option for an extension of another 49 years (see Note 17(B)(2) to the financial statements as at December 31, 2009 regarding authorization fees). After assessing application of the Amendment, the Company continued to recognize lease of the land as an operating lease.
2. The Company's facilities were built on 8 hectares registered in the name of the subsidiary, under a long-term capitalized lease. Under the agreement of January 24, 2007 between the Company and the State of Israel, the Company has the right to a 49-year lease on the land, commencing from the date the agreement with the State was signed, with an option for an extension of another 49 years. This agreement is not affected by the subsidiary's land costs, as stated in the financial statements of the subsidiary. The lease was previously accounted for as an operating lease by the subsidiary. Following adoption of the Amendment, the subsidiary classified the lease of the land as a finance lease and recognized the asset as property, plant and equipment, since the production plant of the subsidiary is built on this land.

Notes to Interim Consolidated Financial Statements  
USD thousands

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

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

3. Effect of retrospective application on the relevant items:

	<u>September 30, 2009</u>		
	<u>As previously reported</u>	<u>Effect of reclassific ation</u>	<u>As reported in these financial statements</u>
<b>Property, plant and equipment</b>	1,161,698	1,993	1,163,691
Deferred expenses, net	2,303	(1,993)	310
	<u>December 31, 2009</u>		
<b>Property, plant and equipment</b>	1,889,763	1,896	1,891,659
Deferred expenses, net	3,262	(1,896)	1,366

- B.** In the framework of the *Improvements to IFRS* project of 2010 (“Improvements to IFRS”), on May 11, 2010, the IASB issued and approved 11 amendments to IFRS and one interpretation on a wide range of accounting issues. Most of the amendments are effective for periods beginning on or after January 1, 2011, with an option for early adoption, subject to the terms prescribed for each amendment.

Presented hereunder are the amendments that have been adopted in advance of their effective dates:

As from January 1, 2007, the Group applies IFRS 3 (2008), *Business Combinations*, and IAS 27 (2008), *Consolidated and Separate Financial Statements*. As from January 1, 2007, the Group has adopted, in advance of their effective date, the following amendments to IFRS 3 (2008), *Business Combinations*, which were issued under the *Improvements to IFRSs* for 2010: amendments to transition requirements for contingent consideration from a business combination that occurred before the effective date of IFRS 3 (2008), measurement of non-controlling interests, and un-replaced and voluntarily replaced share-based payment awards.

Main points of the amendments:

1. Non-controlling interests, which are instruments that grant present ownership interests and entitle their holders to a share of the net assets in the event of liquidation (for example, ordinary shares), are measured at the date of the business combination at fair value or at their proportionate share of the acquiree’s identifiable net assets and liabilities, based on each separate transaction. This accounting policy is not applicable for other instruments meeting the definition of non-controlling interests (for example, options for ordinary shares). These instruments will be measured at fair value or in accordance with other relevant IFRSs.
2. Contingent consideration is measured at fair value at the date of the business combination. Subsequent to the acquisition date, changes in fair value of a contingent consideration classified as a financial liability are recognized in the statement of comprehensive income. The cost of a business combination that occurred prior to January 1, 2007 will be adjusted for unpaid contingent consideration, if and when the payment of the contingent consideration is probable and the amount can be measured reliably.

Notes to Interim Consolidated Financial Statements  
USD thousands

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

**B.** (contd.)

3. Market-based measure of share-based payments of the acquirer issued in a business combination in consideration of share-based payment transactions of the acquiree, will be attributed to the acquisition cost and compensation costs subsequent to the acquisition, regardless of whether the acquirer undertakes to replace share-based payments.

The amendments are applied prospectively, as from the adoption of IFRS 3 (2008) and IAS 27 (2008). Application of these amendments do not have an effect on the interim financial statements.

**C. Accounting policy for new transactions**

**Cash flow hedge**

The Company has cash flow hedges to reduce exposure to foreign currency risks.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Group assesses, both at the inception of the hedge and in subsequent periods, whether the hedging instrument is expected to be highly effective in offsetting the changes in the cash flows attributable to the hedged risk items, and whether the actual results of the hedge are within a range of 80-125%.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, the derivatives are measured at fair value.

Changes in fair value of derivatives used for hedge cash flows, for the portion of the effective hedge, with time value adjustments, are recognized directly in other comprehensive income as a hedge fund. For the portion of the ineffective hedge and for time value changes, changes in fair value are recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued. Profit or loss recognized in the hedge fund through other comprehensive income remains in the fund until the expected transaction materialized or is no longer expected to materialize. If the projected transaction is no longer expected to take place, the profit or loss for the hedging instrument that has accumulated in the hedge fund is reclassified in the statement of income. When the hedged item is a non-financial asset, the amount recognized in the hedge fund is transferred to the carrying amount of the asset on advance payment for the asset or on recognition of the asset, whichever is earlier.

Notes to Interim Consolidated Financial Statements  
USD thousands

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

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

1. IFRS 9 (2010), *Financial Instruments* (the Standard). The Standard is the first stage in the general project to replace IAS 39 – *Financial Instruments: Recognition and Measurement* (“IAS 39”) and replaces the requirements in IAS 39 for classification and measurement of financial assets and liabilities. Under the Standard, there are two main classifications for measuring financial assets: amortized cost and fair value. The basis for classification for debt instruments is based on the entity’s business model for measuring financial assets and on the contractual cash flow characteristics of the financial asset. Under the Standard, investment in a debt instrument is measured at amortized cost if the objective of the entity’s business model is to hold the financial asset to collect the contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. All other debt instruments are measured at fair value through profit or loss. Additionally, embedded derivatives are no longer separated from hybrid contracts that include a host contract which is a financial asset. Instead, the entire hybrid contract will be tested for classification using the above criteria. In addition, equity investments are to be measured at fair value with value changes recognized in profit or loss. However, under the Standard, at initial recognition of an equity instrument that is not held for trading, an entity can elect to present changes in fair value of the equity instrument through other comprehensive income and the amounts recognized in other comprehensive income will not be classified under profit or loss. Dividends on equity instruments with value changes recognized in other comprehensive income are recognized in profit or loss unless they are clear return on initial investment.

In general, the Standard carried over the requirements for classification and measurement of financial liabilities from IAS 39 . However, IFRS 9 (2010) includes new requirements where the amount of change in fair value of the financial liabilities designated at fair value through profit or loss, other than for liabilities for loans and financial guarantee contracts, attributable to changes in credit risk of the liability, is recognized in other comprehensive income and the remaining amount is recognized in the statement of income. If the split creates or enlarges accounting mismatch in profit and loss, then any change in fair value is recognized in the statement of income. Amounts recognized in other comprehensive income is will not be reclassified in the statement of income. The new standard also eliminates the cost exemption for derivative liabilities related to unquoted equity instruments whose fair cannot be reliably measured, and they should be settled by delivery of such instruments. These derivatives are measured at fair value.

The Standard will be applied for annual periods commencing on or after January 1, 2013. Early application is permitted, subject to disclosure and subject to parallel adoption of other IFRS, set out in the appendix to the Standard. The Standard will be applied retrospectively, with the exception of certain exemptions, in accordance with the transition provisions set out in the Standard. In particular, if the entity elects to implement the Standard prior to January 1, 2012, it is not required to restate comparative numbers.

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

Notes to Interim Consolidated Financial Statements  
USD thousands

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

**D. New standards and interpretations not yet adopted (contd.)**

2. Further to Note 3(B) regarding the *Improvements to IFRS* project of 2010, presented hereunder are further amendments that may have an effect on the financial statements and which have not been adopted in advance of their effective date
  - a. IAS 34, *Interim Financial Reporting: Significant Events and Transactions* ("the Amendment). The Amendment expands the list of events and transactions that require disclosure in interim financial statements, for example, recognition of loss from impairment of financial assets and reclassification of financial assets due to a change in their designation or use. In addition, the minimum requirement for disclosure in the current standard, prior to the Amendment, was eliminated. The Amendment will apply to annual reporting periods beginning on or after January 1, 2011.
  - b. IAS 1, *Presentation of Financial Statements: Presentation of the Statement of Changes in Equity* ("the Amendment"). Under the Amendment, the statement of changes in equity must show reconciliations between the carrying amounts at the beginning and the end of the period for each component of equity, with separate disclosure for profit or loss, each item of other comprehensive income and transactions with owners. In addition, the adjustment should be presented for each item of other comprehensive income in the statement of changes in equity or in the notes. The Amendment will apply to annual reporting periods beginning on or after January 1, 2011. Early adoption is permitted, with disclosure.

**E. Exchange rates and linkage**

US dollar and euro exchange rates and the CPI:

<u>As at</u>	<u>Representative exchange rate of \$1</u>	<u>Dollar-euro exchange rate</u>	<u>CPI in points (*)</u>
September 30, 2010	3.665	1.361	116.95
September 30, 2009	3.758	1.466	114.22
December 31, 2009	3.775	1.442	114.77

(\*) CPI at average basis 100 = 2002

<u>Rate of change in the period ended</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
September 30, 2010 (9 months)	(2.91)	(5.60)	1.90
September 30, 2010 (3 months)	(5.42)	10.81	1.23
September 30, 2009 (9 months)	(1.16)	5.24	3.42
September 30, 2009 (3 months)	(4.11)	3.82	1.26
December 31, 2009 (12 months)	(0.71)	3.46	3.92

Notes to Interim Consolidated Financial Statements  
USD thousands

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#### NOTE 4 – SEASONAL FLUCTUATIONS

The Company manufactures oil products based on standards that change according to season. The standards are intended to ensure that the quality of the products complies with changing environmental conditions, in accordance with seasonal climates.

In addition, there are seasonal fluctuations in consumption of the Company's products which affect the relative prices of the various products.

The abovementioned effect of seasonal fluctuation is relatively small compared to the effect of other factors (such as the condition of the facilities, the Company's general refining capacity, and the viability of refining and competing imports) on the scope of product sales by the Company and on its product mix.

#### NOTE 5 – SEGMENT REPORTING

- A. 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 set out below, other than the changes set out in sections B and C below.

These strategic business units are managed separately for the purpose of allocation of resources and assessment of performance.

1. Refining: refining of crude oil and production of fuel products
2. Trade: trade in crude oil and distillates and trade in derivatives on the prices of oil and its products
3. Petrochemicals:
  - Polymers: production of polymers used as raw materials in the plastics industry
  - Aromatics: production of aromatics and solvents used as raw materials and production of other products
  - Oils: production of basic oils and waxes and by-products used in industry, agriculture and transportation

Most trade activities are integrated vertically with operations in the refining segment.

- B. Following the acquisition of control in Haifa Basic Oils on December 31, 2009, as set out in Note 10(B) to the consolidated financial statements as at December 31, 2009, and as from the date of acquisition of control, the operations of Haifa Basic Oils are reported as an oils segment under petrochemicals. In the nine months ended September 30, 2009 and in 2009, the equity losses recorded in the Company's consolidated statements as a result of its share in the losses of Haifa Basic Oils amounted to \$791 million and \$315,000 respectively. In addition, in the three months ended September 30, 2009, equity gains amounting to \$640,000 were recorded, as a result of the Company's share in the profits of Haifa Basic Oils.
- C. Following the acquisition of control in Carmel Olefins on December 31, 2009, as set out in Note 10(A) to the consolidated financial statements as at December 31, 2009, and as from the date of acquisition of control, 100% of the operations of Carmel Olefins are reported as a polymers segment under petrochemicals. In the nine and three months ended September 30, 2009 and in 2009, the polymers segment includes 50% of the operations of Carmel Olefins.

**Oil Refineries Ltd.**

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

**NOTE 5 – SEGMENT REPORTING (CONTD.)**

	<u>Petrochemicals</u>										<b>Adjustments to consolidated</b>		<b>Consolidated</b>	
	<b>Refining</b>		<b>Trade</b>		<b>Polymers</b>		<b>Aromatics</b>		<b>Oils</b>					
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>Nine months ended September 30 , (unaudited)</b>													
Revenue from external sources	3,950,820	2,682,255	130,203	422,013	772,453	289,070	383,208	253,771	59,240	-	-	-	5,295,924	3,647,109
In Income from inter-segment sales		323,901	-	29,300	-	-	30,685	29,638	-	-	(766,097)	(382,839)		-
	<u>735,412</u>												<u>-</u>	
Segment revenue	<u>4,686,232</u>	<u>3,006,156</u>	<u>130,203</u>	<u>451,313</u>	<u>772,453</u>	<u>289,070</u>	<u>413,893</u>	<u>283,409</u>	<u>59,240</u>	<u>-</u>	<u>(766,097)</u>	<u>(382,839)</u>	<u>5,295,924</u>	<u>3,647,109</u>
Operating profit (loss) for segments	<u>35,094</u>	<u>144,928</u>	<u>(12,631)</u>	<u>(254)</u>	<u>56,989</u>	<u>7,738</u>	<u>20,051</u>	<u>21,432</u>	<u>7,735</u>	<u>-</u>	<u>(4,941)</u>	<u>-</u>	<u>102,297</u>	<u>173,844</u>
Loss from the loss of material impact in a former equity-accounted investee													-	(7,091)
Amortization of excess cost arising from acquisition of investees													(28,767)	-
Operating profit													73,530	166,753
Financing expenses, net													(28,262)	(7,885)
Share in profits of equity-accounted investees, net of tax													600	4,711
Profit before income tax													<u>45,868</u>	<u>163,579</u>

**Oil Refineries Ltd.**

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

**NOTE 5 – SEGMENT REPORTING (CONTD.)**

	Refining		Trade		Petrochemicals						Adjustments to consolidated		Consolidated	
					Polymers		Aromatics		Oils					
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Three months ended September 30 , (unaudited)														
Revenue from external sources	1,305,687	1,042,672	34,404	192,291	237,458	113,007	115,415	106,738	20,150	-	-	-	1,713,114	1,454,708
In Income from inter-segment sales	247,977	134,358	-	11,082	-	-	8,406	11,086	-	-	(256,383)	(156,526)	-	-
Segment revenue	1,553,664	1,177,030	34,404	203,373	237,458	113,007	123,821	117,824	20,150	-	(256,383)	(156,526)	1,713,114	1,454,708
Operating profit (loss) for segments	11,632	81,176	(4,306)	(2,933)	26,784	7,180	6,744	5,596	2,931	-	(2,227)	2,672	41,558	93,691
Amortization of excess cost arising from acquisition of investees													(6,893)	-
Operating profit													34,665	93,691
Financing expenses, net													(19,823)	(16,358)
Share in profits of equity-accounted investees, net of tax													258	873
Profit before income tax													15,100	78,206

**Oil Refineries Ltd.**

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

**NOTE 5 – SEGMENT REPORTING (CONTD.)**

	<u>Refining</u>	<u>Trade</u>	<u>Petrochemicals</u>		<u>Adjustments to consolidated</u>	<u>Consolidated</u>
			<u>Polymers</u>	<u>Aromatics</u>		
	<b>Year ended December 31, 2009</b>					
	<b>(Audited)</b>					
Revenue from external sources	3,859,283	505,992	414,214	361,991	-	5,141,480
In Income from inter-segment sales	468,113	39,828	-	39,721	(547,662)	-
Segment revenue	<u>4,327,396</u>	<u>545,820</u>	<u>414,214</u>	<u>401,712</u>	<u>(547,662)</u>	<u>5,141,480</u>
Operating profit (loss) for segments	<u>123,765</u>	<u>(7,096)</u>	<u>8,161</u>	<u>26,573</u>	<u>(1,576)</u>	<u>149,827</u>
Profit from revaluation of a prior holding due to increase in control						77,561
Negative goodwill arising on acquisition						137,000
Loss from the loss of material impact in a former equity-accounted investee						<u>(7,091)</u>
Operating profit						357,297
Financing expenses, net						(25,643)
Group's share in profits of equity accounted investees, net of tax						4,892
Profit before income tax						336,546
Group's share in profits of equity accounted investees, net of tax						<u>4,892</u>
Profit before income tax						<u>336,546</u>

Notes to Interim Consolidated Financial Statements  
USD thousands

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**NOTE 6 – PROPERTY, PLANT AND EQUIPMENT**

At the reporting date, the balance of agreements for approved establishment works amounts to \$98 million. For additional details of the establishment works, see Note 12(E) and (G) to the financial statements as at December 31, 2009

At September 30, 2009, property, plant and equipment include advance payments made by the Group on account of the purchase of property, plant and equipment in the amount of \$57 million.

**NOTE 7 – 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(i) and 4(j) to the financial statements as at December 31, 2009, 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 at September 30, 2010, if any, therefore, no provision regarding this matter was included in the financial statements.
2. Further to Note 21(B)(1)(b) to the financial statements as at December 31, 2009, at the reporting date, a settlement has not been reached in the soldiers' claim and the Company is unable to assess the chances of this settlement.
3. Further to Note 21(B)(3)(c) to the financial statements as at December 31, 2009, in the reporting period, the Company and the tax authority reached a settlement for the claim of tax-exempt goods imported by the Company. In accordance with the settlement, in July 2010, the Company paid the tax authority NIS 3 million. Subsequent to the payment, the Company was refunded the \$2.3 million tax guarantee that it provided for this claim.
4. Further to Note 21(B) to the financial statements as at December 31, 2009, there were no significant changes in the lawsuits and contingent liabilities of the Group during the reporting period, other than the aforesaid.

**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 to the Company by PEI, in November-December of 2010, 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. 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.

Notes to Interim Consolidated Financial Statements  
USD thousands

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**NOTE 7 – CONTINGENT LIABILITIES, GUARANTEES AND AGREEMENTS  
(CONTD.)**

**C. Guarantees**

The Company established a wholly-owned and -controlled special purpose subsidiary to charter one of the ships that supplies it with services. As part of the series of agreements signed by the subsidiary to charter and operate the ship, in the reporting period, the Company provided an unlimited guarantee to secure the liabilities of the subsidiary.

**NOTE 8 – MATERIAL EVENTS IN THE REPORTING PERIOD**

- A.** On March 23, 2010, Maalot S&P (“Maalot”) announced that the rating of the Company’s debentures (non-negotiable series and negotiable series A-C) had been downgraded to A- with stable outlook.
- B.** On February 4, 2010, the Company acquired the holdings of Delek The Israel Fuel Corporation Ltd. (“Delek”) in Haifa Basic Oils, representing 11.5% of the issued share capital of Haifa Basic Oils, for NIS 29.2 million (\$7.8 million), at terms that are similar to those in the transaction for acquisition of the holdings of Paz Oil Company Ltd. (“Paz”) in Haifa Basic Oils (see Note 10(B) to the financial statements as at December 31, 2009). Subsequent to the acquisition, the Company holds 86% of the issued share capital of Haifa Basic Oils.
- C.** On March 8, 2010, the Company acquired the holdings of Sonol Israel Ltd. and Granite Hacarmel Ltd., amounting to 14% of the shares of Haifa Basic Oils, for NIS 35.6 million (\$9.5 million), at terms that are similar to those in the transaction for the acquisition of the holdings of Paz and Delek (see Note 10(B) to the financial statements as at December 31, 2009). Subsequent to the acquisition, the Company completed the acquisition of the full share capital of Haifa Basic Oils, which will operate in the Company’s petrochemicals segment.
- D.** Following the Company's acquisition of the balance of the shares in Haifa Basic Oils, all the previous shareholders were removed from the application for certification as a class action (for details, see Note 21(B)(2) to the financial statements as at December 31, 2009) and the proceedings in this matter were concluded.
- E.** In the reporting period, Gadiv announced the distribution of a dividend of \$75 million out of the retained earnings of Gadiv up to December 31, 2003. Since the dividend is distributable 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. The dividend was paid on July 1, 2010.
- F.** On March 18, 2010, the Company announced the distribution of a dividend of \$75 million, according to and taking into consideration Gadiv’s announcement on the distribution of a dividend as set out in Note 33(D) to the financial statements as at December 31, 2009. The dividend was paid on April 12, 2010.
- G.** In the reporting period, the Company, Israel Chemicals Ltd. and OPC Rotem Ltd. (a private subsidiary of Israel Corporation Ltd.) are negotiating with a number of entities to purchase natural gas.

The parties to the negotiations have yet to reach an agreement and no agreement has been signed.

- H.** Pursuant to the Government decision, works are underway to connect the natural gas pipeline to Haifa Bay.

Notes to Interim Consolidated Financial Statements  
USD thousands

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**NOTE 8 – MATERIAL EVENTS IN THE REPORTING PERIOD (CONTD.)**

- I.** In May 2010, the Company issued a shelf prospectus based on the information in the financial statements as at December 31, 2009. Under the shelf prospectus, the Company will be allowed to issue shares and series of option warrants, debentures, convertible debentures and bond options, according to the volume and conditions to be determined and published by the Company

The shelf prospectus does not include a public offering and there is no certainty that the Company will issue securities under the prospectus.

- J.** In May 2010, the subsidiary Carmel Olefins issued a shelf prospectus, based on the financial statements as at December 31, 2009, regarding the public offering of debentures and options, insofar as these are offered under a shelf offering memorandum.

The shelf prospectus does not include a public offering and there is no certainty that Carmel Olefins will issue securities under the prospectus.

- K.** On June 29, 2010, the Company signed a finance agreement with a syndicate of financiers led by Bank Hapoalim Ltd.

Under the agreement, the syndicate will provide the Company with an unsecured loan of up to \$600 million (“the loan”), repayable over 8.5 years. Repayment of the principal of the loan will commence 12 months after the new plant is operational. Under the terms of the loan, the Company is required to meet financial covenants in the period of the loan.

The finance agreement was conditional upon the fulfillment of a number of preconditions, including signing of the financing agreement of \$300 million backed by the Export-Import Bank of the United States.

In August 2010, the preconditions of the finance agreement with the local syndicate were fulfilled. Therefore, the Company withdrew \$200 million on account of this credit line.

- L.** In the reporting period, the Company signed a finance agreement with a financial institute in the United States, backed by the Export-Import Bank of the United States (“the finance agreement”). Under the finance agreement, the Company will receive a credit line of \$300 million backed by the Export-Import Bank of the United States (“the loan”). The loan will be repaid in 20 semi-annual payments over ten years, starting from October 2012. Under the finance agreement, the Company undertook, inter alia, to comply with financial covenants that are similar to those set out in the finance agreement with the local syndicate (see Note 8K above). The loan is not secured by collateral. The Company may terminate the finance agreement or repay the loan prematurely subject to payment of agreed cancellation fees. In addition, the finance agreement includes provisions for immediate repayment which are customary in such finance agreements. The finance agreement includes various preconditions for withdrawing the first credit, including the finalization of the finance agreement with the local syndicate. The loan, together with the finance agreement with the local syndicate, will provide the Company’s credit requirements up to the end of 2012, including the financing required for investments in accordance with the Company's strategic plan, including establishment of the new plant and repayment of the long-term loan. In August 2010, the finance agreement with the credit agency and financing bank was finalized and signed. All the preconditions were fulfilled by October 2010 and the Company withdrew the first \$6.5 million on account of this loan.

Notes to Interim Consolidated Financial Statements  
USD thousands

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**NOTE 8 – MATERIAL EVENTS IN THE REPORTING PERIOD (CONTD.)**

M. Under the finance agreement described in sections K and L above, the Company undertook to maintain all the financial ratios and covenants as set out below:

- (1) The following covenants will be reviewed at each publication date of the quarterly statements for the relevant quarter and the three consecutive quarters preceding that quarter, or in certain cases, the seven consecutive quarters preceding that quarter.
- (2) The covenants will be measured on the basis of the Company's results (separate statements), other than the equity ratio, which will be measured in the consolidated statements.

Accumulated amounts will be measured as from January 1, 2009 and values in a specific year will be calculated proportionately to the testing date.

- (3) Covenants required for the term of the loan were divided into two main periods:
  - a. During the establishment of the new plant, from 2009 through to March 31, 2013, the following values will be reviewed:
    - Consolidated equity exceeding \$700 million
    - The percentage of consolidated equity out of the consolidated balance sheet exceeding 17%
    - Accumulated adjusted cash flow from operating activities less accumulated dividends distributed according to parameters set for each period
    - Minimum adjusted EBITDA according to parameters set for each period
    - Net debt less operating capital below \$1 billion
    - Accumulated investments exceeding 15% of the business plan require approval from the financiers
    - Cash and cash value (including financial assets at fair value through comprehensive income) exceeding \$50 million
  - b. As from one year after activation of the new plant, from April 1, 2013 through to the final payment date of the loan, the following values will be reviewed:
    - Consolidated equity exceeding \$725 million
    - The percentage of consolidated equity out of the consolidated balance sheet exceeding 19%
    - Net debt + deductions of receivables divided by the average annual adjusted EBITDA in the past two years based on the parameters set for each period
    - Average annual adjusted EBITDA in the past two years divided by fund repayments and interest in the 12 months preceding the measuring date based on the parameters set for each period
    - Cash and cash equivalents (including financial assets at fair value through comprehensive income) exceeding \$50 million

The covenants set out above are assuming that the plant will be operational before March 31, 2012. If the operation date is later (but no later than September 30, 2012), the ratio values above will be adjusted accordingly.

Notes to Interim Consolidated Financial Statements  
USD thousands

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**NOTE 8 – MATERIAL EVENTS IN THE REPORTING PERIOD (CONTD.)**

- N.** On September 30, 2010, the joint committee for planning and construction for the Company's compound was approved. On September 21, 2010 the Haifa district committee for planning and building approved the building permit for the new plant and the Company launched the project. In this context, the Company undertook that operation of the plant will not cause additional emission in Haifa Bay, the plant will be run on natural gas only and fuel oil produced at the plant has environmental advantages and will be sold in Israel only. The Company further undertook to participate in financing the project initiated by the Ministry of Environmental Protection, drain the Kishon River and place the river and its environment to the benefit of the public, including diverting the course of the river and cleaning the Kishon riverbed ("the Kishon project"), at a total scope of up to \$90 million out of the cost of the Kishon project. The subsidiaries are not expected to participate in this plan.
- O.** In the reporting period, the subsidiary Gadiv received a loan of \$75 million. Gadiv undertook to maintain the financial ratios as set out below:
- The ratio between the total net financial debt of Gadiv at the relevant testing date and the average EBITDA of Gadiv in 2010-2011 will not exceed 5.2 and from 2012 onwards, will not exceed 4.5 annually.
  - The percentage of the equity out of the total equity will be at least 30% at any time.
  - The equity will be at least \$100 million at any time.
- P.** Financial covenants: Carmel Olefins – As set out in Note 17(C)(b)(1)(h) to the financial statements as at December 31, 2009, Carmel Olefins will not acquire or invest in assets in excess of \$10 million without prior written approval from the banks with which the Company has agreements.

In the next two years, Carmel Olefins intends to invest \$70 million in the establishment of various plants as part of the Group's conversion to natural gas.

Therefore, Carmel Olefins applied in writing to the banks for approval, as set out above, and received their agreement for the investments.

- Q.** On July 1, 2010, Carmel Olefins signed a letter of amendment with Domo Chemicals NV ("Domo Chemicals") through a wholly-owned subsidiary, Colland Polymers BV ("Colland") ("the letter of amendment") to the joint venture agreement of May 6, 2008 between Domo Polypropylene BV ("Domo Polypropylene") and Domo Chemicals NV ("Domo Chemicals").

Under the letter of amendment, in lieu of the options granted to the parties under the original acquisition agreement, Colland will acquire from Domo Chemicals the balance of its shares in Domo Polypropylene, representing 51% of the issued share capital of Domo Polypropylene, for €10.8 million (approximately \$13.4 million). This consideration reflects the original consideration that was to be paid to Domo Chemicals in the event of exercise of any of the options, less €250,000 (approximately \$307,000), which was deducted in the accounting between the parties.

It was further agreed in the letter of amendment that by signing the agreement, Domo Chemicals waives the additional consideration that will not exceed €1 million annually, for five years commencing in 2013, to which Domo Chemicals might have been entitled to receive under the original transaction.

The transaction will be finalized and the relevant shares will be transferred from Domo Chemicals to Colland on February 29, 2012, or if the preconditions agreed upon between the parties are fulfilled prior to that date, at the date on which the last precondition is fulfilled.

Notes to Interim Consolidated Financial Statements  
USD thousands

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**NOTE 8 – MATERIAL EVENTS IN THE REPORTING PERIOD (CONTD.)**

**Q. (contd.)**

Subsequent to finalization of the agreement, Carmel Olefins will hold, through Colland, 100% of the issued share capital of Domo Polypropylene. The results of Domo Polypropylene are already fully consolidated in the financial statements of Carmel Olefins.

In July 2010, Colland paid the aforesaid consideration.

- R.** In the reporting period, the subsidiary, Haifa Basic Oils, reached a settlement with Haifa municipality for absolute and final removal of the municipality's demands for the property tax debt from October 24, 2005 to December 31, 2010. Under the settlement, Haifa Basic Oils paid \$2.1 million up to and including December 31, 2010.

- S.** The Encouragement of Capital Investments Law awards tax benefits to export-oriented industries according to the geographic region of the industry, based on policy determined by the government from time to time.

In 2006, following the Second Lebanon War, to rehabilitate communities that were damaged during the war, Haifa was included in Development Area B for technology-intensive industries. This benefit is effective for the 2007 tax year only.

In view of the aforesaid, an intensive-technology industry, which complies with the terms for export set out in the Encouragement of Capital Investments Law, will be exempt from tax for six years, and will benefit from a 25% tax reduction for one year.

In view of the compliance of Carmel Olefins with these terms, the subsidiary applied to the Tax Authority for a preruling to elect 2007 as the elected year.

As at September 30, 2010, the Tax Authority has approved 2007 as the elected year in Development Region B. Accordingly, a tax benefit of \$7 million was recognized in the financial statements as at September 30, 2010.

**Oil Refineries Ltd.**

**Condensed Separate Interim Financial Information  
September 30, 2010**

**(Unaudited)**

# Oil Refineries Ltd.

## Condensed Separate Interim Financial Information September 30, 2010

**(Unaudited)**

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**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), 5730-1970**

*Introduction*

We have audited the separate financial statements presented pursuant to Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of Oil Refineries Ltd. ("the Company") as at September 30, 2010 and for the nine 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 420,878 million was invested as at September 30, 2010, and whose profits amounted to USD 63,798 and USD 33,950 million, respectively for the nine and six month periods then ended. 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 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 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), 5730-1970.

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

The contents of Note 4 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.

Somekh Chaikin  
Certified Public Accountants  
Haifa, November 21, 2010

**Oil Refineries Ltd.**

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

	As at		
	Sept 30, 2010	Sept 30, 2009	Dec 31, 2009
	(Unaudited)		(Audited)
<b>Current assets</b>			
Cash and cash equivalents	582	2,796	641
Deposits	65,451	67,346	57,933
Trade receivables	421,116	235,848	393,158
Other receivables and debt balances	59,242	71,520	51,714
Financial derivatives	-	522	-
Investments in financial assets at fair value through comprehensive income	102,957	107,630	107,034
Inventory	1,004,688	792,788	868,004
Current tax assets	-	45,591	4,408
<b>Total current assets</b>	1,654,036	1,324,041	1,482,892
<b>Non-current assets</b>			
Balances for investees	839,275	402,364	843,007
Investments in available-for-sale financial assets	11,165	10,510	10,909
Loan to Haifa Early Pensions Ltd.	74,142	73,126	76,053
Long term loans and debit balances	1,399	1,708	1,633
Financial derivatives	128,929	89,690	78,228
Employee benefit plan assets	3,550	3,223	3,335
Property, plant and equipment	784,195	681,842	717,828
Deferred costs	9,041	307	1,351
Intangible assets	3,092	4,091	3,181
<b>Total non-current assets</b>	1,854,788	1,266,861	1,735,525
<b>Total assets</b>	3,508,824	2,590,902	3,218,417

**Yossi Rosen**  
Chairman of the Board

**Yashar Ben Mordechai**  
CEO

**Igal Salhov**  
CFO

Date of approval of financial statements: November 21, 2010

**Oil Refineries Ltd.**

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

	As at		
	Sept 30, 2010	Sept 30, 2009	Dec 31, 2009
	(Unaudited)		(Audited)
<b>Current liabilities</b>			
Loans and borrowings	650,170	473,219	651,751
Trade payables	620,416	401,355	488,263
Other payables and credit balances	83,364	70,328	77,950
Current tax liability	21,944	-	-
Financial derivatives	26,966	26,954	26,443
Provisions	8,995	8,744	7,946
<b>Total current liabilities</b>	<u>1,411,855</u>	<u>980,600</u>	<u>1,252,353</u>
<b>Non-current liabilities</b>			
Bank loans	268,954	163,107	140,288
Debentures	606,212	610,027	601,402
Liabilities for finance lease	9,187	8,816	8,768
Financial derivatives	19,872	5,558	3,111
Employee benefits	36,149	38,040	41,623
Deferred tax liabilities	38,021	43,489	36,128
<b>Total non-current liabilities</b>	<u>978,395</u>	<u>869,037</u>	<u>831,320</u>
<b>Total liabilities</b>	<u>2,390,250</u>	<u>1,849,637</u>	<u>2,083,673</u>
<b>Equity</b>			
Share capital	586,390	472,478	586,390
Share premium	100,242	-	100,242
Reserves	41,103	34,919	35,571
Retained earnings	390,839	233,868	412,541
<b>Total capital</b>	<u>1,118,574</u>	<u>741,265</u>	<u>1,134,744</u>
<b>Total liabilities and capital</b>	<u>3,508,824</u>	<u>2,590,902</u>	<u>3,218,417</u>

**Oil Refineries Ltd.**

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

	For the nine months ended		For the three months ended		For the year ended
	Sept 30, 2010	Sept 30, 2009	Sept 30, 2010	Sept 30, 2009	Dec 31, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
<b>Revenue</b>	4,816,435	3,457,469	1,588,068	1,380,403	4,873,216
Cost of sales, refinery and services	4,744,589	(*) 3,225,695	1,531,434	(*) 1,294,313	(*) 4,654,382
Revaluation of open positions in derivatives on prices of goods and margins, net	(3,216)	39,395	34,816	(8,468)	38,606
<b>Total cost of sales</b>	<b>4,741,373</b>	<b>3,265,090</b>	<b>1,566,250</b>	<b>1,285,845</b>	<b>4,692,988</b>
<b>Gross profit</b>	<b>75,062</b>	<b>192,379</b>	<b>21,818</b>	<b>94,558</b>	<b>180,228</b>
Selling and marketing expenses	(27,474)	(*) (25,812)	(8,667)	(*) (7,750)	(*) (33,735)
General and administrative expenses	(25,125)	(*) (21,893)	(5,825)	(*) (8,565)	(*) (29,824)
Profit from revaluation of a prior investment due to increase in control	-	-	-	-	77,561
Loss from the loss of material impact in a former equity-accounted investee, net of tax	-	(7,091)	-	-	(7,091)
<b>Operating profit</b>	<b>22,463</b>	<b>137,583</b>	<b>7,326</b>	<b>78,243</b>	<b>187,139</b>
Finance income	66,484	61,836	34,501	20,508	58,984
Finance expenses	(92,506)	(64,619)	(53,090)	(36,545)	(73,799)
Financing expenses, net	(26,022)	(2,783)	(18,589)	(16,037)	(14,815)
Company's share in profits (losses) of investees, net of tax	51,818	41,650	33,582	27,940	179,176
<b>Profit before income tax</b>	<b>48,259</b>	<b>176,450</b>	<b>22,319</b>	<b>90,146</b>	<b>351,500</b>
Tax benefits (taxes on income)	4,931	(9,722)	2,187	9,972	(2,256)
<b>Profit for the period</b>	<b>53,190</b>	<b>166,728</b>	<b>24,506</b>	<b>100,118</b>	<b>349,244</b>
<b>Items of other comprehensive income (loss)</b>					
Actuarial gains from a defined benefit plan, net of tax	108	8,702	212	2,023	4,859
Foreign exchange translation differences	(176)	168	642	195	77
Group's share in other comprehensive income of an equity-accounted investee	-	10,433	-	-	10,433
Effective share of the change in fair value of cash flow hedging	4,995	-	4,995	-	-
Change in fair value of available-for-sale financial assets, net of tax	210	1,777	1,669	954	2,270
<b>Other comprehensive income for the period, net of tax</b>	<b>5,137</b>	<b>21,080</b>	<b>7,518</b>	<b>3,172</b>	<b>17,639</b>
<b>Comprehensive income for the period:</b>	<b>58,327</b>	<b>187,808</b>	<b>32,024</b>	<b>103,290</b>	<b>366,883</b>
<b>Earnings per share (dollar)</b>					
Basic and diluted earnings per ordinary share	0.022	0.083	0.010	0.050	0.175

(\*) Reclassified, for details see Note 2 below

**Oil Refineries Ltd.**

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

	<b>For the nine months ended</b>		<b>For the three months ended</b>		<b>For the year ended</b>
	<b>Sept 30, 2010</b>	<b>Sept 30, 2009</b>	<b>Sept 30, 2010</b>	<b>Sept 30, 2009</b>	<b>Dec 31, 2009</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>		<b>(Audited)</b>
<b>Cash flows from operating activities</b>					
Profit for the period attributable to the owners of the Company	53,190	166,728	24,506	100,118	349,244
<b>Adjustments to cash flows from operating activities:</b>					
Revenue and expenses not involving cash flows (Appendix A – section A)	(18,234)	47,110	20,949	(19,174)	(151,715)
Changes in assets and liabilities (Appendix A – section B)	34,956	213,838	45,455	80,944	197,529
Income tax received (paid), net	(68,803)	(130,979)	(92,302)	65,285	(260,200)
	29,132	(372)	29,251	(215)	41,589
<b>Net cash provided by (used in) current activities</b>	<b>(4,715)</b>	<b>82,487</b>	<b>(17,596)</b>	<b>146,014</b>	<b>(21,082)</b>
<b>Cash flow used in investing activities</b>					
Interest received	7,553	1,633	2,559	39	2,268
Decrease (increase) in deposit, net	(6,957)	(40,538)	(18,687)	32,010	(31,043)
Dividend received from investees	75,067	4,453	75,000	-	4,453
Acquisition of subsidiaries	(17,183)	-	-	-	(15,630)
Acquisition of investees	(2,373)	-	-	-	-
Disposal of investments in financial assets, net	12,304	-	54	-	1,500
Repayment (providing) of long-term loans from others, net	382	(570)	302	(2,005)	(589)
Repayment of loan from Haifa Early Pensions Ltd	12,627	-	-	-	-
Purchase of property, plant and equipment	(103,352)	(115,827)	(40,254)	(36,980)	(153,755)
Purchase of intangible assets and deferred expenses, net	(187)	(863)	1,273	(863)	(1,122)
<b>Net cash used for investing activities</b>	<b>(22,119)</b>	<b>(151,712)</b>	<b>20,247</b>	<b>(7,799)</b>	<b>(193,918)</b>
<b>Cash flow from finance activities</b>					
Short-term borrowing, net	10,274	184,789	(169,550)	(90,582)	364,270
Receipt (repayment) of deposits from customers, net	26,140	(8,367)	274	(5,482)	(8,276)
Interest paid	(30,764)	(34,444)	(6,380)	(12,211)	(46,658)
Derivative transactions, net	4,331	2,671	(1,494)	-	8,361
Receipt (repayment) of a loan from an investee	(8,369)	4,726	5,630	525	5,037
Receipt of long-term loans from banks	200,000	-	200,000	-	-
Repayment of long-term loans from banks	(68,408)	(68,896)	(22,854)	(22,854)	(91,750)
Repayment of debentures	(20,901)	(19,200)	(7,206)	(6,914)	(26,097)
Borrowing costs	(10,530)	-	(3,538)	-	-
Dividend paid	(75,000)	-	-	-	-
<b>Net cash from (used for) financing activities</b>	<b>26,773</b>	<b>61,279</b>	<b>(5,118)</b>	<b>(137,518)</b>	<b>204,887</b>
Net increase (decrease) in cash and cash equivalents	(61)	(7,946)	(2,467)	697	(10,113)
Effect of exchange rate fluctuations on cash and cash equivalents	2	(13)	29	126	(1)
Cash and cash equivalents at the beginning of the year	641	10,755	3,020	1,973	10,755
<b>Cash and cash equivalents at the end of the period</b>	<b>582</b>	<b>2,796</b>	<b>582</b>	<b>2,796</b>	<b>641</b>

**Oil Refineries Ltd.**

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

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

	For the nine months ended		For the three months ended		For the year ended
	Sept 30, 2010	Sept 30, 2009	Sept 30, 2010	Sept 30, 2009	Dec 31, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
<b>A. Income and expenses not included in cash flows</b>					
Depreciation and amortization	30,948	32,040	11,676	11,699	44,764
Financing expenses, net	19,707	12,843	16,996	23,638	24,849
Net changes in fair value of derivatives	1,785	41,000	39,822	(8,220)	39,971
Net changes in fair value of the loan to Haifa Early Pensions Ltd.	(5,612)	(9,243)	(4,888)	(4,372)	(8,467)
Share in profits of	(51,818)	(41,650)	(33,582)	(27,940)	(179,176)
Profit from revaluation of a prior investment due to increase in control	-	-	-	-	(77,561)
Loss from the loss of material impact in a former equity-accounted investee	-	7,091	-	-	7,091
Profit from deposits and investments in financial assets, net	(8,788)	(6,216)	(7,040)	(4,410)	(7,201)
Share-based payments	475	1,523	152	403	1,759
Income tax expenses (revenue)	(4,931)	9,722	(2,187)	(9,972)	2,256
	(18,234)	47,110	20,949	(19,174)	(151,715)
<b>B. Changes in assets and liabilities</b>					
Decrease (increase) in trade receivables, net	(27,958)	(47,440)	(52,902)	6,534	(204,710)
Decrease (increase) in other receivables and debt balances, net	(17,736)	11,929	1,659	(17,217)	31,810
Increase in inventory, net	(136,684)	(281,546)	(139,292)	(71,674)	(356,762)
Decrease in trade payables, net	138,940	175,987	105,796	126,223	251,603
Increase (decrease) in other payables and provisions, net	(19,762)	19,898	(3,471)	21,716	26,643
Decrease in employee benefits, net	(5,603)	(9,807)	(4,092)	(297)	(8,784)
	(68,803)	(130,979)	(92,302)	65,285	(260,200)

## Oil Refineries Ltd.

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

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#### NOTE 1 – GENERAL

A. The separate interim financial statements are presented in accordance with Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 and do not include all the information required under Regulation 9(C) and the Tenth Addendum of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 with respect to the separate financial information of the corporation. They should be read in conjunction with the separate financial statements for the year ended December 31, 2009 and in conjunction with the condensed interim consolidated financial statements as at September 30, 2010 ("the consolidated financial statements").

#### B. Definitions:

The Company: Oil Refineries Ltd.

Subsidiaries: Companies, including jointly-controlled companies, the financial statements of which are fully consolidated, directly or indirectly, 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:

#### Effect of retrospective application on the relevant items:

Some of the comparative figures in the statement of comprehensive income for the nine and three month periods ended September 30, 2009 and for the year ended December 31, 2009 were reclassified in order to adjust their presentation method to the presentation in the statement of comprehensive income for the nine and three month periods ended September 30, 2010.

	<u>Nine months ended September 30, 2009</u>		
	<u>As previously reported</u>	<u>Effect of reclassification restatement</u>	<u>As reported in these financial statements</u>
Cost of sales, refinery and services	(3,235,735)	10,040	(3,225,695)
Selling expenses	(2,730)	(23,082)	(25,812)
General and administrative expenses	(34,935)	13,042	(21,893)

	<u>Nine months ended September 30, 2009</u>		
	<u>As previously reported</u>	<u>Effect of reclassification restatement</u>	<u>As reported in these financial statements</u>
Cost of sales, refinery and services	(1,296,544)	2,231	(1,294,313)
Selling expenses	(1,268)	(6,482)	(7,750)
General and administrative expenses	(12,816)	4,251	(8,565)

**Oil Refineries Ltd.**

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

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**NOTE 2 – BASIS OF PREPARATION – CONT'D**

	<b>Year ended December 31, 2009</b>		
	<b>As previously reported</b>	<b>Effect of reclassification restatement</b>	<b>As reported in these financial statements</b>
Cost of sales, refinery and services	(4,666,466)	12,084	(4,654,382)
Selling expenses	(4,177)	(29,558)	(33,735)
General and administrative expenses	(47,298)	17,474	(29,824)

**NOTE 3 – SUBSTANTIAL GUARANTEES, AGREEMENTS AND TRANSACTIONS WITH INVESTEEES**

For further information see Note 8(B-E) and Note 7(B and C) to the condensed interim consolidated financial statements as at September 30, 2010.

**NOTE 4 – CONTINGENT LIABILITIES**

For further information see Note 7 (A) to the condensed interim consolidated financial statements as at September 30, 2010.

**NOTE 5 – MATERIAL EVENTS IN THE REPORTING PERIOD**

For further information see Note 8(A-I, K-N) to the condensed interim consolidated financial statements as at September 30, 2010.

**Oil Refineries Ltd.**

**Condensed Consolidated Interim Financial Statements**

**Pro Forma**

**as at September 30, 2010**

**(Unaudited)**

# Oil Refineries Ltd.

## Condensed Consolidated Interim Financial Statements Pro Forma as at September 30, 2010 (Unaudited)

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• Notes to Interim Consolidated Financial Statements, Pro Forma	4



## **Auditors review report to the Shareholders of Oil Refineries Limited**

### *Introduction*

We have reviewed the accompanying pro forma financial information of Oil Refineries Limited and its subsidiaries ("the Group"), including the pro forma condensed consolidated interim statement of financial position for the nine and three month periods ended September 30, 2010. The board of directors and the management are responsible for preparation and presentation of the pro forma interim financial information for these interim periods in accordance with the guidelines set out in Note 4, and for preparation of the interim financial information for these interim periods in accordance with Chapter B of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express an opinion on the interim financial information for these interim periods based on our review.

We did not review the pro forma condensed financial information for the interim periods of consolidated companies, the consolidated revenue of which represent approximately 16% and 15% of the total consolidated revenue for the nine and three month periods then ended, respectively. Furthermore, we did not review the pro forma condensed interim financial information of equity-accounted investees, in which the Group's share in their profits is USD 600,000 and USD 258,000 for the nine and three month periods then ended, respectively. The pro forma 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 is not prepared, in all material respects, in accordance with the guidelines set out in Note 4.

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 Chapter B of the Securities Regulations (Periodic and Immediate Reports),5730-1970.

Somekh Chaikin  
Certified Public Accountants

Haifa, November 21, 2010

**Oil Refineries Ltd.**

**Condensed Consolidated Interim Statements of Comprehensive Income, Pro Forma  
USD thousands**

	For the nine months ended		For the three months ended		Year ended
	Sept 30, 2010	Sept 30, 2009	Sept 30, 2010	Sept 30, 2009	Dec 31, 2009
	(Unaudited)		(Unaudited)		(Audited)
Revenue	5,295,924	3,819,806	1,713,114	1,518,582	5,386,430
Cost of sales, refinery and services					
Revaluation of open positions in derivatives on prices of goods and margins, net	5,092,549	3,501,576	1,609,044	1,388,113	(*) 5,055,488
<b>Total cost of sales</b>	<u>(3,216)</u>	<u>39,395</u>	<u>34,816</u>	<u>(8,468)</u>	<u>38,606</u>
	5,089,333	3,540,971	1,643,860	1,379,645	5,094,094
<b>Gross profit</b>					
	206,591	278,835	69,254	138,937	292,336
Selling and marketing expenses					
General and administrative expenses	(80,117)	(74,509)	(24,243)	(28,387)	(*) (101,720)
Profit from revaluation of a prior investment in Haifa Basic Oils due to increase in control	(45,897)	(35,784)	(9,997)	(13,633)	(*) (50,008)
<b>Operating profit</b>	<u>80,577</u>	<u>168,542</u>	<u>35,014</u>	<u>96,917</u>	<u>156,587</u>
Finance income	87,632	62,991	28,355	16,568	62,732
Finance expenses	<u>(115,894)</u>	<u>(77,450)</u>	<u>(48,178)</u>	<u>(33,660)</u>	<u>(100,514)</u>
Financing expenses, net	<u>(28,262)</u>	<u>(14,459)</u>	<u>(19,823)</u>	<u>(17,092)</u>	<u>(37,782)</u>
Company's share in profits (losses) of equity-accounted investees (net of tax)	<u>600</u>	<u>(88)</u>	<u>258</u>	<u>873</u>	<u>93</u>
<b>Profit before income tax</b>	<u>52,915</u>	<u>153,995</u>	<u>15,449</u>	<u>80,698</u>	<u>118,898</u>
Tax benefit	<u>5,629</u>	<u>18,240</u>	<u>9,342</u>	<u>32,403</u>	<u>31,931</u>
<b>Profit for the period</b>	<u><u>58,544</u></u>	<u><u>172,235</u></u>	<u><u>24,791</u></u>	<u><u>113,101</u></u>	<u><u>150,829</u></u>

(\*) Reclassified, for details see Note 2 B.

**Yossi Rosen**  
Chairman of the Board

**Yashar Ben Mordechai**  
CEO

**Igal Salhov**  
CFO

Date of approval of the Pro Forma Consolidated Interim Financial Statements November 21, 2010

**The accompanying notes to the pro forma condensed consolidated interim statements  
are an integral part thereof.**

**Oil Refineries Ltd.**

**Condensed Consolidated Interim Statements of Comprehensive Income, Pro Forma (Contd.)**  
**USD thousands**

	For the nine months ended		For the three months ended		Year ended
	Sept 30, 2010	Sept 30, 2009	Sept 30, 2010	Sept 30, 2009	Dec 31, 2009
	(Unaudited)		(Unaudited)		(Audited)
<b>Profit for the period</b>	58,544	172,235	24,791	113,101	150,829
<b>Other items of comprehensive income</b>					
Actuarial gains from a defined benefit plan, net of tax	108	9,155	212	2,154	5,201
Foreign exchange translation differences	(176)	336	642	390	154
Effective share of the change in fair value of cash flow hedging	4,995	-	4,995	-	-
Change in fair value of available-for-sale financial assets, net of tax	210	3,599	1,669	954	3,928
<b>Other comprehensive income for the period, net of tax</b>	5,137	13,090	7,518	3,498	9,283
<b>Other comprehensive income for the period</b>	<b>63,681</b>	<b>185,325</b>	<b>32,309</b>	<b>116,599</b>	<b>160,112</b>
<b>Earnings per share (dollar)</b>					
Basic and diluted earnings per ordinary share	0.024	0.071	0.010	0.047	0.062

**The accompanying notes to the pro forma condensed consolidated interim statements are an integral part thereof.**

Notes to Interim Consolidated Financial Statements, Pro Forma  
USD thousands

**NOTE 1 – GENERAL**

These pro forma consolidated statements were prepared in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 and refer to Carmel Olefins Ltd. "Carmel Olefins agreement").

The acquisition of Carmel Olefins is a pro forma event in accordance with Section 9A of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

**NOTE 2 – ACCOUNTING POLICY**

A. The significant accounting policies applied in the pro forma consolidated statements are consistent with those applied in the preparation of the company's financial statements.

**B. Reclassification**

Some of the comparative figures in the pro forma statement of comprehensive income for the year ended on December 31, 2009 were reclassified in order to adjust their presentation method in the statement of comprehensive income for the nine and three months ended on September 30, 2010.

	<b>Year ended December 31, 2009</b>		
	<b>As previously reported</b>	<b>Effect of reclassification restatement</b>	<b>As reported in these financial statements</b>
Cost of sales, refinery and services	(5,066,592)	11,104	(5,055,488)
Selling expenses	(72,162)	(29,558)	(101,720)
General and administrative expenses	(68,462)	18,454	(50,008)

**NOTE 3 – PRO FORMA EVENT**

Further to Note 10(A) to the Company's consolidated financial statements as at December 31, 2009, on December 30, 2009, the Company completed a transaction with Israel Petrochemical Enterprises Ltd. ("IPE"). In the transaction, the Company acquired IPE's share (50%) in Carmel Olefins Ltd. in exchange for the allocation of the Company's shares to IPE. Under the agreement, the Company acquired from IPE 15,600,000 ordinary shares, par value NIS 10 each of Carmel Olefins, representing 50% of the share capital of Carmel Olefins ("the acquired Carmel Olefins shares") in exchange for the allocation of 431,610,944 ordinary shares of the Company, par value NIS 1 each, which the Company allotted to IPE by way of a private offering and representing, at the date of their allotment, 17.75% of the Company's issued share capital.

The exchange ratio between the allotted shares and the acquired Carmel Olefins shares, was set in negotiations between the Company and IPE, based., inter alia, on an appraisal by an independent assessor, Prof. Itzhak Swary & Co. ("the independent assessor").

The acquisition cost of Carmel Olefins' shares, for accounting purposes, was set at NIS 1.88 per share (\$0.496 per share), based on the quoted closing price of the allocated Company's shares on December 30, 2009.

Notes to Interim Consolidated Financial Statements, Pro Forma  
USD thousands

**NOTE 4 – ASSUMPTIONS MADE IN PREPARATION OF THE PRO FORMA CONSOLIDATED STATEMENTS**

- A. The pro forma consolidated statements are intended to reflect the consolidated statements of the Group, including the effect of the results of the operations of Carmel Olefins at a holding rate of 100%. The pro forma consolidated comprehensive statements of income were presented in accordance with the presumption that the transaction was completed on January 1, 2007.
- B. To prepare these pro forma statements, the Company has deducted profits and losses for non-recurrent events arising from the transaction:
- (1) Revaluation of the original investment of \$61.582 million in Carmel Olefins.
  - (2) Loss of \$13.291 million due to loss of significant influence in IPE, which was previously equity accounted. As from January 1, 2007, the investment in IPE shares is recognized as an available for sale security.
  - (3) Revenue arising from negative goodwill – see Note C(1) below.
- C. The Company estimated the attribution of the cost of the acquisition at \$260 million.

For information regarding the assumptions made in the attribution of the excess acquisition cost, see section D below.

- (1) Attribution of the excess cost:

Inventory	6,000
Property, plant and equipment	262,000
Intangible assets – customer relations	55,000
Deferred tax	(62,836)
	<u>260,164</u>

According to the allocation of the cost of acquisition by the Company, negative goodwill of \$137 million was recognized. In the pro forma consolidated statements of comprehensive income, no profit was recognized for this negative goodwill as it is non-recurring.

As set out in Note 3, the acquisition cost of Carmel Olefins' shares was based on the price of the Company's shares on the TASE at the completion date of the transaction. This cost is about 50% lower than the valuation of Carmel Olefins, which was used to determine the exchange ratio in the merger transaction. The negative goodwill arising from attribution of the acquisition cost is mainly due to the difference between the accounting cost of Carmel Olefins shares and the fair value of the net identifiable assets of Carmel Olefins.

- (2) On December 31, 2009, an independent external engineering assessor tested the useful life of Carmel Olefins' facilities. According to the periodic test, the useful life of Carmel Olefins' facilities was extended by an average of five years, mainly due to changes in the quality of feedstock and the improved air quality near the plants following the change in environmental quality standards, and replacement of major complexes with higher resilience to temperature and corrosion that affect the useful life of the facilities.

The pro forma consolidated statements include the effect of the extension of the useful life as from January 1, 2007.

- (3) In the pro forma consolidated statements of comprehensive income, the inventory will be realized in 2007, property, plant and equipment will be depreciated over an average of 30 years and customer relations will be amortized over 5 years on a straight-line basis.
- (4) The average tax rate for calculating deferred tax for adjustment to fair value is 19%.

Notes to Interim Consolidated Financial Statements, Pro Forma  
USD thousands

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**NOTE 4 – ASSUMPTIONS MADE IN PREPARATION OF THE PRO FORMA  
CONSOLIDATED STATEMENTS (CONTD.)**

**D. Assumptions used when attributing excess acquisition cost**

- (1) Attribution of the acquisition cost is based on individual estimate of the fair value of the identifiable tangible and intangible assets and liabilities of the acquired company. Fair value is defined as the value of the asset (liability) at the transaction date between a willing seller and a willing buyer.

The assets were valued by the following methods:

Tangible assets

Finished goods inventory: valued at disposal value

Plant and equipment: valued at depreciated replacement costs based on the cost involved in production or acquisition of a replacement asset.

Intangible assets

Customer relations: Carmel Olefins' overseas customers were valued according to the discounting method of excess profits involved in preparing predicted future operational profits referring to acquired customer relations only. The operating results for existing customers were based on estimates regarding the continuation of operations with the existing customer base.

To prepare the forecast for acquired customer relations, the valuers of the Company's operations used geographic breakdowns and additional information received from Carmel Olefins, including statistics on the development of export in recent years.

Deferred tax on these components was calculated according to the estimated date of their realization.

- (2) For the contingent claims of Carmel Olefins, in view of the complexity of the cases, both factually and legally, and the numerous parties involved, the management of the Group believes, based on the opinion of its legal counsel, that it is not possible to assess the fair value of these claims, therefore no value was attributed to them in the acquisition.
- E.** The number of shares used to calculate the net earnings per share is 2,431,611,000 shares, including the share issuance on December 30, 2009, see Note 3 above.
- F.** The pro forma consolidated statements do not include reference to the transaction for the acquisition of Haifa Basic Oils shares as part of a pro forma event. For details of the transaction, see Note 10(B) to the consolidated financial statements as at December 31, 2009.