

Oil Refineries Ltd.



Condensed Consolidated Interim Financial Statements

June 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.

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Directors' Report on the State of the Company's Affairs For the Period Ended June 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 June 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 At the end of June 2010, the Company signed an agreement with a syndicate of banks led by Bank Hapoalim Ltd. Under the agreement, the syndicate will provide \$600 million (without collateral) for partial funding of a project to establish a new production plant for clean diesel and the Company's investments, and in certain conditions, also to finance the Company's debt due between 2009 and 2012. In February 2010, the US Congress approved backing of \$300 million from the Export-Import Bank of the United States, together with other export credit agencies in Germany, for the loan provided by a foreign bank to finance equipment for the new clean diesel production plant. The guarantee is contingent on a loan agreement with the foreign bank and detailed guarantee agreements with the Export-Import Bank of the United States. Following completion of the series of agreements for the hydrocracker project, the Company has started to realize the investment.

1.2.2 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.

1.2.3 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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1.2.4 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. After connection of the pipeline, all the Company's plants will start to use natural gas as combustion material in production plants, instead of fuel oil. The Company estimates that the conversion to use of natural gas at the Haifa refinery will result in increased operational efficiency and it is essential for the Company's compliance with environmental quality requirements.

The projected date for completing the connection of the natural gas pipeline to the Company's plants is forward looking information. There is no certainty that the Company will be able to convert to use of natural gas at the projected date, which is dependent, inter alia, on external factors (such as INGL).

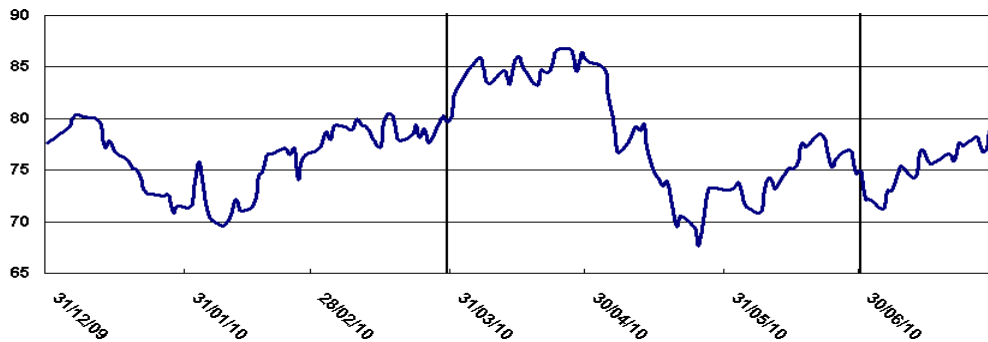
1.2.5 As part of the strategic plan, which includes increasing the investment in environmental quality, safety and security and in enhancing operational reliability, up to the end of the reporting period, the Company invested \$113 million in these areas. The investments include infrastructure and preparations 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

Crude oil prices rose in April 2010 to the highest level since the recession at the end of 2008, and were boosted by the expected recovery and strong demand for crude oil futures contracts serving also as an investment instrument. Brent crude oil traded at \$85/barrel up to the development of the debt crisis in the euro bloc and the decrease in global financial markets, which pushed down prices considerably from May 2010. Prices rose again to a certain extent in June 2010, reaching \$75/barrel.

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



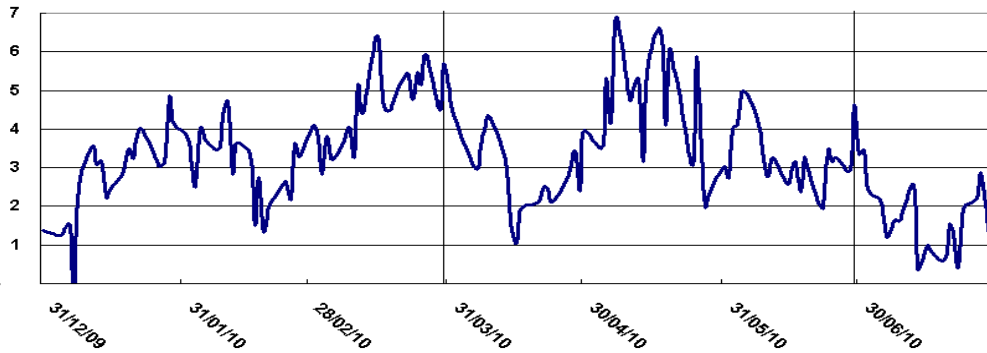
Source: Reuters

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 margin¹ is between zero and \$7 per barrel and the average for the period is between \$3.5 per barrel. In 2009, the average benchmark margin was \$1.9 per barrel.

¹ The benchmark margin is 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.

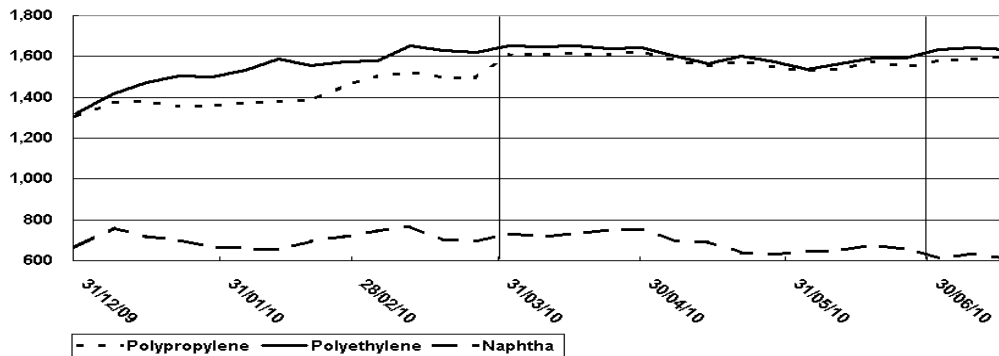
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Refining margin publicized by Reuters for an example of a Mediterranean refinery having the capability of cracking Ural-type crude oil in 2010 (\$/barrel)



Polymer margins increased during the reporting period (mainly in the second quarter). Polymer prices (polyethylene and polypropylene) 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.

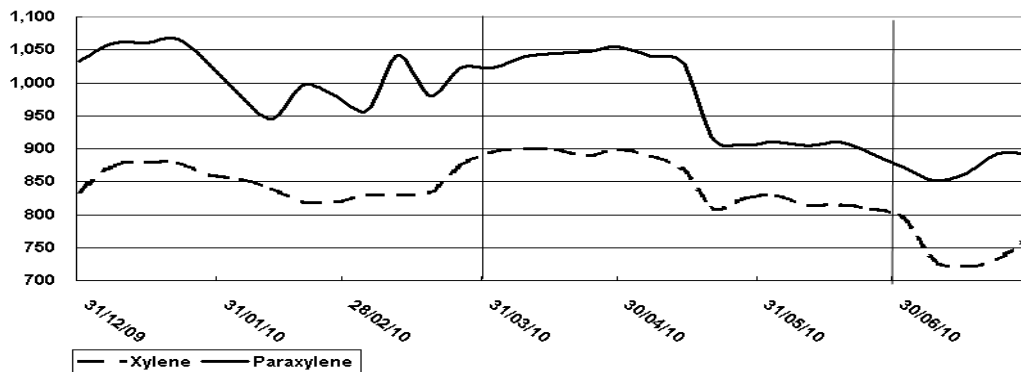
Polymer and naphtha prices in 2010 (\$/ton)



Source: CMAI

Aromatics margins decreased in the reporting period mainly due to return to production of plants in Asia after renovations: Aromatics prices (mainly paraxylene) fluctuated \$1,000/ton during the period and fell to \$900/ton towards the end of the period. On the other hand, raw material prices, mainly xylene, were relatively stable.

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



Source: PLATTS

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Prices of oils reported by ICIS² for export cargo from Europe increased during the period from \$775/ton to \$920/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 consolidated profit in the reporting period amounted to \$29 million, compared to a profit of \$67 million in the corresponding period last year. The following table summarizes the consolidated financial results for the six months ended June 30, 2010 and the corresponding period last year (in \$ millions):

	1-6.2010	1-6.2009
Operating profit (not including other expenses)	61	80
Other expenses (1)	(22)	(7)
Finance income (expenses), net	(8)	9
Income tax	(2)	(19)
Profits of investees	-	4
Profit for the period	29	67

- (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	
	1-6.2010	1-6.2009	1-6.2010	1-6.2009
Refining – adjusted (1)	28	17	47	37
Petrochemicals – polymers (2)	31	0	55	14
Petrochemicals - aromatics	13	16	16	20
Petrochemicals – oils (3)	5	0	6	0
Trade	(8)	3	(8)	3
Adjustments	(3)	(3)	(3)	(3)
Total consolidated (with adjustments)	66	33	113	71
Total consolidated (without adjustments)	61	80	108	118

- For details of the adjustment, see section 3.1.2 below.
- In the corresponding period last year, the Company's financial statements included 50% of the results of the polymer operations.
- Not consolidated in the corresponding period last year, therefore the results of oils operations were not included.

Production volume

In the reporting period, the refining volume in the Company amounted to 4,489,000 metric tons (in the corresponding period last year, 3,771,000 metric tons) with usage of 93.7% (in the corresponding period last year, 85.0%).

² Chemical industry news and intelligence www.icis.com

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

	1-6.2010	1-6.2009
Diesel fuel	1,367	1,204
Gasoline	858	769
Kerosene	460	298
Fuel oil	546	586
HVGO	301	325
Others	607	290
Total	4,139	3,472

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

	1-6.2010	1-6.2009
Aromatics (through Gadiv)	266	229
Polymers (through Carmel Olefins, in 2009, 50%)	363	170
Oils (through Haifa Basic Oils, as from 2010)	34	-
Total	663	399

2. Financial position

2.1 Current assets

At June 30, 2010, consolidated current assets amounted to \$1.748 billion, representing 44% of the total assets, compared to \$1.663 billion, representing 43% of total assets at December 31, 2009. The increase of \$85 million is mainly due to an increase of \$111 million in trade receivables, which is mainly due to an increase in the volume of sales less a decrease in cash and deposits for inventory derivatives of \$40 million plus an increase of \$6 million in receivables.

2.2 Non-current assets

At June 30, 2010, non-current assets amounted to \$2.244 billion, compared to \$2.221 billion at December 31, 2009. The difference of \$23 million is mainly due to an increase of \$18 million in financial derivatives in the reporting period. Fair value changes are affected by interest, CPI and exchange-rate changes in the reporting period plus an increase of \$7 million in deferred expenses, less a decrease of \$6 million in the Company's loan to Haifa Early Pensions due to payment of principal and interest in 2010.

2.3 Current liabilities

At June 30, 2010, consolidated current liabilities amounted to \$1.569 billion, representing 54% of total liabilities, compared to \$1.291 billion, representing 47% of total liabilities at December 31, 2009. The increase of \$278 million is mainly due to an increase of \$263 million, net in short-term bank loans and an increase of \$16 million in other payables, due to the commitment by Carmel Olefins to acquire the balance of the shares of Domo Polypropylene.

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2.4 Non-current liabilities

At June 30, 2010, non-current liabilities amounted to \$1.336 billion, compared to \$1.442 billion at December 31, 2009. The decrease of \$106 million is mainly due to a decrease of \$75 million in liabilities to banks following repayment of loans and a decrease of \$32 million in debentures due to repayments, a decrease of \$15 million in long-term liabilities for acquisition of an additional 50% in Domo due to reclassification of current liabilities, less an increase of \$10 million in derivatives.

2.5 Equity

At June 30, 2010, equity amounted to \$1.086 billion, representing 27% 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 \$66 million in equity is mainly due the declaration 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 \$29 million in the reporting period and an increase of \$2 million in capital reserves.

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3. Results of the Group's operations

3.1 The following tables present selected information of the Group for the six months ended June 30, 2010 compared to the corresponding period last year

	Petrochemicals													
	Refining		Trade		Polymers		Aromatics		Oils		Adjustments to consolidated		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	Six months ended June 30													
Revenue	2,645	1,640	96	230	535	177	268	146	39	-	-	-	3,583	2,193
Inter-company operations	488	189	-	18	-	-	22	19	-	-	(510)	(226)	-	-
Total sales	3,133	1,829	96	248	535	177	290	165	39	-	(510)	(226)	3,583	2,193
Cost of sales	3,054	1,718	101	244	249	99	22	1	11	-	-	-	3,437	2,062
Inter-company operations	22	19	-	-	224	66	237	136	22	-	(505)	(221)	-	-
Total cost of sales	3,076	1,737	101	244	473	165	259	137	33	-	(505)	(221)	3,437	2,062
Gross profit (loss)	57	92	(5)	4	62	12	31	28	6	-	(5)	(5)	146	131
Selling, general and administrative expenses	34	28	3	1	30	11	17	11	1	-	-	-	85	51
Inter-company operations	-	-	-	-	1	1	1	1	-	-	(2)	(2)	-	-
	34	28	3	1	31	12	18	12	1	-	(2)	(2)	85	51
Operating profit (loss) for segments	23	64	(8)	3	31	-	13	16	5	-	(3)	(3)	61	80
Loss from loss of material impact in an equity-accounted investee													-	(7)
Amortization of the excess cost arising from acquisition of investees													(22)	-
Operating profit													39	73
Finance income (expenses), net													(8)	9
Share in profits (losses) of investees, net of tax													-	4
Profit before income tax													31	86
Income tax													(2)	(19)
Profit for the period													29	67

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The following table presents a description of the main reasons for the decrease of \$19 million in consolidated operating profit in the period (in \$ million)

	1-6.2010 compared to 1-6.2009
Increase in sales turnover	22
Decrease in income from sale of services	(4)
Decrease in gross profit from the trade segment	(9)
Changes in adjustments – see details in the table in section 3.1.2 below	(52)
Increase in the adjusted margin in the refining segment	16
Increase in margins in the petrochemicals segment	56
Increase in production expenses	(23)
Increase in selling and administrative expenses	(22)
Effect of the increase in the holdings in Carmel Olefins and Haifa Basic Oils	(3)
	(19)

3.1.1 Sales turnover

Sales turnover in the **refining segment** (carried out through the Company) amounted to \$3.133 billion in the reporting period, compared to \$1.829 billion in the corresponding period last year. The increase in sales turnover 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 product index produced by the Company (“the Company’s product index”) amounted to \$668 in the reporting period, compared to \$434 in the corresponding period last year.

Revenues from the sale of products with a volume of over \$250 million per product in the reporting period were as follows: gasoline - \$933 million, fuel oil - \$325 million, kerosene – 321 million and diesel fuel - \$946 million

In the reporting period, there was an increase of 1% in consumption of distillates and an increase of 4% 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 turnover in the **trade segment** (carried out through the Company) amounted to \$967 million in the reporting period, compared to \$248 million in the corresponding period last year.

Sales turnover in the petrochemical segment

Sales turnover of **polymers operations** (carried out through Carmel Olefins) increased by \$358 million in the reporting period compared to the corresponding period last year. The increase is mainly due to an increase of \$192 million in selling prices and an increase of \$166 million in the quantity of sales due to an increase in the Company’s holdings of Carmel Olefins.

Sales turnover of **aromatics operations** (carried out through Gadiv) increased by \$125 million in the reporting period compared to the corresponding period last year. The increase is due to an increase of \$85 million in selling prices, an increase of \$36 million in selling quantities and an increase of \$4 million in revenue from processing and other fees.

Sales turnover from **oils operations** (carried out through Haifa Basic Oils) amounted to \$39 million in the reporting period. In the corresponding period last year, the results of Haifa Basic Oils were included under profits of investees.

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3.1.2 Operating profit

Operating profit in the **refining segment** amounted to \$23 million in the reporting period, compared to \$64 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)

	1-6.2010	1-6.2009
Loss (profit) from buying and selling timing differences , for inventory that is not hedged by derivatives (*)	1	34
Elimination of the provision for impairment of inventory, net	6	5
Loss (profit) due to the effect of changes in fair value of derivatives on prices of goods, mainly due to accounting under IFRS	(2)	(86)
Total effect	5	(47)

- (*) 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.

	1-6.2010	1-6.2009
Benchmark margin (dollar/barrel)	3.5	2.4
Adjusted margin (dollar/barrel)	3.9	3.5
Adjusted margin (dollar/ton)	28.9	25.4
Net of the effect – buying and selling timing differences	(0.3)	(1.3)
Provision for impairment of inventory at the reporting date	(1.4)	22.7
Accounting method for derivatives according to IFRS	0.6	(8.9)
Accounting margin (dollar/ton)	27.8	37.9

In the reporting period, adjusted refining margins increased to \$28.8 per ton (\$3.9 per barrel), compared to \$25.4 per ton (\$3.5 per barrel) in the corresponding period last year. In the reporting period, the benchmark margin was \$25.5 per ton (\$3.5 per barrel), compared to \$17.5 per ton (\$2.4 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):

	1-6.2010 compared to 1-6.2009
Decrease in margin less refining operations	16
Increase in sales turnover	16
Decrease in income from sale of services	(7)
Increase in production expenses	(8)
Increase in selling, administrative and general expenses	(6)
Changes in adjustments – as described above	(52)
	(41)

The operating loss in the **trade segment** amounted to \$8 million compared to operating profit of \$3 million in the corresponding period last year.

The operating profit in **polymers operations** amounted to \$31 million (100% of the holdings) in the reporting period, compared to a balance 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):

	1-6.2010 compared to 1-6.2009
Increase in margin from the basket of products	46
Decrease in sales quantities	(3)
Increase in production expenses	(7)
Increase in selling, administrative and general expenses	(7)
Total effect of the increase in holdings in Carmel Olefins	2
	31

The operating profit in **aromatics operations** amounted to \$13 million in the reporting period, compared to \$16 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):

	1-6.2010 compared to 1-6.2009
Increase in sales volume	9
Increase in processing fees	3
Decrease in products index margin	(1)
Increase in production expenses, mainly energy	(8)
Increase in selling, administrative and general expenses	(6)
	(3)

The operating profit in **oils operations** amounted to \$5 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.

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

	1-6.2010 compared to 1-6.2009
Increase in products index margin	11
Increase in production and other expenses	(2)
Effect of the increase in the holdings in Haifa Basic Oils	(4)
	<u>5</u>

3.1.3 **Other expenses**

In the reporting period, other expenses amounted to \$22 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 \$8 million in the reporting period, compared to income of \$9 million in the corresponding period last year.

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

	1-6.2010 compared to 1-6.2009
Decrease in interest on loans and debentures	2
Increase in short-term interest following an increase in the scope of credit	(7)
Change in value of securities and loan provided	(3)
Revaluation, net	(4)
Fair value of hedging	(5)
	<u>(17)</u>

3.1.5 **Income tax**

In the reporting period, tax expenses in the Group amounted to \$2 million, due to profit in the period and an increase in tax reserves less the impact of tax due to reduction of excess acquisition cost of the shares of Carmel Olefins and Haifa Basic Oils.

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

The Company's share in the earnings of investees amounted to a balance in the reporting period, compared to a profit of \$4 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.

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

	Petrochemicals												Consolidated	
	Refining		Trade		Polymers		Aromatics		Oils		Adjustments to consolidated			
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	Three months ended June 30													
Revenue	1,413	855	28	172	274	92	141	89	22	-	-	-	1,878	1,208
Inter-company operations	242	104	-	18	-	-	11	10	-	-	(253)	(132)	-	-
Total sales	1,655	959	28	190	274	92	152	99	22	-	(253)	(132)	1,878	1,208
Cost of sales	1,601	946	32	187	123	48	17	5	8	-	-	-	1,781	1,186
Inter-company operations	11	10	-	-	110	40	120	78	11	-	(252)	(128)	-	-
Total cost of sales	1,612	956	32	187	233	88	137	83	19	-	(252)	(128)	1,781	1,186
Gross profit (loss)	43	3	(4)	3	41	4	15	16	3	-	(1)	(4)	97	22
Selling, general and administrative expenses	20	11	2	1	14	4	10	6	1	-	-	-	47	22
Inter-company operations	-	-	-	-	1	1	-	-	-	-	(1)	(1)	-	-
	20	11	2	1	15	5	10	6	1	-	(1)	(1)	47	22
Operating profit (loss) for segments	23	(8)	(6)	2	26	(1)	5	10	2	-	-	(3)	50	-
Loss from loss of material impact in an equity-accounted investee													-	(7)
Amortization of the excess cost arising from acquisition of investees													(7)	-
Operating profit (loss)													43	(7)
Finance income (expenses), net													3	(6)
Share in losses of investees, net of tax													-	(1)
Profit (loss) before taxes on income													46	(14)
Tax benefits (income tax)													(14)	6
Net profit (loss) for the period													32	(8)

3.2.1 Sales turnover

Sales turnover in the **refining segment** (carried out through the Company) amounted to \$1.655 billion in the second quarter of 2010, compared to \$959 million in the corresponding period last year. The increase in sales turnover 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 product index produced by the Company (“the Company’s product index”) amounted to \$676 in the reporting period, compared to \$385 in the corresponding period last year.

Revenue from the sale of products with a volume of over \$125 million per product in the second quarter of 2010 was as follows: gasoline - \$475 million, fuel oil - \$160 million, diesel - \$525 million, kerosene – \$184 million and HVGO - \$128 million

In the second quarter of 2010, there was an increase of 2% in consumption of distillates and an increase of 4% 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 turnover in the **trade segment** (carried out through the Company) amounted to \$28 million in the second quarter of 2010, compared to \$190 million in the corresponding period last year.

Sales turnover in the petrochemical segment

Sales turnover of **polymers operations** (carried out through Carmel Olefins) increased by \$182 million in the second quarter of 2010 compared to the corresponding period last year. The increase is mainly due to an increase of \$94 million in selling prices and an increase of \$88 million in the quantity of sales due to an increase in the Company’s holdings in Carmel Olefins.

Sales turnover of **aromatics operations** (carried out through Gadiv) increased by \$53 million in the reporting period compared to the corresponding period last year. The increase is due to an increase of \$40 million in selling prices, an increase of \$12 million in selling quantities and an increase of \$1 million in revenue from processing and other fees.

Sales turnover from **oils operations** (carried out through Haifa Basic Oils) amounted to \$22 million in the reporting period. In the corresponding period last year, the results of Haifa Basic Oils were included under profits of investees.

3.2.2 Operating profit and EBITDA

	Operating profit		EBITDA	
	4-6.2010	4-6.2009	4-6.2010	4-6.2009
Refining – adjusted (1)	30	(5)	39	6
Petrochemicals – polymers (2)	26	(1)	38	6
Petrochemicals - aromatics	5	10	6	12
Petrochemicals – oils (3)	2	0	3	0
Trade	(6)	2	(6)	2
Adjustments	0	(3)	0	(3)
Total consolidated (with adjustments)	57	3	80	23
Total consolidated (without adjustments)	50	0	73	20

Accounting operating profit (without adjustments) in the **refining segment** amounted to \$23 million in the second quarter of 2010, compared to a loss of \$8 million in the corresponding period last year.

Oil Refineries Ltd.

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

	4-6.2010	4-6.2009
Benchmark margin (dollar/barrel)	3.5	1.4
Adjusted margin (dollar/barrel)	4.6	2.5
Adjusted margin (dollar/ton)	33.8	17.4
Net of the effect – buying and selling timing differences	(4.8)	17.8
Provision for impairment of inventory at the reporting date	(3.3)	-
Accounting method for derivatives according to IFRS	5.2	(18.9)
Accounting margin (dollar/ton)	30.9	16.3

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

	4-6.2010 compared to 4-6.2009
Increase in margin less refining operations	34
Increase in sales turnover	16
Decrease in income from sale of services	(5)
Increase in production expenses	(1)
Changes in adjustments – as described above	(3)
Increase in selling, administrative and general expenses	(9)
	<u>31</u>

The operating loss in the **trade segment** amounted to \$6 million in the second quarter of 2010, compared to operating profit of \$2 million in the corresponding period last year.

Operating profit in **polymers operations** amounted to \$26 million (100% of the holdings) in the second quarter of 2010, compared to a loss of \$1 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):

	4-6.2010 compared to 4-6.2009
Increase in margin from the basket of products	33
Decrease in scope of sales	(2)
Increase in production expenses	(1)
Increase in selling, administrative and general expenses	(2)
	<u>(1)</u>
Total effect of the increase in holdings in Carmel Olefins	<u>27</u>

The operating profit in **aromatics operations** amounted to \$5 million in the second quarter of 2010, compared to \$10 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):

	4-6.2010 compared to 4-6.2009
Increase in sales volume	5
Decrease in products index margin	(3)
Increase in production expenses, mainly energy	(3)
Increase in selling, administrative and general expenses	(4)
	(5)

The operating profit of **oils operations** amounted to \$2 million in the second 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):

	4-6.2010 compared to 4-6.2009
Increase in products index margin	5
Increase in production and other expenses	(2)
Effect of the increase in the holdings	(1)
	2

3.2.3 Finance income/expenses

Net consolidated financing income amounted to \$3 million in the second quarter of 2010, compared to expenses of \$6 million in the corresponding period last year.

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

	4-6.2010 compared to 4-6.2009
Increase in interest on loan and debentures	(1)
Increase in short-term interest following an increase in the scope of credit	(3)
Change in value of securities and loan provided	4
Revaluations, net	18
Fair value of hedging	(9)
	9

3.2.4 Income tax

In the second quarter of 2010, tax expenses in the Group amounted to \$14 million, due to profit in the period and an increase in tax reserves.

4. Liquidity

Total current assets less current liabilities at June 30, 2010 amounted to \$179 million compared to \$372 million at December 31, 2009. The current ratio at June 30, 2010 is 1.11 compared to 1.29 at December 31, 2009.

Consolidated cash flows used for operating activities in the reporting period amounted to \$67 million, mainly due to an increase in current assets and liabilities and adjustments of non-cash activities. In the second quarter of 2010, cash flow from operating activities amounted to \$117 million, mainly due to profit in the period and a decrease in current assets and liabilities.

Cash flows used for investment activity in the reporting period amounted to \$41 million, used mainly to finance investments in property, plant and equipment.

Net cash flows from finance activity amounted to \$90 million in the reporting period, mainly from short-term credit received in the amount of \$265 million and deposits and payments in advance from trade receivables of \$26 million, offset by repayment of debentures and long-term loans of \$76 million and payment of interest of \$32 million and by payment of a dividend of \$75 million and \$17 million for acquisition of non-controlling interests.

The total cash flows used for operating activities plus cash used for financing and investment operations less cash flows from finance activities led to a decrease of \$17 million in cash balances in the reporting period.

5. Sources of financing

Composition of Group financing sources:

	Six months ended June 30, 2010	Year ended December 31, 2009
	Unaudited	Audited
	USD millions	
Sources		
Decrease in cash in the period	17	-
Decrease in deposits and marketable securities	25	-
Repayment of the loan from Haifa Early Pensions	13	-
Cash from operating activities (prior to changes in working capital)	43	268
Receipt of short-term credit and deposits from customers	291	353
Investment in associates	-	7
Dividend received	-	5
	389	633
Uses		
Increase in cash	-	20
Increase in working capital	109	220
Payment of dividend	75	-
Investments in property, plant and equipment and other assets	81	181
Investment in associates	20	-
Increase in deposits and marketable securities	-	40
Increase in raising capital and net interest paid	28	46
Repayment of long term loans and debentures	76	126
	389	633

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Long-term loans and debentures

The long term loans and debentures at June 30, 2010 (after deduction of current maturities) amounted to \$1.11 billion, representing 28% 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. Financial leverage at June 30, 2010 (long term loans and debentures, to shareholders' equity plus long term loans and debentures) is 51% at June 30, 2010 and at December 31, 2009.

Total financial liabilities

Current financial liabilities plus long-term loans and debentures amounted to \$1.977 billion at June 30, 2010, representing 50% 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 65% compared to 61% at December 31, 2009.

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

	<u>ORL</u>	<u>Subsidiaries</u>	<u>Total</u>
Short-term loan	627	88	715
Loans from banks (*)	186	232	418
Debentures (*)	604	247	851
Liquid financial assets	(146)	(35)	(181)
Total net financial debt	1,271	532	1,803

(*) Including current maturities

Average volume of sources of finance in the reporting period

Long term loans and debentures (including current maturities) – \$1.303 billion; short term credit – \$593 million; trade payables – \$547 million; trade receivables – \$416 million

6. Pro forma statement

- 6.1** On December 31, 2009, the Company completed the acquisition of a further 50% in Carmel Olefins, such that subsequent to the acquisition, the Company holds 100% of the share capital of Carmel Olefins.
- 6.2** 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, in accordance with the assumption that the transaction was completed on January 1, 2007.
- 6.3** All the assumptions used to prepare the pro forma statements are set out in Note 4 to the pro forma statements.
- 6.4** 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 half of 2010 are due to the attributable amortization of excess cost in different periods.
- 6.5** There was no change in the pro forma operations turnover compared to the operating turnover of the Company.

Oil Refineries Ltd.

- 6.6** Pro forma cost of sales was \$6.7 million less than the Company's cost of sales in the first half of 2010, mainly due to amortization of inventory amounting to \$6 million, due to attribution of the excess cost in the pro forma statement of 2007, while in the Company's statements, amortization was recorded in the first quarter of 2010.
- 6.7** There was no change in the pro forma selling expenses compared to the selling expenses of the Company.
- 6.8** There was no change in the pro forma general and administrative expenses compared to the Company's general and administrative expenses.
- 6.9** Total pro forma profit in the first half of 2010 amounted to \$34 million compared to \$29 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.

7. 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.

7.1 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	Profit (loss)			
	Increase					June 30, 2010	Decrease		
	50% +	20% +	10%+	5%+	5%-		10%-	20%-	50% -
USD thousands									
Inventory (*)	310,037	124,015	62,007	31,004	620,074	(31,004)	(62,007)	(124,015)	(310,037)
Futures	(139,349)	(55,741)	(27,872)	(13,937)	19,154	13,932	27,867	55,736	139,343
Call options	(16,725)	(10,053)	(4,691)	(2,195)	(5,945)	1,822	3,247	5,008	5,943
Put options	(7,516)	(5,661)	(3,671)	(2,107)	7,788	2,804	6,488	17,308	86,723
Swap hedging (**)	(1,407)	(563)	(281)	(141)	(2,721)	141	281	563	1,407
	<u>145,040</u>	<u>51,997</u>	<u>25,492</u>	<u>12,624</u>		<u>(12,305)</u>	<u>(24,124)</u>	<u>(45,400)</u>	<u>(76,621)</u>

(*) Excluding inventory with a fixed price

(**) Assuming product index prices are unchanged

7.2 Consolidated linkage-based report

	CPI-linked shekels	Foreign- currency linked (*)	NIS Unlinked	Non- monetary	Total
<u>June 30, 2010</u>					
Total assets	740,506	1,544,754	423,940	2,122,688	4,831,888
Total liabilities	(731,258)	(2,338,366)	(546,995)	(128,880)	(3,745,499)
Net balance	<u>9,248</u>	<u>(793,612)</u>	<u>(123,055)</u>	<u>1,993,808</u>	<u>1,086,389</u>
<u>December 31, 2009</u>					
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)
Net balance	<u>(21,201)</u>	<u>(664,633)</u>	<u>(144,999)</u>	<u>1,982,760</u>	<u>1,151,927</u>

(*)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.

8. Corporate governance

8.1 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.

8.2 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.

8.3 Meetings of the board of directors

During the reporting period, there were 13 board meetings and 31 meetings of board committees.

8.4 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.

8.5 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 June 30, 2010 were discussed at the audit committee on August 15, 2010 in the presence of committee members Yachin Cohen, Dafna Schwartz, Nehama Ronen, Avisar Paz, and Arie Ovadia, and with the participation of chairman of the board of directors Yossi Rosen, vice chairman David Federman, Eran Schwartz and alternate director Uzi Netanel and were discussed and approved in full by the board of directors of the Company on August 22, 2010 in the presence of all members of the board of directors, with the exception of Dafna Schwartz.

8.6 Disclosure regarding the internal auditor in a reporting corporation

In the reporting period, there was no change in the disclosure given in this matter in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2009.

8.7 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.

9. Preparation of the Company for implementation of the standards in respect of the effectiveness of the internal control on the financial reporting and the disclosure

In December 2009, the Securities Regulations (Periodic and Immediate Statements) (Amendment No. 3), 5770-2010 ("the Regulations") were published, regarding the effectiveness of the internal audit on the financial reporting and disclosure, which are effective as from the Periodic Report as at December 31, 2010.

The Regulations aim to improve the quality of corporate financial reporting and disclosure by reporting the effectiveness of the internal audit on financial reporting and disclosure, the managers' declarations and the auditor's opinion on the effectiveness of the internal audit on the financial reporting in the company.

Below are details of the disclosure required in the Directors' Report for statements for the three months ended June 30, 2010, in accordance with the Regulations:

- The Company assessed the risks of the internal audit and recorded the business procedures and internal audits on the financial reporting and the disclosure.
- A gap analysis for planning the internal audit on the financial reporting and the disclosure has been completed
- The Company reviewed the documentation of the procedures, risk assessment and audit gaps and defined an action plan to amend the gaps according to the level of their importance.

The Company continues to take steps to meet the milestones for implementation in 2010 as required in the Regulations.

10. Disclosure of financial reporting

10.1 Additional information contained in the auditors' report to shareholders

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

- 10.1.1** The contents of Note 7(A) (subsections 1 and 2) 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.
- 10.1.2** The contents of Note 7(B) regarding the dependency of the Group on services from infrastructure companies.

10.2 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.

10.3 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.

11. Debentures of the corporation held by the public

- 11.1** 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.

11.2 Debenture rating

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

<u>Series</u>	<u>Date of issue</u>	<u>Rating proximate to date of issue</u>	<u>Rating on the date of the periodic report</u>	<u>Rating company</u>	<u>Date and reference of immediate report on the updated rating³</u>
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.

³ The immediate reports in this column are presented by way of reference.

12. 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 2% 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 \$1 million in finance expenses.

Changes in prices of crude oil and oil products: Subsequent to the reporting date, the price of oil, which was \$75/barrel at the reporting date, fell to \$74/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.

- (2) 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 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.

For further details of the significant events in the reporting period, see Note 8.

B. Disclosure of the expected cash flow for financing the repayment of Carmel Olefins liabilities

As reflected in the financial statements of Carmel Olefins as of June 30, 2010, Carmel Olefins has an operating capital deficit of 4 million.

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

	July 1 –Dec 31 2010	2011	Jan 1 – June 30 2012
(USD thousands)			
Sources			
Cash balance at beginning of period	6,600	2,500	2,500
Cash flow from operating activities (before interest)	43,207	102,611	52,318
Short-term credit received	13,380	--	--
Total sources	63,187	105,111	54,818
Uses			
Investments in property, plant and equipment, Carmel Olefins	5,368	10,000	5,000
Investments in property, plant and equipment, Domo	1,341	1,250	600
Cost of periodic treatment, Carmel Olefins	15,365	10,000	--
Cost of periodic treatment, Domo	--	--	4,800
Acquisition of the balance of Domo shares	--	30,323	16,508
Repayment of short-term credit	5,881	11,729	5,881
Liability for repayment of debentures (interest)	19,382	39,309	19,529
Liability for repayment of long-term loans (principal + interest)	13,350	--	--
Total uses	60,687	102,611	52,318
Cash balance at end of period	2,500	2,500	2,500

(1) Cash flow assumptions

- Margin forecast according to CMAI
- Euro-dollar exchange rate according to CMAI – 1.2
- Shekel-dollar exchange rate 3.8
- Carmel Olefins does not take into account index differentials due to hedging transactions on debentures
- Periodic service to be carried out at Carmel Olefins in the last quarter of 2010 and at Domo in 2012
- Carmel Olefins anticipates an increase in the LIBOR interest rates during these years

(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.

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C. For information about subsequent events, see Note 9 to the condensed consolidated interim financial statements as at June 30, 2010.

13. The board of directors wish 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.

Yossi Rosen
Chairman of the board of directors

Yashar Ben Mordechai
CEO

August 22, 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

During 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 Notes 8 and 9 to the condensed financial statements as at June 30, 2010 ("Note 8" and "Note 9", respectively) and below.

- A. Update to section 1.6.23.4: In the reporting period, the Company signed a finance 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).

Update to section 1.6.23.4.1: Subsequent to the reporting period, the Company signed a finance agreement with a finance institute in the United States for a credit line of up to \$300 million.

- B. For further details, see Note 9(C).

- 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: Subsequent to the reporting period, the agreement for acquisition of the balance of Domo shares by Carmel Olefins was revised.

For further details, see Note 9(B).



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 June 30, 2010 and the condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six and three months then ended. The board of directors and the management are responsible for preparation and presentation of the financial information for these interim periods in accordance with IAS 34 - *Interim Financial Reporting*, and are also responsible for preparation of the interim financial information for these periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 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 June 30, 2010, and the consolidated revenue of which represents approximately 16% of the total consolidated revenue for the three and six months then ended. In addition, we did not review the condensed interim financial statements of equity-accounted investees, the investment in which amounts to \$16.322 million as at June 30, 2010, and the share of the Group in their profits is \$342,000 and \$163,000 for the three and six 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 opinions, we draw attention to the following:

1. The contents of Note 7(A) (subsections 1 and 2) regarding 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, August 22, 2010

Condensed Consolidated Interim Statements of Financial Position
USD thousands

	June 30, 2010	June 30, 2009	December 31, 2009
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	19,272	16,827	34,961
Deposits	65,060	99,274	77,637
Financial derivatives	13,958	337	-
Investments in financial assets at fair value through comprehensive income	96,532	102,130	107,034
Trade receivables	471,971	306,644	360,876
Other receivables and debt balances	68,863	65,959	62,495
Inventory	1,004,515	785,256	1,016,453
Current tax assets	8,006	43,845	3,957
Total current assets	1,748,177	1,420,272	1,663,413
Non-current assets			
Investments in equity-accounted investees	16,322	34,971	13,673
Investments in available-for-sale financial assets	9,130	9,238	10,909
Loan to Haifa Early Pensions Ltd.	70,133	69,769	76,053
Long term loans and debit balances	3,479	2,625	3,951
Financial derivatives	139,080	74,038	120,671
Employee benefit plan assets	9,682	5,378	9,993
Property, plant and equipment	1,900,585	1,137,838 (*)	1,891,659 (*)
Deferred expenses	8,434	315 (*)	1,366 (*)
Intangible assets	86,782	20,663	93,187
Total non-current assets	2,243,627	1,354,835	2,221,462
Total assets	3,991,804	2,775,107	3,884,875

(*) Reclassified – see Note 3(A)

Yossi Rosen
Chairman of the Board

Yashar Ben Mordechai
CEO

Igal Salhov
CFO

Date of approval: Haifa, August 22, 2010

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

Condensed Consolidated Interim Statements of Financial Position
USD thousands

	June 30, 2010	June 30, 2009	December 31, 2009
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings	866,475	678,484	603,685
Trade payables	553,725	302,229	542,025
Other payables and credit balances	122,267	67,169	105,903
Financial derivatives	249	35,174	28,051
Provisions	13,427	13,192	11,582
Other liabilities (**)	13,350	-	-
Total current liabilities	<u>1,569,493</u>	<u>1,096,248</u>	<u>1,291,246</u>
Non-current liabilities			
Debentures	820,791	698,583	853,205
Bank loans	290,039	187,847	358,310
Liabilities for finance lease	8,591	8,285	8,768
Other long-term liabilities (**)	-	7,678	15,973
Financial derivatives	13,277	656	3,111
Employee benefits	61,822	50,388	63,871
Deferred tax liabilities	141,402	87,872	138,464
Total non-current liabilities	<u>1,335,922</u>	<u>1,041,309</u>	<u>1,441,702</u>
Total liabilities	<u>2,905,415</u>	<u>2,137,557</u>	<u>2,732,948</u>
Capital			
Non-controlling interests (*)	-	-	17,183
Share capital	586,390	472,478	586,390
Share premium	100,242	-	100,242
Reserves	33,636	33,345	35,571
Retained earnings	366,121	131,727	412,541
Total equity attributed to shareholders of the Company	<u>1,086,389</u>	<u>637,550</u>	<u>1,134,744</u>
Total capital	<u>1,086,389</u>	<u>637,550</u>	<u>1,151,927</u>
Total liabilities and capital	<u>3,991,804</u>	<u>2,775,107</u>	<u>3,884,875</u>

(*) See Note 8(C).

(**) See Note 9 (B)

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

Condensed Consolidated Interim Statement of Comprehensive Income
USD thousands

	Six months ended		Three months ended		Year ended
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	December 31, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Revenue	3,582,810	2,192,401	1,878,039	1,208,043	5,141,480
Cost of sales, refinery and services	3,491,686	2,013,733 (*)	1,828,033	1,139,078 (*)	4,842,805 (*)
Revaluation of open positions in derivatives on prices of goods and margins, net	(38,032)	47,863	(42,676)	46,618	38,606
Total cost of sales	3,453,654	2,061,596	1,785,357	1,185,696	4,881,411
Gross profit	129,156	130,805	92,682	22,347	260,069
Selling expenses	(55,874)	(34,450) (*)	(29,785)	(14,130) (*)	(74,067) (*)
General and administrative expenses	(34,417)	(16,202) (*)	(19,827)	(8,306) (*)	(36,175) (*)
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)	(7,091)
Operating profit (loss)	38,865	73,062	43,070	(7,180)	357,297
Finance income	59,277	44,271	29,694	(14,501)	61,223
Finance expenses	(67,716)	(35,798)	(26,026)	8,609	(86,866)
Finance income (expenses), net	(8,439)	8,473	3,668	(5,892)	(25,643)
Company's share in profits (losses) of equity-accounted investees (net of tax)	342	3,838	163	(753)	4,892
Profit (loss) before taxes on income	30,768	85,373	46,901	(13,825)	336,546
Tax benefits (taxes on income)	(2,084)	(18,763)	(14,630)	5,844	12,698
Profit (loss) for the period	28,684	66,610	32,271	(7,981)	349,244
Items of other comprehensive income (loss)					
Actuarial gains (losses) from a defined benefit plan, net	(104)	6,679	(232)	6,512	4,859
Foreign exchange translation differences	(818)	(27)	(494)	227	77
Group's share of other comprehensive income of an equity-accounted investee	-	10,433	-	15,232	10,433
Change in fair value of available-for-sale financial assets, net of tax	(1,459)	823	(6,892)	823	2,270
Other comprehensive income (loss), net of tax	(2,381)	17,908	(7,618)	22,794	17,639
Comprehensive income for the period:	26,303	84,518	24,653	14,813	366,883
Earnings (loss) per share (USD)					
Basic and diluted earnings (losses) per ordinary share (in USD)	0.012	0.033	0.013	(0.004)	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
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	Retained earnings	Total equity	Non-controlling interests	Total capital
	Six months ended June 30, 2010 (Unaudited)									
Balance at January 1, 2010 (audited)	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	-	-	-	-	-	-	28,684	28,684	-	28,684
<u>Other comprehensive loss:</u>										
Foreign exchange translation differences	-	-	-	(818)	-	-	-	(818)	-	(818)
Change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(1,459)	-	-	(1,459)	-	(1,459)
Actuarial losses from a defined benefit plan, net of tax	-	-	-	-	-	-	(104)	(104)	-	(104)
Total other comprehensive loss for the period, net of tax	-	-	-	(818)	(1,459)	-	(104)	(2,381)	-	(2,381)
Total comprehensive income for the period	-	-	-	(818)	(1,459)	-	28,580	26,303	-	26,303
Dividend paid	-	-	-	-	-	-	(75,000)	(75,000)	-	(75,000)
Share-based payment	-	-	342	-	-	-	-	342	-	342
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	(17,183)	(17,183)
Balance at June 30, 2010	586,390	100,242	6,166	(1,819)	811	28,478	366,121	1,086,389	-	1,086,389

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 for translation differentials	Capital reserve for available- for-sale financial assets	Capital reserve	Retained earnings	Total
Six months ended June 30, 2009							
(Unaudited)							
Balance at January 1, 2009 (audited)	472,478	3,986	(1,078)	(10,433)	28,478	58,438	551,869
Comprehensive income for the period:							
Profit for the period	-	-	-	-	-	66,610	66,610
Other comprehensive profit (loss):							
Foreign currency translation differences for foreign operations	-	-	(27)	-	-	-	(27)
Group's share of 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	-	-	-	823	-	-	823
Actuarial gains from a defined benefit plan, net of tax	-	-	-	-	-	6,679	6,679
Total other comprehensive income (loss) for the period, net of tax	-	-	(27)	11,256	-	6,679	17,908
Total comprehensive income for the period	-	-	(27)	11,256	-	73,289	84,518
Share-based payment	-	1,163	-	-	-	-	1,163
Balance at June 30, 2009	472,478	5,149	(1,105)	823	28,478	131,727	637,550

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

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

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

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

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

	Share capital	Capital reserve for share- based payment	Capital reserve for translation differentials	Capital reserve for available- for-sale financial assets	Capital reserve	Retained earnings	Total
	Three months ended June 30, 2009 (Unaudited)						
Balance at April 1, 2010	472,478	4,650	(1,332)	(15,232)	28,478	133,196	622,238
<u>Comprehensive loss for the period:</u>							
Loss for the period	-	-	-	-	-	(7,981)	(7,981)
<u>Other comprehensive income:</u>							
Foreign exchange translation differences	-	-	227	-	-	-	227
Group's share of other comprehensive income of an equity-accounted investee	-	-	-	15,232	-	-	15,232
Change in fair value of available-for-sale financial assets, net of tax	-	-	-	823	-	-	823
Actuarial gains from a defined benefit plan, net of tax	-	-	-	-	-	6,512	6,512
Total other comprehensive income for the period, net of tax	-	-	227	16,055	-	6,512	22,794
Comprehensive income for the period:	-	-	227	16,055	-	(1,469)	14,813
Share-based payment	-	499	-	-	-	-	499
Balance at June 30, 2009	472,478	5,149	(1,105)	823	28,478	131,727	637,550

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	Retained earnings	Total equity	Non-controlling interests	Total capital
	Year ended December 31, 2009 (Audited)									
Balance at January 1, 2009	472,478	-	3,986	(1,078)	(10,433)	28,478	58,438	551,869	-	551,869
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 of 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
Total comprehensive income for the period	-	-	-	77	12,703	-	354,103	366,883	-	366,883
Share-based payment	-	-	1,838	-	-	-	-	1,838	-	1,838
Non-controlling interests	-	-	-	-	-	-	-	-	17,183	17,183
Balance at December 31, 2009	586,390	100,242	5,824	(1,001)	2,270	28,478	412,541	1,134,744	17,183	1,151,927

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

Condensed Consolidated Interim Statement of Cash Flows
USD thousands

	Six months ended		Three months ended		Year ended
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	December 31, 2009
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Profit (loss) for the period	28,684	66,610	32,271	(7,981)	349,244
Adjustments to cash flows from operating activities:					
Revenue and expenses not involving cash flows (Appendix A – section A)	14,040	97,361	(9,440)	73,781	(81,224)
Changes in assets and liabilities (Appendix A – section B)	(108,770)	(217,563)	94,740	(152,088)	(219,828)
Income tax received (paid), net	(601)	(200)	(418)	231	43,478
Net cash from (used for) operating activities	(66,647)	(53,792)	117,153	(86,057)	91,670
Cash flow used in investing activities					
Interest received	4,997	1,598	155	1,588	2,272
Decrease (increase) in deposit, net	12,577	(72,549)	28,094	(35,720)	(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)	-	(2,373)	-	-
Repayment (providing) of long-term loans from others, net	265	1,588	101	(110)	(392)
Sale of securities held for trading, net	12,250	-	12,250	-	1,500
Repayment of loan to Haifa Early Pensions Ltd.	12,627	-	-	-	-
Purchase of property, plant and equipment	(79,286)	(90,662)	(44,019)	(35,912)	(178,863)
Intangible assets and deferred expenses	(1,710)	-	(1,665)	-	(2,498)
Net cash used for investing activities	(40,586)	(155,572)	(7,457)	(70,154)	(206,886)
Cash flow from finance activities					
Short-term borrowings, net	265,368	304,947	22,961	203,557	318,588
Receipt (repayment) of deposits from customers, net	25,866	(2,885)	(160)	5,704	(8,276)
Interest paid	(31,636)	(28,100)	(21,664)	(16,493)	(56,868)
Proceeds from transactions in derivatives, net	5,825	2,671	5,825	2,671	8,361
Repayment of debentures	(13,695)	(12,286)	(6,750)	(6,490)	(27,439)
Bank loans received	-	-	-	-	7,500
Costs of raising capital	(7,073)	-	(7,073)	-	-
Repayment of bank loans	(62,200)	(53,449)	(30,796)	(28,799)	(106,662)
Dividend paid	(75,000)	-	(75,000)	-	-
Acquisition of non-controlling interests	(17,183)	-	-	-	-
Net cash from (used for) financing activities	90,272	210,898	(112,657)	160,150	135,204
Net increase (decrease) in cash and cash equivalents	(16,961)	1,534	(2,961)	3,939	19,988
Effect of exchange rate fluctuations on cash and cash equivalents	1,272	453	416	281	133
Cash and cash equivalents at the beginning of the year	34,961	14,840	21,817	12,607	14,840
Cash and cash equivalents at the end of the period	19,272	16,827	19,272	16,827	34,961

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

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

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

	Six months ended		Three months ended		Year ended
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	December 31, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
A. Income and expenses not included in cash flows					
Depreciation and amortization	68,768	37,599	29,792	19,757	79,054
Negative goodwill arising on acquisition	-	-	-	-	(137,000)
Finance expenses (income), net	(16,303)	(6,746)	(13,315)	17,940	36,509
Net changes in fair value of derivatives	(38,037)	50,006	(43,723)	47,316	42,103
Changes in fair value of the loan to Haifa Early Pensions Ltd.	(724)	(4,871)	1,506	(7,762)	(8,467)
Share in the profits of equity-accounted investees	(342)	(3,838)	(163)	753	(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	7,091
Earnings (losses) from deposits and securities held for trading	(1,748)	(1,806)	1,662	(5,969)	(7,201)
Share-based payments	342	1,163	171	499	1,838
Income tax expenses (revenue)	2,084	18,763	14,630	(5,844)	(12,698)
	14,040	97,361	(9,440)	73,781	(81,224)
B. Changes in assets and liabilities					
Decrease (increase) in inventory, net	1,554	(215,838)	197,085	(67,539)	(379,795)
Decrease (increase) in trade receivables, other receivables and debt balances, net	(127,483)	(24,856)	271	(56,876)	(32,197)
Increase (decrease) in trade payables, other payables, credit balances and provisions, net	18,425	33,286	(101,043)	(26,884)	200,973
Decrease in employee benefits, net	(1,266)	(10,155)	(1,573)	(789)	(8,809)
	(108,770)	(217,563)	94,740	(152,088)	(219,828)

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

Oil Refineries Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2010

USD thousands

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 PO Box 4, Haifa 31000, Israel. 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 and materials for the plastics industry. 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 June 30, 2010 include the statements of the Company and its subsidiaries (hereinafter together: “the Group”) and the Group’s interests in associates. The Company’s shares are traded on the Tel Aviv Stock Exchange (“TASE”).

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 Group’s board of directors on August 22, 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.

Oil Refineries Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2010

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 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 regarding 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 Ltd. (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). At June 30, 2010, 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 six and three months ended June 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 six and three months ended June 30, 2010.

	Six months ended June 30, 2009		
	As previously reported	Effect of reclassification	As reported in these financial statements
Cost of sales, refinery and services	(2,019,861)	6,128	(2,013,733)
Selling expenses	(17,850)	(16,600)	(34,450)
General and administrative expenses	(26,674)	10,472	(16,202)
	Three months ended June 30, 2009		
	As previously reported	Effect of reclassification	As reported in these financial statements
Cost of sales, refinery and services	(1,138,884)	(194)	(1,139,078)
Selling expenses	(9,077)	(5,053)	(14,130)
General and administrative expenses	(13,553)	5,247	(8,306)
	Year ended December 31, 2009		
	As previously reported	Effect of reclassification	As reported in these financial statements
Cost of sales, refinery and services	(4,850,744)	7,939	(4,842,805)
Selling expenses	(44,509)	(29,558)	(74,067)
General and administrative expenses	(57,794)	21,619	(36,175)

Oil Refineries Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2010

USD thousands

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 and B 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.
3. Effect of retrospective application on the relevant items:

	June 30, 2009		
	As previously reported	Effect of reclassification	As reported in these financial statements
Property, plant and equipment	1,135,845	1,993	1,137,838
Deferred expenses, net	2,308	(1,993)	315
	December 31, 2009		
	As previously reported	Effect of reclassification	As reported in these financial statements
Property, plant and equipment	1,889,763	1,896	1,891,659
Deferred expenses, net	3,262	(1,896)	1,366

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

- B.** In the framework of the Improvements to IFRSs project of 2010 (“Improvements to IFRSs”), on May 11, 2010, the IASB issued and approved 11 amendments to IFRSs 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.
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 financial statements.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

C. New standards and interpretations not yet adopted

1. IFRS 9 – *Financial Instruments* (“the Standard”) This 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 classifying and measuring financial assets. 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. The Standard does not address financial liabilities.

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 IFRSs, 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 figures.

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

2. Further to Note 3(B) regarding the *Improvements to IFRSs* project of 2010, presented hereunder are further amendments that may be relevant to the Group and are expected to 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. Early adoption is permitted, with disclosure.

Oil Refineries Ltd.

Notes to the Condensed Consolidated Interim Financial Statements
June 30, 2010
USD thousands

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

C. New standards and interpretations not yet adopted (contd.)

2. (contd.)

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.

D. Exchange rates and linkage

US dollar and euro exchange rates and the CPI:

	Representative exchange rate of \$1	Dollar-euro exchange rate	CPI in points (*)
June 30, 2010	3.875	1.228	115.53
June 30, 2009	3.919	1.412	112.80
December 31, 2009	3.775	1.442	114.77

Rate of change in the period ended:

	Percent	Percent	Percent
June 30, 2010 (six months)	2.65	(14.83)	0.67
June 30, 2010 (three months)	4.36	(8.65)	1.54
June 30, 2009 (six months)	3.08	1.36	2.14
June 30, 2009 (three months)	(6.42)	6.09	2.28
December 31, 2009 (12 months)	(0.71)	3.46	3.92

(*) CPI according to average base 100 = 2002

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.

Oil Refineries Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2010

USD thousands

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 those 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, waxes and byproducts

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 six and three months ended June 30, 2009, the equity losses recorded in the Company's consolidated statements as a result of distribution of the losses of Haifa Basic Oils amounted to \$1,431 million, \$1.068 million and \$315,000 respectively.
- 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 six and three months ended June 30, 2009 and in 2009, the polymers segment includes 50% of the operations of Carmel Olefins.

Oil Refineries Ltd.

**Notes to the Condensed Consolidated Interim Financial Statements
June 30, 2010
USD thousands**

NOTE 5 – SEGMENT REPORTING (CONTD.)

	Petrochemicals										Adjustments to consolidated		Consolidated	
	Refining		Trade		Polymers		Aromatics		Oils					
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	Six months ended June 30, (unaudited)													
Revenue from external sources	2,645,133	1,639,583 (*)	95,799	229,722 (*)	534,995	176,063	267,793	147,033	39,090	-	-	-	3,582,810	2,192,401
Revenue from inter-segment sales	487,435	189,543 (*)	-	18,218 (*)	-	-	22,279	18,552	-	-	(509,714)	(226,313)	-	-
Segment revenue	<u>3,132,568</u>	<u>1,829,126</u>	<u>95,799</u>	<u>247,940</u>	<u>534,995</u>	<u>176,063</u>	<u>290,072</u>	<u>165,585</u>	<u>39,090</u>	<u>-</u>	<u>(509,714)</u>	<u>(226,313)</u>	<u>3,582,810</u>	<u>2,192,401</u>
Depreciation and amortization	19,271	20,341	-	-	24,145	13,538	2,879	3,720	598	-	21,874	-	68,767	37,599
Operating profit (loss) for segments	<u>23,462</u>	<u>63,752</u>	<u>(8,325)</u>	<u>2,679</u>	<u>30,205</u>	<u>558</u>	<u>13,307</u>	<u>15,836</u>	<u>4,804</u>	<u>-</u>	<u>(2,714)</u>	<u>(2,672)</u>	<u>60,739</u>	<u>80,153</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													(21,874)	-
Operating profit													38,865	73,062
Finance income													59,277	44,271
Finance expenses													(67,716)	(35,798)
Finance income, net													(8,439)	8,473
Share in profits of equity-accounted investees, net of tax													342	3,838
Profit before income tax													<u>30,768</u>	<u>85,373</u>

(*) Reclassified

Oil Refineries Ltd.

**Notes to the Condensed Consolidated Interim Financial Statements
June 30, 2010
USD thousands**

NOTE 5 – SEGMENT REPORTING (CONTD.)

	Petrochemicals										Adjustments to consolidated		Consolidated	
	Refining		Trade		Polymers		Aromatics		Oils					
	Three months ended June 30, (unaudited)													
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Revenue from external sources	1,412,437	855,745 (*)	28,446	171,231 (*)	273,966	91,749	141,112	89,318	22,078	-	-	-	1,878,039	1,208,043
Revenue from inter-segment sales	241,685	103,359 (*)	-	18,218 (*)	-	-	10,989	9,950	-	-	(252,674)	(131,527)	-	-
Segment revenue	1,654,122	959,104	28,446	189,449	273,966	91,749	152,101	99,268	22,078	-	(252,674)	(131,527)	1,878,039	1,208,043
Depreciation and amortization	9,453	10,437	-	-	11,647	6,928	1,434	2,392	300	-	6,957	-	29,791	19,757
Operating profit (loss) for segments	22,803	(8,326)	(5,581)	2,316	25,549	(1,388)	4,882	9,981	2,429	-	(55)	(2,672)	50,027	(89)
Loss from the loss of material impact in a former equity-accounted investee													-	(7,091)
Amortization of excess cost arising from acquisition of investees													(6,957)	-
Operating profit (loss)													43,070	(7,180)
Finance income													29,694	(14,501)
Finance expenses													(26,026)	8,609
Finance income (expenses), net													3,668	(5,892)
Share in profits (losses) of equity-accounted investees, net of tax													163	(753)
Profit (loss) before taxes on income													46,901	(13,825)

(*) Reclassified

Oil Refineries Ltd.

**Notes to the Condensed Consolidated Interim Financial Statements
June 30, 2010
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>		
<u>Year ended December 31, 2009</u>						
<u>(Audited)</u>						
Revenue from external sources	3,859,283	505,992	414,214	361,991	-	5,141,480
Revenue from inter-segment sales	468,113	39,828	-	39,721	(547,662)	-
Segment revenue	4,327,396	545,820	414,214	401,712	(547,662)	5,141,480
Depreciation and amortization	44,764	-	27,422	6,868	-	79,054
Operating profit (loss) for segments	123,765	(7,096)	8,161	26,573	(1,576)	149,827
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						(7,091)
Operating profit						357,297
Finance income						61,223
Finance expenses						(86,866)
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

Oil Refineries Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2010

USD thousands

PROPERTY, PLANT AND EQUIPMENT

At the reporting date, the balance of agreements for approved establishment works amounts to \$2063 million. For additional details of the establishment works, see Note 12(D) and (G) to the financial statements as at December 31, 2009

At June 30, 2010, property, plant and equipment include advance payments of \$38 million by the Group on account of the purchase of property, plant and equipment.

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 June 30, 2010, if any, therefore no provision regarding this matter was included in the financial statements.
2. Subsequent to the reporting period, the Ministry of Environmental Protection presented a project plan to drain the Kishon River and treat soil removed from the riverbed ("the project"). The Ministry of Environmental Protection estimates the cost of the project at NIS 200 million. According to the Ministry, the cost of the project should be shared by various parties, including the government, the plants that pump brine into the Kishon River ("the plants"), authorities and other parties. The plants, including the Company and its subsidiaries, have expressed their willingness to participate in the project voluntarily and without admitting to any liability, together with the other parties. At the publication date of the report, it has not been determined how to distribute the cost of the project among the participating parties or how to distribute the cost covered by the plants. Therefore, at the publication date of the report, the Company is unable to estimate the amounts to be covered by the Company and its subsidiaries in respect of the project, insofar as it is carried out.
3. Further to Note 21(B)(3)(c) to the financial statements as at December 31, 2009, subsequent to 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 guarantee placed at the tax authority for this claim.
4. Further to Note 21 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.

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

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.

C. Guarantees

The Company established a wholly owned and controlled special purpose subsidiary to charter one of the ships that supplies it with services. The subsidiary commenced operations subsequent to the reporting date. As part of the series of agreements signed by the subsidiary to charter and operate the ship, subsequent to the reporting date, the Company provided an unlimited guarantee to secure the liabilities of the subsidiary (liabilities undertaken directly by the subsidiary as well as liabilities undertaken through a company that is helping the subsidiary to fulfill of all the requirements for chartering and operating the ship).

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 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.

Oil Refineries Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2010

USD thousands

NOTE 8 – MATERIAL EVENTS IN THE REPORTING PERIOD (CONTD.0)

- 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.** Pursuant to the Government decision, works are underway to connect the natural gas pipeline to Haifa Bay.
- H.** In the reporting period, the Company, Israel Chemicals Ltd. and OPC Rotem Ltd. (a private subsidiary of Israel Corporation Ltd.) commenced negotiations with a number of entities to purchase natural gas.

The parties have yet to reach an agreement on several issues, including material issues.

- 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 information in the financial statements as at December 31, 2009, regarding an offer to the public of debentures and warrants, 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 a 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 clean diesel production plant is operational. Under the terms of the loan, the Company is required to meet financial covenants in the period of the loan. The loan is not guaranteed with securities.

The finance agreement is conditional upon the fulfillment of a number of preconditions by December 31, 2010, including finalization of the financing transaction of \$300 million backed by the Export-Import Bank of the United States. As all of the preconditions have yet to be fulfilled, at this stage it is uncertain if and when the Company will receive the loan.

- L.** In the reporting period, the subsidiary Gadiv received a loan of up to \$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.

NOTE 9 – MATERIAL EVENTS SUBSEQUENT TO THE REPORTING DATE

- A. Subsequent to the reporting date, 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 will pay \$2.1 million up to and including December 31, 2010. Haifa Basic Oils recorded a provision in its financial statements for property tax under the agreement that was signed.
- B. 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 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. 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. Following the aforesaid, the liability of \$13.4 million to acquire the balance of the shares was reclassified from long term to short term.

- C. Subsequent to 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 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 guarantees. 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 typical provisions for immediate repayment and preconditions for withdrawal of the first loan, including the finance agreement with the local syndicate. The loan will provide, together with the finance agreement with the local syndicate, the Company's credit requirements up to the end of 2012, including the financing required for investments according to the Company's strategic plan, such as establishment of the clean diesel production plant and repayment of long-term loans. The agreement is one of the preconditions for the finance agreement with the local syndicate. The Company is taking steps to complete a number of additional conditions set out in the finance agreement with the local syndicate, and as such, to finalize it.

Oil Refineries Ltd.

Condensed Separate Interim Financial Information

June 30, 2010

(Unaudited)

Oil Refineries Ltd.

Condensed Separate Interim Financial Information

June 30, 2010

(Unaudited)

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To the Shareholders of Oil Refineries Limited.

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 June 30, 2010 and for the three months 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 audit the separate interim financial statements of equity-accounted investees, the investment in which amounts to \$386,061,000 as at June 30, 2010, and profits of these investees amounted to \$29,848,000 and \$26,178,000, respectively for the three 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 3 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 legal counsel of the Company and its subsidiaries, the Company estimates that, at this stage, it is not possible to assess the impact of the aforementioned on the separate interim financial statements, if any exists, and therefore, no provision was included in the financial statements and regarding the Company's dependence on services from infrastructure companies.

Somekh Chaikin
Certified Public Accountants

Haifa, August 22, 2010

Oil Refineries Ltd.

Condensed Interim Statements of Financial Position
USD thousands

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>December 31, 2009</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
Current assets			
Cash and cash equivalents	3,020	1,973	641
Deposits	46,203	99,274	57,933
Financial derivatives	13,958	337	-
Investments in financial assets at fair value through comprehensive income	96,532	101,588	107,034
Trade receivables	368,214	242,382	393,158
Other receivables and debt balances	133,943	55,298	51,714
Inventory	865,396	721,114	868,004
Current tax assets	8,601	42,929	4,408
Total current assets	<u>1,535,867</u>	<u>1,264,895</u>	<u>1,482,892</u>
Non-current assets			
Balances for investees	804,830	374,052	843,007
Investments in available-for-sale financial assets	9,130	9,238	10,909
Loan to Haifa Early Pensions Ltd.	70,133	69,769	76,053
Long term loans and debit balances	1,334	1,405	1,633
Financial derivatives	87,381	58,533	78,228
Employee benefit plan assets	3,357	2,939	3,335
Property, plant and equipment	752,196	655,898	717,828
Deferred expenses	8,338	307	1,351
Intangible assets	4,473	3,073	3,181
Total non-current assets	<u>1,741,172</u>	<u>1,175,214</u>	<u>1,735,525</u>
Total assets	<u>3,277,039</u>	<u>2,440,109</u>	<u>3,218,417</u>

Yossi Rosen
Chairman of the Board

Yashar Ben Mordechai
CEO

Igal Salhov
CFO

Date of approval: August 22, 2010

Oil Refineries Ltd.

Condensed Interim Statements of Financial Position
USD thousands

	June 30, 2010	June 30, 2009	December 31, 2009
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings	814,190	562,796	651,751
Trade payables	511,444	274,469	488,263
Other payables and credit balances	85,365	56,175	77,950
Financial derivatives	-	35,174	26,443
Provisions	10,034	8,594	7,946
Total current liabilities	1,421,033	937,208	1,252,353
Non-current liabilities			
Debentures	574,542	580,444	601,402
Bank loans	94,640	185,922	140,288
Liabilities for finance lease	8,591	8,285	8,768
Financial derivatives	13,277	656	3,111
Employee benefits	40,208	37,990	41,623
Deferred tax liabilities	38,359	52,054	36,128
Total non-current liabilities	769,617	865,351	831,320
Total liabilities	2,190,650	1,802,559	2,083,673
Equity			
Share capital	586,390	472,478	586,390
Share premium	100,242	-	100,242
Reserves	33,636	33,345	35,571
Retained earnings	366,121	131,727	412,541
Total equity attributed to shareholders of the Company	1,086,389	637,550	1,134,744
Total liabilities and capital	3,277,039	2,440,109	3,218,417

Oil Refineries Ltd.

Condensed Interim Statement of Comprehensive Income
USD thousands

	For the six months ended on		For the three months ended on		For the year ended on
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	December 31, 2009
	(Unaudited)		(Unaudited)		(Audited)
Revenue	3,228,367	2,077,066	1,682,568	1,148,553	4,873,216
Cost of sales, refinery and services	3,214,638	1,932,633(*)	1,686,936	1,096,243(*)	4,657,547(*)
Revaluation of open positions in derivatives on prices of goods and margins, net	(38,032)	47,863	(42,676)	46,618	38,606
Total cost of sales	3,176,606	1,980,496	1,644,260	1,142,861	4,696,153
Gross profit	51,761	96,570	38,308	5,692	177,063
Selling expenses	(18,807)	(18,062) (*)	(10,700)	(5,678) (*)	(33,735) (*)
General and administrative expenses	(17,817)	(12,077) (*)	(10,386)	(6,024) (*)	(26,659) (*)
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)	(7,091)
Operating profit (loss)	15,137	59,340	17,222	(13,101)	187,139
Finance income	31,983	41,328	12,104	(9,499)	58,984
Finance expenses	(39,416)	(28,074)	(11,212)	7,711	(73,799)
Finance income (expenses), net	(7,433)	13,254	892	(1,788)	(14,815)
Profit (loss) for investees, net of tax	18,236	13,710	21,572	4,764	179,176
Profit (loss) before taxes on income	25,940	86,304	39,686	(10,125)	351,500
Tax benefits (taxes on income)	2,744	(19,694)	(7,415)	2,144	(2,256)
Profit (loss) for the period attributable to the owners of the Company	28,684	66,610	32,271	(7,981)	349,244
Components of other comprehensive income (loss)					
Actuarial gains (losses) from a defined benefit plan, net	(104)	6,679	(232)	6,512	4,859
Foreign currency translation differences for foreign operations	(818)	(27)	(494)	227	77
Group's share in comprehensive income of an equity-accounted investee	-	10,433	-	15,232	10,433
Change in fair value of available-for-sale financial assets, net of tax	(1,459)	823	(6,892)	823	2,270
Other comprehensive income (loss) for the period, net of tax	(2,381)	17,908	(7,618)	22,794	17,639
Profit (loss) for the period attributable to the owners of the Company	26,303	84,518	24,653	14,813	366,883
Earnings (loss) per share (USD)					
Basic and diluted earnings (losses) per ordinary share (in USD)	0.012	0.033	0.013	(0.004)	0.175

(*) Reclassified – see Note 2 below for further information.

Oil Refineries Ltd.

Condensed Interim Statements of Changes in Equity
USD thousands

	<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserve for share-based payment</u>	<u>Capital reserve for translation differentials</u>	<u>Capital reserve for available-for-sale financial assets</u>	<u>Capital reserve</u>	<u>Retained earnings</u>	<u>Total</u>
For the six-month period ended June 30, 2010								
(Unaudited)								
Balance at January 1, 2010 (audited)	586,390	100,242	5,824	(1,001)	2,270	28,478	412,541	1,134,744
<u>Comprehensive income for the period:</u>								
Profit for the period	-	-	-	-	-	-	28,684	28,684
<u>Other comprehensive loss:</u>								
Foreign currency translation differences for foreign operations	-	-	-	(818)	-	-	-	(818)
Change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(1,459)	-	-	(1,459)
Actuarial losses from a defined benefit plan, net of tax	-	-	-	-	-	-	(104)	(104)
Total other comprehensive income (loss) for the period, net of tax	-	-	-	(818)	(1,459)	-	(104)	(2,381)
Total comprehensive income for the period	-	-	-	(818)	(1,459)	-	28,580	26,303
Dividend paid	-	-	-	-	-	-	(75,000)	(75,000)
Share-based payment	-	-	342	-	-	-	-	342
Balance on June 30, 2010	586,390	100,242	6,166	(1,819)	811	28,478	366,121	1,086,389

Oil Refineries Ltd.

Condensed Interim Statements of Changes in Shareholders Equity (Contd.)
USD thousands

	<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserve for share-based payment</u>	<u>Capital reserve for translation differentials</u>	<u>Capital reserve for available-for-sale financial assets</u>	<u>Capital reserve</u>	<u>Retained earnings</u>
For the six-month period ended June 30, 2010							
(Unaudited)							
Balance at January 1, 2009 (audited)	472,478	3,986	(1,078)	(10,433)	28,478	58,438	551,869
Comprehensive income for the period:							
Profit for the period	-	-	-	-	-	66,610	66,610
Other comprehensive profit (loss):							
Foreign currency translation differences for foreign operations	-	-	(27)	-	-	-	(27)
Group's share of comprehensive profit of an equity-accounted investee	-	-	-	10,433	-	-	10,433
Change in fair value of available-for-sale financial assets, net of tax	-	-	-	823	-	-	823
Actuarial gains from a defined benefit plan, net of tax	-	-	-	-	-	6,679	6,679
Total other comprehensive income (loss) for the period, net of tax	-	-	(27)	11,256	-	6,679	17,908
Total comprehensive income for the period	-	-	(27)	11,256	-	73,289	84,518
Share-based payment	-	1,163	-	-	-	-	1,163
Balance on June 30, 2009	472,478	5,149	(1,105)	823	28,478	131,727	637,550

Oil Refineries Ltd.

Condensed Interim Statements of Changes in Shareholders Equity (Contd.)
USD thousands

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

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

Oil Refineries Ltd.

Condensed Interim Statements of Changes in Shareholders Equity (Contd.)
USD thousands

	Share capital	Capital reserve for share-based payment	Capital reserve for translation differentials	Capital reserve for available- for-sale financial assets	Capital reserve	Retained earnings	Total
For three month period ended June 30, 2009							
(Unaudited)							
Balance on April 1, 2009	472,478	4,650	(1,332)	(15,232)	28,478	133,196	622,238
<u>Comprehensive loss for the period:</u>							
Loss for the period	-	-	-	-	-	(7,981)	(7,981)
Other comprehensive income:							
Foreign currency translation differences for foreign operations	-	-	227	-	-	-	227
Group's share of other comprehensive income of an equity-accounted investee	-	-	-	15,232	-	-	15,232
Change in fair value of available-for-sale financial assets, net of tax	-	-	-	823	-	-	823
Actuarial gains from a defined benefit plan, net of tax	-	-	-	-	-	6,512	6,512
Total other comprehensive income (loss) for the period, net of tax	-	-	227	16,055	-	6,512	22,794
Total comprehensive income for the period	-	-	227	16,055	-	(1,469)	14,813
Share-based payment	-	499	-	-	-	-	499
Balance on June 30, 2009	472,478	5,149	(1,105)	823	28,478	131,727	637,550

Oil Refineries Ltd.

Oil Refineries Ltd.

Condensed Interim Statements of Changes in Shareholders Equity (Contd.)
USD thousands

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve for translation differentials	Capital reserve for available-for-sale financial assets	Capital reserve	Retained earnings	Total
Three months ended June 30, 2010								
(Unaudited)								
Balance at January 1, 2009	472,478	-	3,986	(1,078)	(10,433)	28,478	58,438	551,869
Allocation of shares	113,912	100,242	-	-	-	-	-	214,154
<u>Comprehensive income for the period:</u>								
Profit for the period	-	-	-	-	-	-	349,244	349,244
<u>Other comprehensive income:</u>								
Foreign currency translation differences for foreign operations	-	-	-	77	-	-	-	77
Group's share in other comprehensive income (loss) for investees	-	-	-	-	10,433	-	-	10,433
Change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	2,270	-	-	2,270
Actuarial gains from a defined benefit plan, net of tax	-	-	-	-	-	-	4,859	4,859
Total other comprehensive income (loss) for the period, net of tax	-	-	-	77	12,703	-	4,859	17,639
Total comprehensive income for the period	-	-	-	77	12,703	-	354,103	366,883
Share-based payment	-	-	1,838	-	-	-	-	1,838
Balance at December 31, 2009	586,390	100,242	5,824	(1,001)	2,270	28,478	412,541	1,134,744

Oil Refineries Ltd.

Condensed Interim Statement of Cash Flows
USD thousands

	For the six months ended		For the three months ended		For the year ended
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	December 31, 2009
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Profit (loss) for the period attributable to the owners of the Company	28,684	66,610	32,271	(7,981)	349,244
Adjustments to cash flows from operating activities:					
Revenue and expenses not involving cash flows (Appendix A – section A)	(39,183)	66,284	(44,048)	57,799	(151,715)
Changes in assets and liabilities (Appendix A - section B)	23,499	(196,264)	136,183	(162,145)	(260,200)
Income tax received (paid), net	(119)	(157)	(50)	(109)	41,589
Net cash stemming from (used in) current activities	12,881	(63,527)	124,356	(112,436)	(21,082)
Cash flow used in investing activities					
Interest received	4,994	1,594	153	1,587	2,268
Decline (increase) in deposit	11,730	(72,548)	27,633	(35,720)	(31,043)
Dividend received from investees	67	4,453	-	-	4,453
Acquisition of investees	(19,556)	-	(2,373)	-	(15,630)
Loan to Haifa Early Pensions Ltd.	12,627	-	-	-	-
Repayment (providing) of long-term loans from others, net	80	1,434	(43)	(147)	(589)
Disposal of securities held for trading, net	12,250	-	12,250	-	1,500
Purchase of property, plant and equipment	(63,098)	(78,847)	(34,994)	(28,221)	(153,755)
Purchase of intangible assets and deferred expenses	(1,460)	-	(1,416)	-	(1,122)
Net cash stemming from (used for) investing activities	(42,366)	(143,914)	1,210	(62,501)	(193,918)

Oil Refineries Ltd.

Condensed Interim Statement of Cash Flows (contd.)
USD thousands

	For the six months ended		For the three months ended		For the year ended
	June 30,	June 30,	June 30,	June 30,	December 31,
	2010	2009	2010	2009	2009
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from financing activities					
Short-term borrowings, net	179,824	275,371	6,715	203,381	364,270
Receipt (repayment) of deposits from customers, net	25,866	(2,885)	(160)	5,704	(8,276)
Interest paid	(24,384)	(22,233)	(19,488)	(14,748)	(46,658)
Dividend distributed	(75,000)	-	(75,000)	-	-
Proceeds from transactions in derivatives, net	5,825	2,671	5,825	2,671	8,361
Repayment of debentures	(13,695)	(12,286)	(6,750)	(6,490)	(26,097)
Receipt (repayment) of a loan from an investee	(13,999)	4,201	(4,850)	6,130	5,037
Cost of raising credit	(6,992)	-	(6,992)	-	-
Repayment of bank loans	(45,554)	(46,042)	(22,625)	(22,853)	(91,750)
Net cash stemming from (used for) financing activities	31,891	198,797	(123,325)	173,795	204,887
Net increase (decrease) in cash and cash equivalents	2,406	(8,644)	2,241	(1,142)	(10,113)
Effect of exchange rate fluctuations on cash and cash equivalents	(27)	(138)	(30)	(204)	(1)
Cash and cash equivalents at the beginning of the period	641	10,755	809	3,319	10,755
Cash and cash equivalents at the end of the period	3,020	1,973	3,020	1,973	641

Oil Refineries Ltd.

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

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

	For the six months ended		For the three months ended		For the year ended
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	December 31, 2009
	(Unaudited)		(Unaudited)		(Audited)
A. Income and expenses not included in cash flows					
Depreciation and amortization	19,272	20,341	9,454	10,437	44,764
Net financing expenses (income)	2,711	(10,795)	1,049	12,438	24,849
Net changes in fair value of derivatives	(38,037)	49,220	(43,723)	47,994	39,971
Net changes in fair value of the loan to Haifa Early Pensions Ltd.	(724)	(4,871)	1,506	(7,762)	(8,467)
Share in profits of equity-accounted investees	(18,236)	(13,710)	(21,572)	(4,764)	(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	7,091
Earnings (losses) from deposits and securities held for trading	(1,748)	(1,806)	1,662	(5,969)	(7,201)
Share-based payment transactions	323	1,120	161	478	1,759
Income tax expenses (revenue)	(2,744)	19,694	7,415	(2,144)	2,256
	(39,183)	66,284	(44,048)	57,799	(151,715)
B. Changes in assets and liabilities					
Decrease (increase) in inventory, net	2,608	(209,872)	187,569	(66,122)	(356,762)
Decrease (increase) in trade receivables, net	24,944	(53,974)	21,205	(93,389)	(204,710)
Decrease (increase) in other receivables and debt balances, net	(19,395)	29,146	33,046	17,188	31,810
Decrease (increase) in trade payables, net	33,144	49,764	(83,532)	(14,162)	251,603
Increase (decrease) in other payables, credit balances and provisions, net	(16,291)	(1,818)	(20,300)	(4,333)	26,643
Decrease in employee benefits, net	(1,511)	(9,510)	(1,805)	(1,327)	(8,784)
	23,499	(196,264)	136,183	(162,145)	(260,200)

Additional Information to the Separate Interim Financial Statements

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 June 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, the Company's investment in which is stated in the financial statements on the equity basis

NOTE 2 – BASIS FOR DRAFTING OF FINANCIAL STATEMENTS

Reclassification:

Effect of retrospective application on the relevant items:

Some of the comparative figures in the statement of comprehensive income for the six and three months ended on June 30, 2009 and 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 six and three months ended on June 30, 2010.

	For six months ended June 30, 2009		
	As previously reported	Effect of reclassification	As reported in these financial statements
Cost of sales, refinery and services	(1,939,191)	6,558	(1,932,633)
Selling expenses	(1,462)	(16,600)	(18,062)
General and administrative expenses	(22,119)	10,042	(12,077)

	For three months ended June 30, 2009		
	As previously reported	Effect of reclassification	As reported in these financial statements
Cost of sales, refinery and services	(1,096,241)	(2)	(1,096,243)
Selling expenses	(625)	(5,053)	(5,678)
General and administrative expenses	(11,079)	5,055	(6,024)

Additional Information to the Separate Interim Financial Statements

NOTE 2 – RECLASSIFICATION (CONT'D)

	For three months ended June 30, 2009		
	As previously reported	Effect of reclassification	As reported in these financial statements
Cost of sales, refinery and services	(4,666,466)	8,919	(4,657,547)
Selling expenses	(4,177)	(29,558)	(33,735)
General and administrative expenses	(47,298)	20,639	(26,659)

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

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

NOTE 4 – CONTINGENT LIABILITIES

For further information see Note 7 to the condensed interim consolidated financial statements as at June 30, 2010.

NOTE 5 – MATERIAL EVENTS IN THE REPORTING PERIOD

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

Oil Refineries Ltd.

Condensed Consolidated Interim Financial Statements,

Pro Forma

June 30, 2010

(Unaudited)

Oil Refineries Ltd.

Condensed Consolidated Interim Financial Statements

Pro Forma

June 30, 2010

(Unaudited)

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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 condensed consolidated interim statement of financial position as of June 30, 2010. The board of directors and the management are responsible for preparation and presentation of the pro forma interim financial information for this period in accordance with the guidelines set out in Note 4, and for preparation of the interim financial information for this period 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 the period based on our review.

We did not review the pro forma condensed interim financial statements of consolidated companies, the consolidated revenue of which represent approximately 16% of the total consolidated revenue for the six and three months then ended, respectively. In addition, we did not review the pro forma condensed interim financial statements of equity-accounted investees, in which the Group's share in their profits is \$342,000 and \$163,000 for the three and six 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, August 22, 2010

Oil Refineries Ltd.

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

	<u>For the six months ended</u>		<u>For the three months ended</u>		<u>For the year ended</u>
	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>December 31, 2009</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
Revenue	3,582,810	2,301,224	1,878,039	1,259,749	5,386,430
Cost of sales, refinery and services	3,484,988	2,114,714	1,827,684	1,188,600	5,058,653(*)
Revaluation of open positions in derivatives on prices of goods and margins, net	(38,032)	47,863	(42,676)	46,618	38,606
Total cost of sales	3,446,956	2,162,577	1,785,008	1,235,218	5,097,259
Gross profit	135,854	138,647	93,031	24,531	289,171
Selling expenses	(55,874)	(46,122)	(29,785)	(19,840)	(101,720)(*)
General and administrative expenses	(34,417)	(20,900)	(19,827)	(10,906)	(46,843)(*)
Profit from revaluation of a prior investment in Haifa Basic Oils due to increase in control	-	-	-	-	15,979
Operating profit (loss)	45,563	71,625	43,419	(6,215)	156,587
Finance income	59,277	46,423	29,694	(19,884)	62,732
Finance expenses	(67,716)	(43,790)	(26,026)	9,308	(100,514)
Finance income (expenses), net	(8,439)	2,633	3,668	(10,576)	(37,782)
Company's share in profits (losses) of equity-accounted investees (net of tax)	342	(961)	163	(753)	93
Profit (loss) before taxes on income	37,466	73,297	47,250	(17,544)	118,898
Tax benefits (taxes on income)	1,247	(14,163)	(9,735)	9,400	31,931
Profit (loss) for the period	38,713	59,134	37,515	(8,144)	150,829

(*) Reclassified – see Note 2 B for further information.

Yossi Rosen
Chairman of the Board

Yashar Ben Mordechai
CEO

Igal Salhov
CFO

Date of approval of the Pro Forma Consolidated Interim Financial Statements: August 22, 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 six months ended		For the three months ended		For the year ended
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2010	June 30, 2009
	(Unaudited)		(Unaudited)		(Audited)
Profit (loss) for the period	33,753	59,134	32,555	(8,144)	150,829
Other items of comprehensive income					
Actuarial gains (losses) from a defined benefit plan, net	(104)	7,001	(232)	6,666	5,201
Foreign currency translation differences for foreign operations	(818)	(54)	(494)	455	154
Change in fair value of available-for-sale financial assets, net of tax	(1,459)	2,645	(6,892)	2,215	3,928
Other comprehensive income (loss) for the period, net of tax	(2,381)	9,592	(7,618)	9,336	9,283
Other comprehensive income for the period	31,372	68,726	24,937	1,192	160,112
Earnings (loss) per share (USD)					
Basic and diluted earnings (loss) per ordinary share	0.014	0.024	0.013	(0.003)	0.062

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

Oil Refineries Ltd.

Notes to the 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 six and three months ended on June 30, 2010.

	For year ended December 31, 2009		
	As previously reported	Effect of reclassification	As reported in these financial statements
Cost of sales, refinery and services	(5,066,592)	7,939	(5,058,653)
Selling expenses	(72,162)	(29,558)	(101,720)
General and administrative expenses	(68,462)	21,619	(46,843)

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 the 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.

Notes to the Consolidated Financial Statements, Pro Forma
USD thousands

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

C. The Company estimated the attribution of the cost of the acquisition at \$260 million. (contd.)

- (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%.

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.