

Oil Refineries Ltd.



Condensed Consolidated Interim Financial Statements

March 31, 2011

(Unaudited)

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

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Directors' Report on the State of the Company's Affairs For the Period Ended March 31, 2011

The board of directors is pleased to present the Directors' Report on the State of the Company's Affairs for the period ended March 31, 2011 ("the Reporting Period"). The report is presented under the assumption that the Company's Periodic Report for 2010 ("the Periodic Report") is available to the reader.

1. Description of the Company and its Business Environment

1.1 General

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

1.2 Implementation of the strategic plan

1.2.1 According to strategic plan approved by the Company's board of directors in November 2007, the Company is establishing the project for clean fuel production (hydrocracker) at a total investment of USD 500 million. The plant is expected to be operational in the second quarter of 2012.

In 2010, the Company signed an agreement with a syndicate of financiers led by Bank Hapoalim Ltd. Under the agreement, the syndicate will provide up to USD 600 million (without collateral) for partial funding of the project for establishment of the hydrocracker, the Company's other investments and the Company's long-term debt due between 2009 and 2012. As at the reporting date, the Company has withdrawn USD 300 million on account of funding in this agreement.

Additionally, in 2010, the Company finalized and signed a financing agreement with a foreign bank and the Export-Import Bank of the United States, together with another export credit agency in Germany, for an additional USD 300 million credit and collateral for acquisition of equipment for the hydrocracker project. As at the reporting date, the Company has withdrawn USD 30 million on account of funding in this agreement.

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 Group profits in the long term, since business turnover in the areas of the Company's operations and those of its subsidiaries do not necessarily overlap. In addition, the joint management streamlines operations of the companies and reduces expenses.

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- 1.2.3** On December 12, 2010, the Company entered into an agreement with East Mediterranean Gas S.A.E. ("EMG") for the supply of natural gas to the companies' plants, for 20 years commencing from the start of supply, as prescribed in the agreement.

Subsequent to the Reporting Period, the natural gas pipeline was connected to the Group's plants and permits were obtained for the use of natural gas in the Group's plants.

The natural gas supplier with which the Company has an agreement to supply gas announced that on February 5, 2011 and April 27, 2011, the natural gas pipeline to Israel had been sabotaged, resulting in suspension of gas supply to Israel. After the first incident, gas supply to Israel resumed on March 15, 2011. Since the second incident, gas supply to Israel has not yet been resumed,

In the period since the Group plants were connected to the national natural gas pipeline, the Company has been purchasing natural gas from another supplier, so that it can start testing and running the natural gas system in its plants.

On May 20, 2011, the Company entered into an agreement with another gas supplier to purchase natural gas for 27 months. For further information, see Note 7(B) to the condensed financial statements as at March 31, 2011. According to the agreement, the volume and rate of gas consumption from the supplier will be determined by the requirements of the Company and its subsidiaries. If the acquired amount is not fully consumed in the supply period, the period will be extended to allow the Company to consume the full amount of gas acquired.

The Company's estimates regarding the financial amount of the agreement, the period of gas supply and consumption and the contractual quantity, as well as the transition rate and continuity of use are forward looking information as defined in the Securities Law, and there is no certainty that they will materialize according to the above estimates, since these are dependent on several factors, including oil prices and the rate and timing of natural gas consumption by the Company.

After conversion of the Group's plants to natural gas, natural gas will be used as combustion material, instead of fuel oil. Following the conversion to natural gas, the Company and its subsidiaries will be able to comply with requirements to reduce air emissions at their plants according to the personal orders. Moreover, the Company's management believes that conversion to natural gas will increase operational efficiency and the compliance of Group plants with future environmental requirements is dependent on the conversion.

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

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

- 1.2.4** As part of the strategic plan, which includes increasing the investment in environmental quality, safety and security and in enhancing operational reliability, up to the end of the Reporting Period, the Company invested USD 122 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.

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1.3 Business environment and Group profitability

1.3.1 Refining

At the beginning of 2011, a wave of political instability and riots erupted in Middle Eastern countries, including Libya, which is one largest oil producers in the world. These riots led to instability in global markets and crude oil prices soared to a record USD 125 per barrel in April 2011. In Egypt, the riots ended in a change in regime, alongside contentions against the agreement for natural gas supply to Israel. The earthquake and tsunami in Japan also affected global markets, with the paralysis of refining capacity (over 1 million barrels per day) and significantly impaired production capacity of petrochemical products.

In the Reporting Period, crude oil prices continued to rise and at the end of March 2011, reached the highest level since the recession at the end of 2008. At the end of the Reporting Period, Brent crude oil traded at USD 116 per barrel.

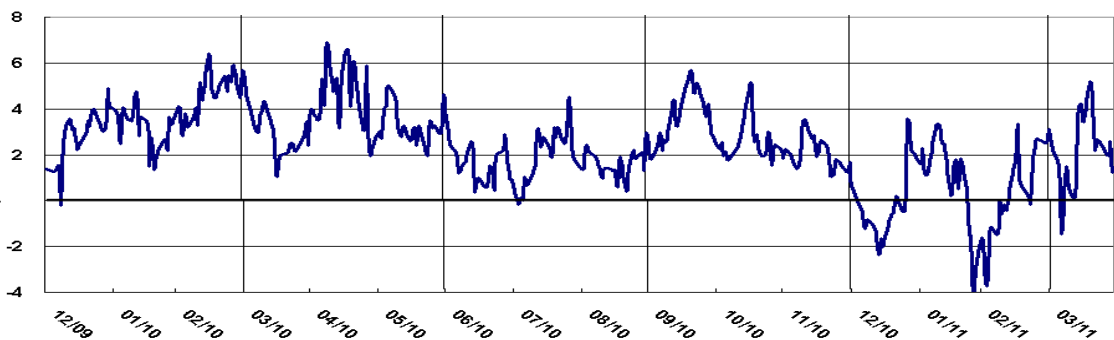
Brent crude oil prices in 2010-2011 (USD per barrel)



Source: Reuters

The disparity in crude oil prices and the changes in the prices of oil products in the Reporting Period resulted in highly volatile refining margins. The events Japan paralyzed refining capacity, affecting margins in East Asia and the west coast of the United States but not affecting margins in the Mediterranean, with high oil prices and no recovery in demand for oil products. The benchmark margin¹ was between minus USD 4 and USD 3.5 per barrel. The average margin in the Reporting Period was USD 0.5 per barrel. In the corresponding period last year, the average benchmark margin was USD 3.5 per barrel.

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



¹ 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 as at December 31, 2010.

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Refining operations decreased by 71,000 tons in the Reporting Period compared to the corresponding period last year. In the fourth quarter of 2010, the Company shut down its plants for periodic maintenance, resuming full production in the first quarter of 2011.

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

	1-3.2011	1-3.2010
Refining volume	2,062	2,133
Utilization of production plants	86%	89%

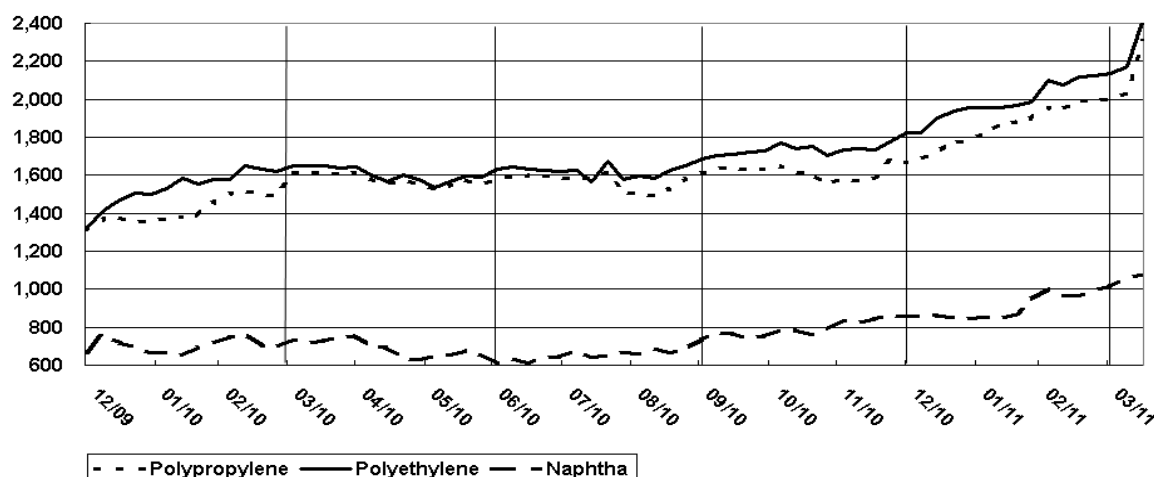
The following table presents the breakdown of the Company's output by the main product groups in the refining segment (in thousands of tons)

	1-3.2011	1-3.2010
Diesel fuel	639	662
Gasoline	366	429
Kerosene	189	205
Fuel oil	295	265
HVGO	90	117
Other	297	275
Total	1,876	1,953

Petrochemicals

Polymer margins (polyethylene and polypropylene) increased during the Reporting Period. Polymer prices rose from USD 1,800 per ton at the beginning of the period to over USD 2,100 per ton at the end of the period. The price increase is mainly due to low production availability due to low supply from the Middle East, compared with high demand in Europe and Asia, after rehabilitation and construction works started in Japan. The increase in polymer margins also contributed to relative stability in raw material prices, mainly naphtha.

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

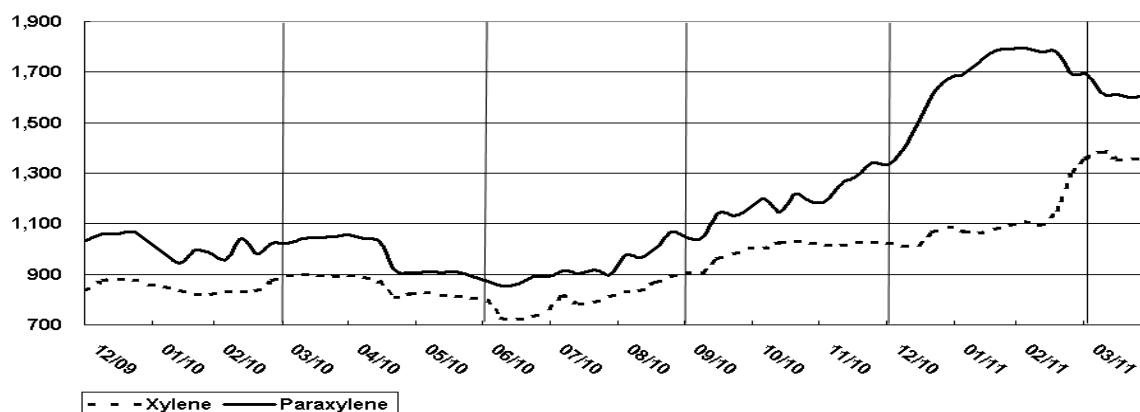


Source: CMAI

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Aromatics margins increased significantly in the Reporting Period. The considerable increase in demand for polyester, mainly in Asia following cotton shortages, resulted in demands in the entire xylene chain, therefore there was a sharp increase in prices of xylene, specifically paraxylene, alongside an increase in the margins of these products. Paraxylene prices fluctuated around USD 1,400 per ton at the beginning of the period and rose to USD 1,700 per ton towards the end of the period, mainly due to high demands and disruption of production at various sites in the world. In continuation of the trend, aromatics margins increased (paraxylene prices compared to xylene prices) to a record level of USD 700 per ton in February 2011. Subsequent to the Reporting Period, in April, these margins decreased to a level of USD 250 per ton.

Paraxylene prices compared to xylene prices in 2010-2011 (USD/ton)



Source: PLATTS

Prices of **oils** reported by ICIS² for export cargo from Europe increased during the period from USD 1,090 per ton to USD 1,180 per ton for export. Wax prices in Europe, reported by ICIS, increased during the year from USD 1,620 per ton to USD 1,660 per ton.

The period was characterized by growing customer demand, in both the oils market and the waxes market, including growing demand from Turkey and renewed demands from China. On the other hand, there was reduction in supply due to maintenance works at the plants in CIS countries, breakdowns in European oils production plants and a further decrease in supply of waxes due to the conversion of plants to production of advanced oils (without production capacity for waxes). Moreover, prices rose in response to the global increase in crude oil prices.

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

	1-3.2011	1-3.2010
Aromatics (Gadiv)	112	128
Polymers (Carmel Olefins)	182	178
Oils (Haifa Basic Oils)	14	16
Total	308	322

² Chemical Industry News and Intelligence

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Consolidated profit in the Reporting Period amounted to USD 6 million, compared to a loss of USD 4 million in the corresponding period last year. The following table summarizes the consolidated financial results for the Reporting Period and the corresponding period last year (in USD millions).

	1-3.2011	1-3.2010
Operating profit (not including other expenses)	41	11
Other expenses (1)	(7)	(15)
Financing expenses, net	(23)	(12)
Tax benefit (taxes on income)	(5)	12
Profit (loss) for the period	6	(4)

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

Operating profit and EBITDA (in USD millions)

	Operating profit		EBITDA	
	1-3.2011	1-3.2010	1-3.2011	1-3.2010
Refining – adjusted (1)	4	(1)	16	9
Petrochemicals - polymers	29	5	40	17
Petrochemicals - aromatics	4	8	6	10
Petrochemicals - oils	3	3	3	3
Trade	(7)	(3)	(7)	(3)
Adjustments	(4)	(3)	(3)	(3)
Total consolidated (with adjustments)	29	9	55	33
Total consolidated (without adjustments)	41	11	67	35

(1) For details of the adjustment, see section 3.2.2 below.

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2. Financial position

2.1 Current assets

At March 31, 2011, current assets amounted to USD 2.156 billion, representing 46% of total assets, compared to USD 1.935 billion, representing 44% of total assets at March 31, 2010. The increase of USD 221 million is mainly due to an increase of USD 193 million in trade receivables, an increase of USD 16 million in cash and an increase of USD 24 million in inventory, offset by a decrease of USD 15 million in payables due to a decrease in debts to institutions.

2.2 Non-current assets

At March 31, 2011, non-current assets amounted to USD 2.51 billion, compared to USD 2.438 billion at December 31, 2010. The difference of USD 72 million is mainly due to a net increase of USD 84 million in property, plant and equipment, mainly for the investment in the hydrocracker, offset by a decrease of USD 5 million in loans to Haifa Early Pension, which is mainly due to repayment of principal and interest.

2.3 Current liabilities

At March 31, 2011, current liabilities amounted to USD 1.808 billion, representing 50% of total liabilities, compared to USD 1.592 billion, representing 49% of total liabilities at December 31, 2010. The increase of USD 216 million is mainly due to an increase of USD 167 million in trade payables, an increase of USD 17 million in short-term credit due to an increase of USD 41 million in current maturities of debentures in an initial public offering at fair value, offset by loans, a decrease of USD 24 million in current maturities and bank credit, an increase of USD 25 million in other payables, mainly customer deposits, and an increase of USD 8 million in financial derivatives.

2.4 Non-current liabilities

At March 31, 2011, non-current liabilities amounted to USD 1.777 billion, compared to USD 1.641 billion at December 31, 2010. The increase of USD 137 million is mainly due to an increase of USD 110 million in liabilities to banks following raising of long-term loans, offset by repayments in the period and an increase of USD 33 million in debentures due to the effect of initial application of IFRS 9 (for details, see Note 3(A)(2) to the interim consolidated financial statements as at March 31, 2011) and the effect of revaluation offset by repayments in the period.

2.5 Capital

At March 31, 2011, capital amounted to USD 1.081 billion, representing 23% of the statement of financial position, compared to USD 1.141 billion, representing 26% of the statement of financial position at December 31, 2010. The decrease of USD 60 million dollars is mainly due to the effect of initial implementation of IFRS 9 on January 1, 2011 (see Note 3(A)(2) to the consolidated interim financial statements as at March 31, 2011), which resulted in a decrease of USD 47 million in capital and a decrease of USD 2 million in capital reserves for the period, and to the increase of USD 2 million in capital reserves other than from the effect of implementation of IFRS 9, offset by income of USD 6 million in the Reporting Period (which also included the effect of initial implementation of IFRS 9 amounting to USD 18 million for financing income).

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3. Results of the Group's operations

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

	Petrochemicals												Consolidated	
	Refining		Trade		Polymers		Aromatics		Oils		Adjustments to consolidated			
	Three months ended March 31													
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Revenue	1,572	1,233	53	67	302	261	107	127	23	17	--	--	2,057	1,705
Inter-company operations	298	246	--	--	--	--	10	11	--	--	(308)	(257)	--	--
Total sales	1,870	1,479	53	67	302	261	117	138	23	17	(308)	(257)	2,057	1,705
Cost of sales	1,830	1,453	59	68	107	127	(25)	5	12	3	--	--	1,983	1,656
Inter-company operations	10	11	--	--	154	114	132	117	8	11	(304)	(253)	--	--
Total cost of sales	1,840	1,464	59	68	261	241	107	122	20	14	(304)	(253)	1,983	1,656
Gross profit (loss)	30	15	(6)	(1)	41	20	10	16	3	3	(4)	(4)	74	49
Selling, general and administrative expenses	14	14	1	2	12	14	6	8	--	--	--	--	33	38
Inter-company operations	--	--	--	--	--	1	--	--	--	--	--	(1)	--	--
	14	14	1	2	12	15	6	8	--	--	--	(1)	33	38
Operating profit (loss) for segments	16	1	(7)	(3)	29	5	4	8	3	3	(4)	(3)	41	11
Amortization of excess cost arising from acquisition of investees													(7)	(15)
Operating profit (loss)													34	(4)
Financing expenses, net													(23)	(12)
Profit (loss) before taxes on income													11	(16)
Tax benefit													(5)	12
Profit (loss) for the period													6	(4)

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- 3.2.** The following table presents a description of the main reasons for the increase of USD 30 million in segment consolidated operating profit in the period (in USD million):

	1-3.2011 compared to 1-3.2010
Increase in the adjusted refining margin in the refining segment	11
Increase in margins in the petrochemicals segment	25
Changes in adjustments – see details in the table in section 3.2.2 below	10
Decrease in sales	(10)
Increase in gross profit from the trade segment	(5)
Increase in production expenses	(6)
Increase in selling and administrative expenses	5
	30

3.2.1 Revenue

Revenue in the **refining segment** amounted to USD 1.870 billion in the Reporting Period, compared to USD 1.479 billion in the corresponding period last year. The increase in revenue was mainly due to the increase in the average price of oil products. The average price per ton of the product index in the Mediterranean area, similar to the Company's product index, amounted to USD 871 in the Reporting Period, compared to USD 656 in the corresponding period last year.

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

Revenue in the **trade segment** amounted to USD 53 billion in the Reporting Period, compared to USD 67 billion in the corresponding period last year.

Revenue in the petrochemicals segment

Revenue of **polymers operations** increased by USD 41 million in the Reporting Period compared to the corresponding period last year. The increase is due to an increase of USD 65 million in selling prices offset by a decrease of USD 24 million in sales.

Revenue of **aromatics operations** decreased by USD 21 million in the Reporting Period compared to the corresponding period last year. The decrease is due to a decrease of USD 40 million in sales, mainly due to gradual resumption of full production after periodic maintenance works, offset by an increase of USD 19 million in selling prices.

Revenue of **oils operations** increased by USD 6 million in the Reporting Period compared to the corresponding period last year. The increase is due to an increase of USD 2 million in selling prices and an increase of USD 4 million in sales.

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3.2.2 Operating profit

Operating profit in the **refining segment** amounted to USD 16 million in the Reporting Period, compared to USD 1 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)

	1-3.2011	1-3.2010
Profit from buying and selling timing differences, for inventory that is not hedged by derivatives (*)	(38)	(10)
Elimination of the provision for impairment of inventory, net	-	(2)
Loss due to the effect of changes in fair value of derivatives on prices of goods, mainly due to accounting under IFRS	26	10
Total effect	(12)	(2)

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

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

	1-3.2011	1-3.2010
Benchmark margin (dollar/barrel)	0.5	3.5
Adjusted margin (dollar/barrel)	3.9	3.2
Adjusted margin (dollar/ton)	28.9	23.1
Net of the effect – buying and selling timing differences	19.2	5.0
Elimination of the provision for impairment of inventory	-	0.9
Accounting method for derivatives according to IFRS	(13.1)	(4.9)
Accounting margin (dollar/ton)	34.9	24.1

In the Reporting Period, adjusted refining margins increased to USD 28.9 per ton (USD 3.9 per barrel), compared to USD 23.1 per ton (USD 3.2 per barrel) in the corresponding period last year. In the Reporting Period, the benchmark margin was USD 3.7 per ton (USD 0.5 per barrel), compared to USD 25.6 per ton (USD 3.5 per barrel) in the corresponding period last year.

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

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

	1-3.2011 compared to 1-3.2010
Increase in adjusted refining margin	11
Increase in sales	(2)
Increase in production expenses	(4)
Changes in adjustments – as described above	10
	15

The operating loss in the **trade segment** amounted to USD 7 million compared to operating loss of USD 3 million in the corresponding period last year.

Operating profit in **polymers operations** amounted to USD 29 million in the Reporting Period, compared to USD 5 million in the corresponding period last year .

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

	1-3.2011 compared to 1-3.2010
Increase in margin from the product index	28
Decrease in sales quantities	(5)
Increase in production expenses	(2)
Decrease in selling, administrative and general expenses	3
	24

The operating profit in **aromatics operations** amounted to USD 4 million in the Reporting Period, compared to USD 8 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):

	1-3.2011 compared to 1-3.2010
Decrease in sales quantities	(3)
Decrease in margin from the product index	(2)
Increase in production expenses	(1)
Decrease in selling, administrative and general expenses	2
	(4)

The operating profit in **oils operations** amounted to USD 3 million in the Reporting Period, similar to the corresponding period last year.

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3.2.3 Other expenses

In the Reporting Period, other expenses amounted to USD 7 million, representing amortization of excess acquisition costs of the balance of shares in Carmel Olefins and Haifa Basic Oils compared to USD 15 million in the corresponding period last year.

3.2.4 Financing expenses

Net consolidated financing expenses amounted to USD 23 million in the Reporting Period compared to USD 12 million in the corresponding period last year.

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

	1-3.2011 compared to 1-3.2010
Increase in short-term interest mainly due to an increase in the scope of credit	1
Decrease in profits from securities and loan provided	3
Effect of exchange differences on financial items, net	(1)
Increase in interest on loan and debentures	5
Changes in fair value of hedge transactions	32
Changes in fair value of public debentures	(29)
	11

* See Note 3(A)(2) to the consolidated interim financial statements as at March 3, 2011.

3.2.5 Income tax

Tax expenses amounted to USD 5 million in the Reporting Period, compared to revenue of USD 13 million in the corresponding period last year. The change is mainly due to the increase in pre-tax profit compared to the corresponding period last year.

Company's share in earnings of investees

The Company's share in the earnings of investees amounted to USD 0.2 million in the Reporting Period and in the corresponding period last year.

4. Liquidity

Total current assets less current liabilities at March 31, 2011 amounted to USD 348 million compared to USD 344 million at December 31, 2010. The current ratio at March 31, 2011 is 1.19 compared to 1.22 at December 31, 2010.

Consolidated cash flows from the Company's operating activities amounted to USD 66 million in the Reporting Period, mainly due to profit in the period less adjustment of non-cash revenue and expenses amounting to USD 71 million plus a decrease of USD 5 million in property items and current liabilities.

Cash used for investment activity in the Reporting Period amounted to USD 127 million, used mainly to finance investments of USD 135 million in property, plant and equipment, offset by repayment of the loan amounting to USD 6 million from Haifa Early Pension.

Net cash flows from finance activity amounted to USD 78 million in the Reporting Period, mainly from long-term loans of USD 123 million and short-term credit and deposits received of USD 12 million, offset by periodic repayment of debentures and long-term loans of USD 39 million and payment of interest of USD 15 million.

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5. Sources of financing

Composition of Group financing sources and uses:

	Three months ended March 31, 2011	Year ended December 31, 2010
USD millions		
Sources		
Decrease in cash in the period	--	29
Decrease in marketable securities	--	12
Repayment of the loan from Haifa Early Pensions	6	13
Income tax refund	--	28
Cash from operating activities (prior to changes in working capital)	71	181
Receipt of short-term credit and deposits from customers	12	171
Long-term credit	123	397
	212	831
Uses		
Increase in cash	17	--
Increase in working capital	5	202
Payment of dividend	--	80
Investments in property, plant and equipment and other assets	135	230
Investment in associates	--	33
Investment in deposits	--	66
Interest paid, net	13	53
Costs of raising capital and repayment of long-term loans and debentures	42	167
	212	831

6. Long-term loans and debentures

The long term loans and debentures at March 31, 2011 (after deduction of current maturities) amounted to USD 1.64 billion, representing 35% of the statement of financial position, compared to USD 1.497 billion, representing 34% at December 31, 2010. The proceeds of the loans are used to finance investments in property, plant and equipment and to repay long-term liabilities. In the first quarter of 2011, long-term loans of USD 123 million were received.

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

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7. Total financial liabilities

Current financial liabilities plus long-term loans and debentures amounted to USD 2.43 billion at March 31, 2011, representing 52% of the statement of financial position, compared to USD 2.27 billion, representing 52% of the statement of financial position at December 31, 2010. Financial leverage of total financial liabilities to banks and other credit providers is 69% compared to 67% at December 31, 2010.

The table below presents details of the Group's net financial debt at March 31, 2010 (in USD millions):

	ORL	Subsidiaries	Total
Short-term loan	374	212	586
Loans from banks (*)	597	254	851
Debentures (*)	706	294	1,000
Liquid financial assets	(217)	(42)	(259)
Total net financial debt	1,460	718	2,178

(*) Including current maturities

(**) See Note 3(A)(2) to the consolidated interim financial statements as at March 3, 2011.

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

Long term loans and debentures (including current maturities) – USD 1.736 billion; short term credit – USD 667 million; trade payables – USD 702,000; trade receivables – USD 462 million.

Oil Refineries Ltd.

9. Exposure to market risk and risk management methods

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

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

Price change:	Profit (loss)				Fair value March 31, 2011	Profit (loss)			
	Increase					Decrease			
	50% +	20% +	10%+	5%+		5%-	10%-	20%-	50% -
USD thousands									
Inventory (*)	416,025	166,410	83,205	41,602	832,050	(41,602)	(83,205)	(166,410)	(416,025)
Futures	(304,253)	(121,701)	(60,850)	(30,426)	(51,276)	30,426	60,851	121,702	304,254
Swap hedging (**)	(77)	(31)	(15)	(8)	(322)	8	15	31	77
	<u>111,695</u>	<u>44,678</u>	<u>22,340</u>	<u>11,169</u>		<u>(11,168)</u>	<u>(22,339)</u>	<u>(44,677)</u>	<u>(111,694)</u>

(*) Excluding inventory with a fixed price

(**) Assuming product index prices are unchanged

9.2 Consolidated linkage-based report

	NIS index linked	Foreign- currency linked(*)	NIS Unlinked	Non- monetary	Total
March 31, 2011					
Total assets	809,395	1,828,513	581,138	2,367,745	5,586,791
Total liabilities	889,500	2,871,000	696,093	49,662	4,506,255
Total balance	(80,105)	(1,042,487)	(114,955)	2,318,083	1,080,536
December 31, 2010					
Total assets	5,252,261	2,248,024	484,766	1,712,226	807,245
Total liabilities	4,111,516	51,322	626,159	2,612,150	821,885
Net balance	1,140,745	2,196,702	(141,393)	(899,924)	(14,640)

(*) Primarily dollar

10. Corporate governance

The board of directors adopted a procedure based on the recommendations of the Goshen Committee and the recommendations regarding their implementation as submitted to the Company by Adv. Dr. Yoram Danziger. The board of directors periodically updates its work procedures, as required by the law and as required.

10.1 Contribution to the community and community activities

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

Oil Refineries Ltd.

10.2 Directors with accounting and financial expertise

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

10.3 Independent directors

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

10.4 Salaries of officers and considerations on which the board of directors base such salaries

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

Subsequent to the reporting date, the board of directors approved the salary terms for the Company's new CEO. For further information, see the immediate report of April 4, 2011, ref. no. 2011-01-108246.

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

10.5 Approval of the financial statements

There were no 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 March 31, 2011 were discussed at the audit and balance sheet committees on May 15, 2011 in the presence of committee members Dafna Schwartz (chair), Yachin Cohen, Nehama Ronen and Arie Ovadia, and with the participation of Yossi Rosen (chair of the board of directors), Uzi Netanel, Arie Silberberg, Avisar Paz, Ran Croll, David Federman and Eran Schwartz. These financial statements were approved in full by the Company's board of directors on May 22, 2011 in the presence of all members of the board of directors.

10.6 Disclosure regarding the internal auditor in a reporting corporation

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

10.7 Peer review

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

Oil Refineries Ltd.

11. Disclosure of financial reporting

11.1 Additional information contained in the auditors' report to shareholders

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

- 11.1.1** The contents of Note 6(A) to the financial statements regarding the suits filed against the Company and its subsidiaries for legal proceedings, supervision by government authorities, other contingencies, laws and bills relating to the fuel and gas industry and infrastructure facilities.

Based on the opinion of the legal counsel of the Company and its subsidiaries, the Company believes that, at this stage, it is not possible to assess the aforementioned impact on the financial statements, if any exists, and therefore, no provision regarding this matter was included in the financial statements.

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

11.2 Use of estimates and judgments

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

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

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

12. Debentures of the corporation held by the public

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

13. Significant events subsequent to the reporting date

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

- (1) **Changes in exchange rates:** From the end of the Reporting Period and up to the approval date of the financial statements, there was an appreciation of 0.2% in the shekel-dollar exchange rate. The Company uses hedging transactions to partially offset this exposure, as part of its risk management policy. The effect of the depreciation on the Company's business results, after the results of the hedging transactions, is not material.
- (2) **Changes in prices of crude oil and oil products:** Subsequent to the reporting date, the price of oil, which was USD 117 per barrel at the reporting date, fell to USD 111 per barrel shortly before the publication date of the financial statements.

Oil Refineries Ltd.

B. Change in positions

On March 20, 2011, CEO of the Company Yashar Ben Mordechai, announced his resignation as CEO of the Company. On April 3, 2011, the board of directors appointed Pinhas Buchris as the new CEO of the Company. On May 1, 2011, Yashar Ben Mordechai terminated his position as CEO of the Company and Pinhas Buchris took office.

The board of directors again thanks Yashar Ben Mordechai for his work during his position as CEO and for the achievements of the Company during this period, and wishes Pinhas Buchris success in his position.

Subsequent to the Reporting Period, Hanan Klachouck, general manager of the industrial sector, announced his resignation, effective at the end of the notice period. At the publication date of the report, Hanan Klachouck continues to serve as in his position. On April 21, 2011, the board of directors appointed Ido Rosolio as the new general manager of the industrial sector. Mr. Rosolio is expected to take office in July 2011.

C. Natural gas

For details see Note 7 to the interim condensed consolidated financial statements as at March 31, 2011.

14. The board of directors wishes to thank the managements of Company and the subsidiaries and their employees for their efforts and achievements during the Reporting Period, and thanks the outgoing CEO, Yashar Ben Mordechai, for his long-standing contribution to the Company. The board of directors expresses its appreciation of the activities and achievements in environmental protection, promotion of investments in the companies and implementation of efficiency measures..

Yossi Rosen
Chairman of the Board of Directors

Pinhas Buchris
CEO

May 22, 2011

Oil Refineries Ltd.

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

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

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

- A. Update to section 1.17.4.4 regarding natural gas. For details see Note 7 to the condensed consolidated interim financial statements as at March 3, 2011.
- B. Update to section 1.6.16.4 regarding the dependency on the Eilat-Ashkelon oil pipeline ("EAPC"). Further to the aforesaid, EAPC's business license was extended to March 13, 2012.



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Auditors Report to the Shareholders of Oil Refineries Limited

Introduction

We have reviewed the accompanying financial information of Oil Refineries Limited and its subsidiaries ("the Group"), including the condensed consolidated interim statement of financial position as at March 31, 2011 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three months then ended. The board of directors and the management are responsible for preparation and presentation of the financial information for this interim period in accordance with IAS 34 - Interim Financial Reporting, and are also responsible for preparation of the interim financial information for this period in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express an opinion on the financial information for the interim period based on our review.

We did not review the condensed interim financial statements of consolidated companies, the consolidated assets of which represent approximately 29% of the total consolidated assets as at March 31, 2011, and the consolidated revenue of which represents approximately 16% of the total consolidated revenue for the three months then ended. In addition, we did not review the condensed interim financial statements of equity-accounted investees, the investment in which amounts to USD 16.603 million as of March 31, 2011, and the share of the Group in their profits is USD 270,000 for the three months then ended. The condensed interim financial information of those companies were reviewed by other accountants, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reviews of the other accountants.

Review scope

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

Conclusion

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

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

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

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

Sincerely,

Somekh Chaikin
Certified Public Accountants

Haifa, 22 May 2011

Oil Refineries Ltd.

Condensed Consolidated Interim Statement of Financial Position USD thousands

	March 31, 2011	March 31, 2010	December 31, 2010
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	23,408	21,817	6,704
Deposits	127,112	93,436	126,991
Trade receivables	559,350	437,049	366,227
Other receivables	83,171	103,786	98,241
Financial derivatives	28,279	22,879(*)	27,577
Investments in financial assets at fair value through comprehensive income	108,655	110,162	106,895
Inventories	1,225,035	1,203,044	1,200,922
Current tax assets	1,553	5,164	1,819
Total current assets	2,156,563	1,997,337	1,935,376
Non-current assets			
Investments in equity-accounted investees	16,603	13,785	16,455
Financial assets at fair value through other comprehensive income (**)	18,079	17,535	17,701
Loan to Haifa Early Pensions Ltd.	72,243	71,302	77,014
Long term loans and debit balances	2,959	3,806	3,501
Financial derivatives	189,184	121,013(*)	192,990
Employee benefit plan assets	7,674	10,462	7,922
Deferred tax assets	327	--	307
Property, plant and equipment	2,114,863	1,893,458	2,030,414
Deferred costs	12,280	1,360	12,535
Intangible assets	76,140	89,126	78,950
Total non-current assets	2,510,352	2,221,847	2,437,789
Total assets	4,666,915	4,219,184	4,373,165

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

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

Yossi Rosen
Chairman, Board of Directors

Pinhas Buchris
CEO

Igal Salhov
CFO

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

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

Oil Refineries Ltd.

Condensed Consolidated Interim Statement of Financial Position USD thousands

	March 31, 2011	March 31, 2010	December 31, 2010
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings	790,416	845,259	773,792
Trade payables	786,160	647,342	619,037
Other payables	126,962	140,964	102,099
Current tax liability	24,464	--	24,278
Financial derivatives	71,057	43,027(*)	63,292
Provisions	9,367	11,514	9,231
Dividend declared	--	75,000	--
Total current liabilities	1,808,426	1,763,106	1,591,729
Non-current liabilities			
Bank loans	734,859	324,216	624,468
Debentures (**)	904,929	853,695	872,421
Liabilities for finance lease	9,749	8,858	9,491
Other long-term liabilities	--	14,739	--
Financial derivatives	4,046	1,793(*)	5,195
Employee benefits	70,693	64,358	70,537
Deferred tax liabilities	53,677	126,854	58,579
Total non-current liabilities	1,777,953	1,394,513	1,640,691
Total liabilities	3,586,379	3,157,619	3,232,420
Capital			
Share capital	586,390	586,390	586,390
Share premium	100,242	100,242	100,242
Reserves (**)	46,357	40,851	45,516
Retained earnings (**)	347,547	334,082	408,597
Total capital	1,080,536	1,061,565	1,140,745
Total liabilities and capital	4,666,915	4,219,184	4,373,165

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

(**) See Note 3(A)(2) and Note 10(B)(1)

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

Oil Refineries Ltd.

Condensed Consolidated Interim Statement of Comprehensive Income USD thousands

	Three months ended		Year ended
	Mar 31, 2011	Mar 31, 2010	Dec 31, 2010
	(Unaudited)		(Audited)
Revenue	2,057,506	1,704,771	6,791,809
Cost of sales, refinery and services	1,981,969	1,663,537 (*)	6,561,599
Revaluation of open positions in derivatives on prices of goods and margins, net	4,821	4,644	27,179
Total cost of sales	1,986,790	1,668,181	6,588,778
Gross profit	70,716	36,590	203,031
Selling and marketing expenses	21,512	26,127 (*)	99,282
General and administrative expenses	14,648	14,668 (*)	57,955
Operating profit (loss)	34,556	(4,205)	45,794
Financing income	7,164	29,583	89,330
Financing expenses	(30,384)	(41,690)	(140,439)
Financing expenses, net	(23,220)	(12,107)	(51,109)
Company's share in profits of equity accounted investees, net of tax	270	179	476
Profit (loss) before taxes on income	11,606	(16,133)	(4,839)
Tax benefits (taxes on income)	(5,477)	12,546	81,619
Profit (loss) for the period	6,129	(3,587)	76,780
Items of other comprehensive income (loss)			
Actuarial gains (losses) from a defined benefit plan, net	274	128	(5,724)
Foreign currency translation differences for foreign operations	726	(324)	(309)
Effective share of the change in fair value of cash flow hedging, net of tax	927	--	3,529
Change in fair value of financial assets at fair value through other comprehensive income, net of tax (**)	332	5,433	6,143
Net change in fair value of debentures designated at fair value through profit or loss, attributable to change in credit risk, net of tax	(21,274)	--	--
Other comprehensive income (loss), net of tax	(19,015)	5,237	3,639
Comprehensive income(loss) for the period	(12,886)	1,650	80,419
Earnings (loss) per share (USD)			
Basic and diluted earnings (loss) per ordinary share	0.003	(0.001)	0.032

(*) Reclassified, – see Note 2(D)(2)

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

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

Oil Refineries Ltd.

Condensed Consolidated Interim Statement of Changes in Equity USD thousands

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial instruments at fair value through other comprehensive income (*)	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
	Three months ended March 31, 2011									
Balance at January 1, 2011 (audited)	586,390	100,242	6,406	(1,310)	8,413	28,478	3,529	--	408,597	1,140,745
Cumulative effect of initial application of IFRS 9 at January 1, 2011	--	--	--	--	--	--	--	20,130	(67,453)	(47,323)
Balance at January 1, 2011 subsequent to initial application of IFRS	586,390	100,242	6,406	(1,310)	8,413	28,478	3,529	20,130	341,144	1,093,422
Profit for the period	--	--	--	--	--	--	--	--	6,129	6,129
<u>Other comprehensive income (loss):</u>										
Actuarial losses from a defined benefit plan, net of tax	--	--	--	--	--	--	--	--	274	274
Foreign currency translation differences for foreign operations	--	--	--	726	--	--	--	--	--	726
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	927	--	--	927
Change in fair value of financial assets at fair value through other comprehensive income, net of tax (*)	--	--	--	--	332	--	--	--	--	332
Net change in fair value of debentures designated at fair value through profit or loss, attributable to change in credit risk	--	--	--	--	--	--	--	(21,274)	--	(21,274)
Total other comprehensive income (loss) for the period, net of tax	--	--	--	726	332	--	927	(21,274)	274	(19,015)
Total other comprehensive income (loss) for the period,	--	--	--	726	332	--	927	(21,274)	6,403	(12,886)
Balance at March 31, 2011 (unaudited)	586,390	100,242	6,406	(584)	8,745	28,478	4,456	(1,144)	347,547	1,080,536

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

The accompanying notes are an integral part of the condensed consolidated interim 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 financial instruments at fair value through other comprehensive income (*)	Capital reserve	Hedge fund	Retained earnings	Non-controlling interests	Total capital
	Three months ended March 31, 2010									
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 loss for the period:</u>										
Loss for the period	--	--	--	--	--	--	(3,587)	(3,587)	--	(3,587)
<u>Other comprehensive income (loss):</u>										
Actuarial gains from a defined benefit plan, net of tax	--	--	--	--	--	--	128	128	--	128
Foreign currency translation differences for foreign operations	--	--	--	(324)	--	--	--	(324)	--	(324)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax (*)	--	--	--	--	5,433	--	--	5,433	--	5,433
Total other comprehensive income (loss) for the period, net of tax	--	--	--	(324)	5,433	--	128	5,237	--	5,237
Total comprehensive income for the period	--	--	--	(324)	5,433	--	(3,459)	1,650	--	1,650
Dividend declared	--	--	--	--	--	--	(75,000)	(75,000)	--	(75,000)
Share-based payment	--	--	171	--	--	--	--	171	--	171
Acquisition of non-controlling interests in a subsidiary	--	--	--	--	--	--	--	--	(17,183)	(17,183)
Balance at March 31, 2010 (unaudited)	586,390	100,242	5,995	(1,325)	7,703	28,478	334,082	1,061,565	--	1,061,565

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

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

Oil Refineries Ltd.

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

	Attributable to owners of the Company										
	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial instruments at fair value through other comprehensive income	Capital reserve	Hedge reserve	Retained earnings	Total shareholders capital	Non-controlling interests	Total capital
Year Ended December 31, 2010											
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
Comprehensive income for the period:											
Profit for the period	--	--	--	--	--	--	--	76,780	76,780	--	76,780
Other comprehensive income (loss):											
Actuarial losses from a defined benefit plan, net of tax	--	--	--	--	--	--	--	(5,724)	(5,724)	--	(5,724)
Foreign currency translation differences for foreign operations	--	--	--	(309)	--	--	--	--	(309)	--	(309)
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	3,529	--	3,529	--	3,529
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	--	--	--	--	6,143	--	--	--	6,143	--	6,143
Total other comprehensive income (loss) for the period, net of tax	--	--	--	(309)	6,143	--	3,529	(5,724)	3,639	--	3,639
Total comprehensive income for the period	--	--	--	(309)	6,143	--	3,529	71,056	80,419	--	80,419
Share-based payment	--	--	582	--	--	--	--	--	582	--	582
Dividend declared	--	--	--	--	--	--	--	(75,000)	(75,000)	--	(75,000)
Acquisition of non-controlling interests in a subsidiary	--	--	--	--	--	--	--	--	--	(17,183)	(17,183)
Balance at December 31, 2010 (audited)	586,390	100,242	6,406	(1,310)	8,413	28,478	3,529	408,597	1,140,745	--	1,140,745

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

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

Oil Refineries Ltd.

Condensed Consolidated Interim Statement of Cash Flows USD thousands

	Three months ended		Year ended
	Mar 31, 2011	Mar 31, 2010	Dec 31, 2010
	(Unaudited)		(Audited)
Cash flows from operating activities			
Profit (loss) for the period	6,129	(3,587)	76,780
Adjustments to cash flows from operating activities:			
Revenue and expenses not involving cash flows (Appendix A – section A)	65,145	23,480	103,864
	71,274	19,893	180,644
Changes in assets and liabilities (Appendix A - section B)	(5,177)	(203,510)	(202,592)
Net income tax received (paid)	(461)	(183)	28,375
Net cash from (used in) operating activities	65,636	(183,800)	6,427
Cash flow used in investing activities			
Interest received	1,900	4,842	7,153
Increase in deposit, net	(344)	(15,517)	(65,646)
Dividend received from investees	122	67	67
Acquisition of investees	--	--	(2,373)
Disposal of investments in financial assets, net	--	--	12,253
Repayment (providing) of long-term loans from others, net	(39)	164	507
Repayment of loan from Haifa Early Pensions Ltd.	5,916	12,627	12,627
Purchase of property, plant and equipment	(134,923)	(35,267)	(228,224)
Purchase of intangible assets and deferred expenses, net	(126)	(45)	(1,305)
Net cash used in investing activities	(127,494)	(33,129)	(264,941)
Cash flow from financing activities			
Short-term borrowing, net	(8,533)	242,407	145,023
Receipt of deposits from customers, net	20,255	26,026	26,215
Interest paid	(15,168)	(9,972)	(70,146)
Derivative transactions, net	(67)	--	9,618
Receipt of long-term loans from banks	123,450	--	396,724
Repayment of long-term loans from banks	(31,437)	(31,404)	(124,687)
Repayment of debentures	(7,685)	(6,945)	(28,381)
Costs of raising credit	(2,383)	--	(13,874)
Acquisition of non-controlling interests	--	(17,183)	(17,183)
Payment for acquisition of the balance of subsidiary shares	--	--	(13,615)
Dividend paid	--	--	(79,931)
Net cash from finance activities	78,432	202,929	229,763
Net increase (decrease) in cash and cash equivalents	16,574	(14,000)	(28,751)
Effect of exchange rate fluctuations on cash and cash equivalents	130	856	494
Cash and cash equivalents at beginning of year	6,704	34,961	34,961
Cash and cash equivalents at the end of the period	23,408	21,817	6,704

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

Oil Refineries Ltd.

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

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

	<u>Three months ended</u>		<u>Year ended</u>
	<u>March 31,</u>	<u>March 31,</u>	<u>December 31,</u>
	<u>2011</u>	<u>2010</u>	<u>2010</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
A. Income and expenses not included in the cash flow:			
Depreciation and amortization	32,573	38,976	119,271
Financing expenses, net	24,790	(2,988)	40,039
Net changes in fair value of derivatives	4,412	5,686	30,401
Changes in fair value of the loan to Haifa Early Pensions Ltd.	(300)	(2,230)	(8,512)
Share in the profits of equity-accounted investees	(270)	(179)	(476)
Loss (profit) from deposits and investments in financial assets, net	(1,537)	(3,410)	4,178
Share-based payment	--	171	582
Income tax (tax benefit)	5,477	(12,546)	(81,619)
	<u>65,145</u>	<u>23,480</u>	<u>103,864</u>
B. Changes in assets and liabilities			
Increase in trade receivables	(200,821)	(76,994)	(5,716)
Decrease (increase) in other receivables	14,904	(50,760)	(46,913)
Increase in inventory	(22,824)	(195,531)	(185,552)
Increase in trade payables	184,201	110,408	58,326
Increase (decrease) in other payables and provisions, net	18,926	9,060	(25,132)
Increase in employee benefits, net	437	307	2,395
	<u>(5,177)</u>	<u>(203,510)</u>	<u>(202,592)</u>

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

Oil Refineries Ltd.

Notes to the Consolidated Condensed Interim Financial Statements 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 POB 4, Haifa 31000. The Company’s shares are traded on the Tel Aviv Stock Exchange (“TASE”). The Company and its subsidiaries are industrial companies which operate in Israel and are engaged primarily in the production of oil products, feedstock for the petrochemical industry, materials for the plastics industry, oils, waxes and byproducts. The facilities of the subsidiaries are integrated with those of the Company. The Company also provides water treatment and power generation services (primarily electricity and steam) to a number of industries adjacent to the Haifa refinery.
- 2) The Group’s condensed consolidated interim financial statements as at March 31, 2011 include the statements of the Company and its subsidiaries (together: “the Group”) and the Group’s interests in associates.

NOTE 2 – BASIS OF PREPARATION

A. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and do not include all of the information required for full annual financial statements. They should be read together with the financial statements for the year ended December 31, 2010 (“the Annual Statements”). Additionally, these statements were prepared in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The condensed consolidated interim financial statements were approved by the Company’s board of directors on May 22, 2011.

B. Use of estimates and judgments

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

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

C. Capital management – objectives, procedures and processes

The policy of the board of directors and management is consistent with the policy applied in the annual financial statements. The Company and its subsidiaries are subject to compliance with financial covenants (see Note 17(C) to the Annual Statements).

At March 31, 2011, all the companies are in compliance with all the financial covenants that apply to them.

Oil Refineries Ltd.

Notes to the Consolidated Condensed Interim Financial Statements USD thousands

NOTE 2 – BASIS OF PREPARATION (CONTD.)

D. Reclassification

- 1) Current maturities of financial derivatives at March 31, 2010 presented in the past as non-current assets and non-current liabilities were classified as current assets and current liabilities to reflect their contractual repayment date.

	March 31, 2010		
	As previously reported	Effect of reclassification	As reported in these financial statements
Current assets			
Financial derivatives	--	22,879	22,879
Non-current assets			
Financial derivatives	143,892	(22,879)	121,013
Current liabilities			
Financial derivatives	35,622	7,405	43,027
Non-current liabilities			
Financial derivatives	9,198	(7,405)	1,793

- 2) Some of the comparative figures in the statement of comprehensive income for the three months ended March 31, 2010 were reclassified in order to adjust their presentation method to the presentation in the statement of comprehensive income for the three months ended March 31, 2011.

	Three months ended March 31, 2010		
	As previously reported	Effect of reclassification	As reported in these financial statements
Cost of sales, refinery and services	1,664,497	(960)	1,663,537
Selling expenses	19,617	6,510	26,127
General and administrative expenses	20,218	(5,550)	14,668

Oil Refineries Ltd.

Notes to the Consolidated Condensed Interim Financial Statements 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 section A below.

A. Initial application of new standards

1) Interim financial reporting

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

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

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

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

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

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

A) Non-derivative financial instruments

Initial recognition of financial assets

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

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

Oil Refineries Ltd.

Notes to the Consolidated Condensed Interim Financial Statements USD thousands

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

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

A) Financial instruments (contd.)

Financial assets measured at amortized cost

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

Financial assets measured at fair value

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

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

B) Non-derivative financial liabilities

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

Oil Refineries Ltd.

Notes to the Consolidated Condensed Interim Financial Statements USD thousands

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

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

C) Effect of initial application of the Standard, at the date of initial application:

(1) Effect on the statement of financial position at January 1, 2011

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

(2) Effect of the change in accounting policy on capital at January 1, 2011

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

(*) Upon initial application, the Group elected to designate some of its debentures at fair value through profit or loss to reduce accounting mismatch from measurement of related currency swap contracts at fair value through profit or loss. Changes in fair value of the debentures, attributable to changes in credit risk, are recognized in other comprehensive income as from January 1, 2011.

(**) The Group intends to maintain this equity investment in the long term, accordingly, it elected to designate these assets to fair value through other comprehensive income.

Oil Refineries Ltd.

Notes to the Consolidated Condensed Interim Financial Statements USD thousands

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

B. New standards and interpretations not yet adopted

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

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

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

Main changes:

- The Standard presents a model requiring judgment and analysis of all relevant facts and circumstances when assessing control and the need to determine who controls an investee. This is reflected, inter alia, in the need to understand the structure and purposes of the investee, while taking into account indications of power. The model also expressly requires the model explicitly requires that an investee's operations be identified as part of the assessment of control,
- The Standard presents a single model of control that will be applied for all investees, whether in the scope of IAS 27 or SIC 12.
- De facto circumstances will be taken into account in assessing control, so that the Standard actually includes a model for effective control. Meaning, consolidation of statements is required if there is effective control.
- When assessing control, all the substantive potential voting rights are taken into account, even if they are not immediately exercisable. For potential voting rights, the structure, reasons for such rights being granted and terms of the rights should be assessed.
- The Standard includes guidelines for application and a list of indicators for assessing whether a decision maker is acting as a principal or as an agent when directing the activities of an investee.
- The Standard provides guidance for cases where an investor assess control over specific assets (silos) instead of assessing control over legal entities.
- The Standard defines protective rights, which is not defined in existing standards.
- Control is determined according to exposure, or rights, to variable returns. Variable returns are broader than ownership-type benefits and are not solely a risk and rewards analysis.

The Standard is effective retrospectively for annual periods commencing on or after January 1, 2013. Early application is permitted, subject to disclosure and early adoption of the two other standards that were published at the same time: IFRS 11, *Joint Arrangements* and IFRS 12, *Disclosure of Involvement with Other Entities*.

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

Oil Refineries Ltd.

Notes to the Consolidated Condensed Interim Financial Statements USD thousands

NOTE 3 – SIGNIFICANT ACCOUNTING PRINCIPLES – (CONTD.)

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

2) IFRS 13, *Fair Value Measurement* ("the Standard")

The Standard supersedes the guidelines for fair value measurement in other IFRSs and will serve as the sole source for guidelines regarding fair value measurement under IFRS. For this purpose, the Standard defines fair value, provides guidelines for fair value measurement and determines new disclosure requirements for fair value measurement. The Standard does not determine when fair value should be measured, so the need for fair value measurement will continue to be determined according to the existing standards.

The Standard applies to assets, liabilities and equity instruments of the entity, which is required or permitted to measure them at fair value or for which fair value disclosure has been made according to relevant IFRSs.

However, the Standard does not apply to share-based payments within the scope of IFRS 2 or to leasing transactions within the scope of IAS 17. Furthermore, the Standard does not apply to measurements that are similar to fair value but are not fair value (such as net realizable value of inventory).

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

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

C. Exchange rates and linkage

Dollar and euro exchange rates and the CPI:

<u>At</u>	<u>Representative exchange rate of USD 1</u>	<u>Euro-dollar exchange rate</u>	<u>CPI in points (*)</u>
March 31, 2011	3.481	1.422	118.64
March 31, 2010	3.713	1.344	113.78
December 31, 2010	3.549	1.335	117.82
(*) CPI on average basis 100 = 2002			
<u>Rate of change in the period ended</u>	<u>%</u>	<u>%</u>	<u>%</u>
March 31, 2011 (3 months)	(1.92)	6.52	0.70
March 31, 2010 (3 months)	(1.64)	(6.76)	(0.86)
December 31, 2010 (12 months)	(5.99)	(7.39)	2.66

NOTE 4 – SEGMENT REPORTING

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

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

Oil Refineries Ltd.

Notes to the Consolidated Condensed Interim Financial Statements USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Refining		Trade		Petrochemicals						Adjustments to consolidated		Consolidated	
					Polymers		Aromatics		Oils					
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Three months ended March 31 (unaudited)													
Revenue from external sources	1,572,735	1,232,696	52,523	67,353	302,094	261,029	106,675	126,681	23,479	17,012	--	--	2,057,506	1,704,771
Revenue from inter-segment sales	297,452	245,750	--	--	--	--	10,481	11,290	--	--	(307,933)	(257,040)	--	--
Segment revenue	1,870,187	1,478,446	52,523	67,353	302,094	261,029	117,156	137,971	23,479	17,012	(307,933)	(257,040)	2,057,506	1,704,771
EBITDA	28,322	10,510	(7,140)	(2,777)	40,018	17,154	6,132	9,870	2,972	2,673	(3,175)	(2,659)	67,129	34,771
Operating profit (loss) for segments	16,063	659	(7,140)	(2,744)	28,512	4,656	4,432	8,425	2,665	2,375	(3,175)	(2,659)	41,357	10,712
Amortization of excess cost arising on acquisition of subsidiaries													(6,801)	(14,917)
Operating profit (loss)													34,556	(4,205)
Financing expenses, net													(23,220)	(12,107)
Share in profits of equity-accounted investees, net of tax													270	179
Profit (loss) before income tax													11,606	(16,133)

Oil Refineries Ltd.

Notes to the Consolidated Condensed Interim Financial Statements USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

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

Oil Refineries Ltd.

Notes to the Consolidated Condensed Interim Financial Statements USD thousands

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

At the reporting date, the balance of agreements for approved establishment works amounts to USD 215 million. For additional details of the establishment works, see Note 12(E) and (H) to the financial statements as at December 31, 2010.

At March 31, 2011, property, plant and equipment include advance payments made by the Group on account of the acquisition of property, plant and equipment in the amount of USD 120 million.

NOTE 6 – CONTINGENT LIABILITIES, GUARANTEES AND AGREEMENTS

A. Lawsuits

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

B. Agreements

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

C. Guarantees

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

Oil Refineries Ltd.

Notes to the Consolidated Condensed Interim Financial Statements USD thousands

NOTE 7 – SIGNIFICANT SUBSEQUENT EVENTS

- A.** Further to Note 33(B) to the financial statements as at December 31, 2010 and the Company's reports regarding the natural gas pipeline to Haifa Bay and the gas supply agreement with East Mediterranean Gas SAE, ("EMG") ("the Gas Supply Agreement"), on May 3, 2011 the Group's plants were connected to the national natural gas pipeline and tests were completed, allowing use of gas in the Group's plants. However, EMG announced that on April 27, 2011, part of the Egyptian gas pipeline that supplies gas to EMG and other companies had been sabotaged, resulting in suspension of gas supply to EMG's customers in Israel.

In May 2011, the Company acquired natural gas in spot transactions from the Yam Tethys Group (Noble Energy Mediterranean Ltd., Delek Drilling Limited Partnership, Avner Oil Exploration Limited Partnership and Delek Investments and Properties Ltd.), which allows the Company to start testing and running the natural gas system in its plants.

- B.** On May 20, 2011, the Company signed an agreement with the Yam Tethys group for the purchase of a total quantity of 1.2 BCM ("the Contractual Quantity") for the Company and its subsidiaries, over a 27-month supply period starting from June 1, 2011 ("the Basic Agreement Period"). The consideration for the entire Contractual Quantity will be paid in installments during the basic agreement period or over a shorter period of time should the Company consume the full Contractual Quantity sooner than planned. The agreement does not obligate the Company to any volume or consumption rate during the Basic Agreement Period. If the Company does not consume the entire Contractual Quantity over the Basic Agreement Period, the supply period set out in the agreement will be extended for an additional period, to allow the Company to consume the Contractual Quantity. The agreed consideration consists of a fixed component and a variable component which is determined according to a pricing formula based on the price of crude oil, with a minimum price but not a maximum price. The total value of the agreement is estimated at USD 350 million (based on calculation of the formula when the agreement was signed). The Company believes that agreements for the purchase of natural gas from two different suppliers will facilitate rapid transition to ongoing use of natural gas for all its needs.

Oil Refineries Ltd.

**Condensed Separate Interim
Financial Information**

At March 31, 2011

(Unaudited)



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

Tel: 04 861 4800
Fax: 04 861 4844
website: www.kpmg.co.il

Att:

To the Shareholders of Oil Refineries Limited.

Dear Sir/Madam,

Re: Special auditors' report on the separate financial information pursuant to Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

Introduction

We have audited the separate financial statements presented pursuant to Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of Oil Refineries Ltd. ("the Company") as at March 31, 2011 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 USD 434,000 million as at March 31, 2011, and profits of these investees amounted to USD 18,452 million for the three months then ended. The financial statements of those companies were reviewed by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the financial statements for those companies, is based on the reports of the other auditors.

Review scope

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

Conclusion

Based on our review and the review of other accountants, nothing has come to our attention that causes us to believe that this separate interim financial information is not prepared, in all material respects, in accordance with the provisions of Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

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

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

Somekh Chaikin
Certified Public Accountants
Haifa, May 22, 2011

Oil Refineries Ltd.

Condensed Separate Interim Financial Information USD thousands

	As at		
	Mar 31, 2011	Mar 31, 2010	Dec 31, 2010
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	606	809	461
Deposits	107,475	74,118	107,698
Trade receivables	409,986	389,419	183,743
Other receivables	69,001	167,880	87,693
Financial derivatives	21,079	17,435 (*)	19,962
Investments in financial assets at fair value through comprehensive income	108,655	110,162	106,895
Inventories	1,032,642	1,052,965	1,086,864
Current tax assets	--	5,527	--
Total current assets	1,749,444	1,818,315	1,593,316
Non-current assets			
Investments in investees	876,744	781,600	877,717
Investments financial assets through other comprehensive income (**)	18,079	17,535	17,701
Loan to Haifa Early Pensions Ltd.	72,243	71,302	77,014
Long term loans and debit balances	1,465	1,531	1,443
Financial derivatives	120,748	78,124 (*)	120,333
Employee benefit plan assets	3,812	3,504	3,739
Deferred tax assets	6,275	--	1,136
Property, plant and equipment	940,122	733,206	859,734
Deferred costs	11,652	--	11,829
Intangible assets	3,247	4,490	3,163
Total non-current assets	2,054,387	1,691,292	1,973,809
Total assets	3,803,831	3,509,607	3,567,125

(*) Reclassified (see Note 2A)

(**) See Note 3B

Yossi Rosen
Chairman, Board of Directors

Pinhas Buchris
CEO

Igal Salhov
CFO

Date of approval of the separate financial information: May 22, 2011

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

Oil Refineries Ltd.

Condensed Separate Interim Statement of Financial Position USD thousands

	As at		
	Mar 31, 2011	Mar 31, 2010	Dec 31, 2010
	(Unaudited)	(Audited)	
Current liabilities			
Loans and borrowings	601,819	814,313	623,713
Trade payables	707,974	601,777	562,379
Other payables and credit balances	109,184	107,917	82,391
Current tax liability	24,237	--	22,761
Financial derivatives	66,900	42,039 (*)	62,508
Declared dividend	--	75,000	--
Provisions	8,386	8,062	8,131
Total current liabilities	1,518,500	1,649,108	1,361,883
Non-current liabilities			
Bank loans	518,982	117,391	402,281
Debentures (**)	623,100	600,107	598,393
Liabilities for finance lease	9,749	8,858	9,491
Financial derivatives	4,046	1,793 (*)	5,195
Employee benefits	48,918	42,038	49,137
Deferred tax liabilities	--	28,747	--
Total non-current liabilities	1,204,795	798,934	1,064,497
Total liabilities	2,700,274	2,448,042	2,426,380
Equity			
Share capital	586,390	586,390	586,390
Share premium	100,242	100,242	100,242
Reserves	46,357	40,851	45,516
Retained earnings	347,547	334,082	408,597
Total capital	1,080,536	1,061,565	1,140,745
Total liabilities and capital	3,803,831	3,509,607	3,567,125

(*) Reclassified (see Note 2A)

(**) See Note 3.

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

Oil Refineries Ltd.

Condensed Separate Interim Statement of Comprehensive Income USD thousands

	<u>For the three months ended</u>		<u>Year ended</u>
	<u>Mar 31, 2011</u>	<u>Mar 31, 2010</u>	<u>Dec 31, 2010</u>
	(Unaudited)		(Audited)
Revenue	1,922,574	1,545,799	6,083,695
Cost of sales, refinery and services	1,895,110	1,527,573 (*)	6,000,744
Revaluation of open positions in derivatives on prices of goods and margins, net	3,427	4,644	26,921
Total cost of sales	<u>1,898,537</u>	<u>1,532,217</u>	<u>6,027,665</u>
Gross profit	24,037	13,582	56,030
Selling and marketing expenses	(5,791)	(8,140) (*)	(31,666)
Administrative and general expenses	(9,200)	(7,527) (*)	(34,057)
Operating profit (loss)	9,046	(2,085)	(9,693)
Finance revenues	5,272	19,879	88,803
Financing expenses	(25,747)	(28,204)	(131,611)
Financing expenses, net	(20,475)	(8,325)	(42,808)
Company's share in profits (losses) of investees, net of tax	20,190	(3,336)	90,905
Profit (loss) before taxes on income	8,761	(13,746)	38,404
Tax benefits (taxes on income)	(2,632)	10,159	38,376
Profit (loss) for the period	<u>6,129</u>	<u>(3,587)</u>	<u>76,780</u>
Items of other comprehensive income (loss)			
Actuarial gains (losses) from a defined benefit plan, net	274	128	(5,724)
Foreign currency translation differences for foreign operations	726	(324)	(309)
Effective share of the change in fair value of cash flow hedging, net of tax	927	--	3,529
Change in fair value of financial assets through other comprehensive income, net of tax (**)	332	5,433	6,143
Net change in fair value of debentures designated at fair value through profit or loss, attributed to the credit risk changes, net of tax	(21,274)	--	--
Other comprehensive income (loss), net of tax	<u>(19,015)</u>	<u>5,237</u>	<u>3,639</u>
Comprehensive income(loss) for the period	<u>(12,886)</u>	<u>1,650</u>	<u>80,419</u>
Earnings (loss) per share (USD)			
Basic and diluted earnings (loss) per ordinary share	<u>0.003</u>	<u>(0.001)</u>	<u>0.032</u>

(*) Reclassified - see Note 2B.

(**) See Note 3B below.

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

Oil Refineries Ltd.

Condensed Separate Interim Statements of Cash Flows USD thousands

	For the three months ended		Year ended
	Mar 31, 2011	Mar 31, 2010	Dec 31, 2010
	(Unaudited)		(Audited)
Cash flows from operating activities			
Profit (loss) for the period	6,129	(3,587)	76,780
Adjustments required for presenting cash flows			
Ongoing operations			
Income and expenses not included in the cash flow: (Appendix A – section B)	11,546	4,865	(20,241)
	17,675	1,278	56,539
Changes in assets and liabilities (Appendix A - section B)	20,297	(112,684)	(22,206)
Income tax received (paid), net	(326)	(69)	28,915
Net cash generated by (used in) current operations	37,646	(111,475)	63,248
Cash flow used in investing activities			
Interest received	1,884	4,841	7,024
Increase in deposit, net	--	(15,903)	(66,057)
Dividend received from investees	122	67	79,703
Acquisition of subsidiaries	--	(17,183)	(17,183)
Acquisition of investees	--	--	(2,373)
Disposal of financial assets, net	--	--	12,253
Repayment of long-term loans from others, net	68	123	408
Repayment of loan from Haifa Early Pensions Ltd.	5,916	12,627	12,627
Purchase of property, plant and equipment	(114,477)	(28,104)	(165,624)
Purchase of intangible assets and deferred expenses, net	(105)	(44)	(436)
Net cash used for investing activities	(106,592)	(43,576)	(139,658)
Cash flow from finance activities			
Short-term borrowing, net	(11,902)	173,109	(61,600)
Receipt of deposits from customers, net	20,255	26,026	26,215
Interest paid	(9,704)	(4,896)	(53,545)
Derivative transactions, net	(67)	--	9,618
Receipt (repayment) of a loan from an investee	(20,021)	(9,149)	7,249
Receipt of long-term loans from banks	123,450	--	356,724
Repayment of long-term loans from banks	(22,854)	(22,929)	(91,262)
Repayment of debentures	(7,685)	(6,945)	(28,381)
Borrowing costs	(2,383)	--	(13,793)
Dividend paid	-	--	(75,000)
Net cash flows from financing activities	69,089	155,216	76,225
Net increase (decrease) in cash and cash equivalents	143	165	(185)
Effect of exchange rate fluctuations on cash and cash equivalents	2	3	5
Cash and cash equivalents at the beginning of the year	461	641	641
Cash and cash equivalents at the end of the period	606	809	461

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

Oil Refineries Ltd.

Separate Statements of Cash Flows (Contd.) USD thousands

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

	<u>For the three months ended</u>		<u>Year ended</u>
	<u>Mar 31, 2011</u>	<u>Mar 31, 2010</u>	<u>Dec 31, 2010</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
A. Income and expenses not included in the cash flow:			
Depreciation and amortization	12,259	9,818	41,213
Financing expenses, net	14,287	1,662	41,185
Net changes in fair value of derivatives	4,395	5,686	30,426
Net changes in fair value of the loan to Haifa Early Pensions Ltd.	(300)	(2,230)	(8,512)
Company's share in losses (profits) of investees	(20,190)	3,336	(90,905)
Loss (profit) from deposits and investments in financial assets, net	(1,537)	(3,410)	4,178
Share-based payment transactions	--	162	550
Taxes on income (tax benefit)	2,632	(10,159)	(38,376)
	<u>11,546</u>	<u>4,865</u>	<u>(20,241)</u>
B. Changes in assets and liabilities			
Decrease (increase) in trade receivables, net	(226,243)	3,739	209,415
Decrease (increase) in other receivables and debt balances, net	18,336	(52,441)	(49,857)
Decrease (increase) in inventory, net	54,222	(184,961)	(218,860)
Increase in trade payables, net	167,482	116,676	57,616
Increase (decrease) in other payables and provisions, net	6,943	4,009	(21,164)
Increase (decrease) in employee benefits, net	(443)	294	644
	<u>20,297</u>	<u>(112,684)</u>	<u>(22,206)</u>

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

Oil Refineries Ltd.

Additional Information to the Separate Interim Financial Statements NIS thousands

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, 2010 and in conjunction with the condensed interim consolidated financial statements as at March 31, 2011 ("the consolidated financial statements").

B. Definitions:

The Company: Oil Refineries Ltd.

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

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

NOTE 2 – BASIS OF PREPARATION

Reclassification:

A. Financial derivatives at March 31, 2010, previously presented in non-current assets and non-current liabilities were classified as current assets and current liabilities, and split into intangible assets and deferred expenses presented in an item for each of the forgoing items, separately.

	As at March 31, 2010		
	As previously reported	Effect of reclassification restatement	As reported in these financial statements
Current assets			
Financial derivatives	--	17,435	17,435
Non-current assets			
Financial derivatives	95,559	(17,435)	78,124
Current liabilities			
Financial derivatives	34,634	7,405	42,039
Non-current liabilities			
Financial derivatives	9,198	(7,405)	1,793

Oil Refineries Ltd.

Additional Information to the Separate Interim Financial Statements NIS thousands

B. Effect of retrospective application on the relevant items:

Certain comparative figures in the statement of comprehensive income for the three months ended March 31, 2010 were reclassified to adjust them to the manner of representation in the statement of comprehensive income for the three months ended March 31, 2011.

	Three months ended March 31, 2010		
	As previously reported	Effect of reclassification restatement	As reported in these financial statements
Cost of sales, refinery and services	(1,528,750)	1,177	(1,527,573)
Selling expenses	(1,635)	(6,505)	(8,140)
Administrative and general expenses	(12,855)	5,328	(7,527)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

For further information regarding the Company's accounting policies, see Note 3 in the condensed consolidated interim financial statements at March 31, 2011.

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

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

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

B. With respect to the effect of change in accounting policy on equity at January 1, 2011, see Note 3A(c)(2) in the condensed consolidated interim financial statements at March 31, 2011.

Oil Refineries Ltd.

Additional Information to the Separate Interim Financial Statements NIS thousands

NOTE 4 – SUBSTANTIAL GUARANTEES, AGREEMENTS AND TRANSACTIONS WITH INVESTEES

For further information see Notes 6(B) and Note 6(C) to the condensed interim consolidated financial statements as at March 31, 2011.

NOTE 5 – CONTINGENT LIABILITIES

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

NOTE 6 – MATERIAL EVENTS SUBSEQUENT TO THE REPORTING PERIOD

For further information see Note 7 to the condensed interim consolidated financial statements as at March 31, 2011.