



Oil Refineries Ltd.

Condensed Consolidated Interim Financial Statements

as of 30 September 2009

(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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<u>Contents</u>	<u>Page</u>
• Directors' Report on the State of the Company's Affairs	1
• Description of the Business of the Company – Update	36
• Condensed Consolidated Interim Financial Statements as of September 30, 2009	
• Auditors' Report	37
• Condensed Consolidated Interim Statements of Financial Position	38
• Condensed Consolidated Interim Statements of Comprehensive Income	40
• Condensed Consolidated Interim Statements of Changes in Equity	41
• Condensed Consolidated Interim Statement of Cash Flows	44
• Notes to the Financial Statements	46

Directors' Report on the State of the Company's Affairs
for the period ended September 30, 2009

The board of directors is pleased to present the Directors' Report on the state of the Company's affairs for the period ended September 30, 2009 ("the reporting period").

1. Description of the Company and its Business Environment

1.1 General

Oil Refineries Ltd. ("the Company" or "ORL") and its subsidiaries are industrial companies involved in three synergetic fields of operations organized in three segments: refinery, petrochemicals and trade. The Company's core operations are the production of oil products, raw materials for the petrochemical industry and materials for the 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 Company's petrochemicals operations are made up of two operations: aromatics, through Gadiv Petrochemical Industries Ltd. ("Gadiv") (100%) and polymers, through Carmel Olefins Ltd. ("Carmel Olefins") (50%). The plants of these companies are downstream facilities of the Company and they receive most or all or 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. The Company's refinery operations are integrated with its petrochemical operations.

In the Company's opinion, the integration and synergy between the different fields of operations lead to an increase in aggregate margins flowing to the Company from all of its fields of operation and a reduction in fluctuations of the Company's profits, over time, since business turnover in the areas of the Company's operations and those of its subsidiaries do not necessarily overlap. In addition, joint management of the Company and Gadiv streamlines the operations of the companies and reduces expenses.

The Company, Carmel Olefins and Gadiv have no significant dependency on customers or suppliers, except for the subsidiaries' dependency on the supply of feedstocks from the Company. The Company has an operating dependency on government companies – Petroleum and Energy Infrastructures Ltd. ("PEI") and Eilat Ashkelon Pipeline Company Ltd. ("EAPC"), which supply crude oil transportation services at terminals and in pipelines. The Company has holdings in other companies, each which are not on a scope that is material for the Company.

The Company's strategic plan, which was launched in September 2007 in a scope of \$1.1 billion, focuses on achieving growth and increasing the competitive capacity of the Company in the coming years, as well as expanding the share of high added-value products in the Company's product mix and emphasizing environmental quality. The blueprint of the strategic plan includes the following: (1) accelerated investments in refining, mainly in increasing the complexity and efficiency of the refinery and in synergetic areas. The investment is estimated at \$850 million, of which \$600 million¹ is for the expansion of the cracking capacity of oil products with high added value; (2) identification of business opportunities relating to refineries and petrochemicals in Israel and abroad; (3) expansion of petrochemical operations, by focusing on high added-value products, in Israel and abroad; (4) expansion of trade and logistics operations for oil products; (5) investment of an estimated \$270 million in environmental quality, safety and security and in enhancing operational reliability; (6) reorganization, with a division into three segments: refining, trade and petrochemicals.

¹ For an update on this issue, see section 1.3.1.1 of the Directors' Report.

1.2 Business environment and Company profitability

The refining margin is the major factor affecting the results of operations in the refining segment. This margin is the difference between revenue from the sale of the Company's product index and the refinery cost of the raw materials purchased by the Company (mainly crude oil). The level of the margin is based on the product index and product prices in the reporting period, compared to the composition of the crude oil index and its prices in the same period, depending on different market forces.

Global prices of crude oil and oil products are highly volatile and are set by global supply and demand, among other factors. Prices are also affected by geopolitical events, which are not directly connected to oil production, but which are viewed by the markets as having a potential impact on future production. The level of the refining margin is a result of the market forces active on two different planes: supply and demand of crude oil and supply and demand of end products.

The factors affecting the supply and demand of crude oil and oil products, as described above, generate fluctuations and seasonality in the profitability level of the refining industry.

In the reporting period, the average Brent crude oil price was \$57/barrel, compared to an average of \$111/ton in the corresponding period last year and \$37/barrel on December 31, 2008. Concurrently, there was also a decrease in the prices of fuel products that the Company produces and sells compared to the corresponding period last year.

Accordingly, the accounting results of the Company's operations and refining margins were primarily affected by:

(1) Profit of \$34 million due to timing differences between purchase and selling prices on the Company's unhedged basic inventory of 600,000 tons, for which changes its value do not generate cash flow exposure for the Company. Commencing from September 2009, the Company hedges part of this inventory through options in the event of a material decrease in crude oil prices.

(2) Net profit of \$74 million due to cancellation of the provision of \$183 million for impairment of the Company's inventory made at the end of 2008, following the decrease in prices at the end of 2008, offset by the actual loss of \$97 million from the sale of this inventory and a provision of \$12 million for impairment of inventory at the end of September 2009.

(3) Loss of \$28 million due to the effect of changes in fair value of derivatives on prices of goods, due to the transition to international financial reporting standards (IFRS).

In the refining segment, operating profit, EBITDA and refining margin after neutralizing the effect of these three factors is \$65 million, \$95 million and \$36 per ton, respectively.

Accounting operating profit, EBITDA and refining margin, as reflected in the financial statements (without neutralizing the effects of these factors) is \$145 million, \$175 million and \$50.9 per ton, respectively.

In the reporting period, neutralized refining margins dropped to \$36 per ton, compared to \$41.7 per ton in the corresponding period last year. The margins publicized by Reuters for an example of a Mediterranean refinery having the capability of cracking Ural-type crude oil ("Reuters margin"), amounted to \$15.3 per ton in the reporting period compared to \$40.9 per ton in the corresponding period last year. For further details, see section 3.1.2.

It is noted that there are differences in a number of parameters between the Company's refining margin and the Reuters 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 Reuters' margin could

Oil Refineries Ltd.

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.

The following table summarizes the comparison of the refining margins with the refining margin in the Mediterranean.

	<u>1- 9.2009</u>	<u>7- 9.2009</u>	<u>1- 9.2008</u>	<u>7- 9.2008</u>	<u>1- 12.2008</u>
Ural margin in the Mediterranean (dollar/barrel)	<u>2.1</u>	<u>1.6</u>	<u>5.6</u>	<u>6.7</u>	<u>5.5</u>
Neutralized margin (dollar/barrel)	<u>4.9</u>	<u>8.1</u>	<u>5.7</u>	<u>8.1</u>	<u>5.7</u>
Neutralized margin (dollar/ton)	<u>36.0</u>	<u>60.1</u>	<u>41.7</u>	<u>58.9</u>	<u>41.4</u>
Neutralization of impact:					
Accounting method for derivatives according to IFRS	(5.1)	3.6	0.5	23.9	0.7
Buying and selling timing differences	6.3	23.6	14.4	(6.8)	(9.9)
Provision for impairment of inventory	13.7	(6.9)	(11.0)	(32.4)	(22.3)
Accounting margin (dollar/ton)	<u>50.9</u>	<u>80.4</u>	<u>45.6</u>	<u>43.6</u>	<u>9.9</u>

Consolidated operating profit amounted to \$167 million in the reporting period, compared to \$165 million in the corresponding period last year, an increase of \$2 million.

The following table presents a description of the main reasons for the changes in consolidated operating profit in the third quarter of 2009 (in USD million):

	<u>1-9.2009 compared to 1-9.2008</u>
Decrease in scope of sales	(17)
Decrease in other revenue	(23)
Decrease in profit from the trade segment	(7)
Decrease in losses for derivative transactions	(31)
Provision for impairment of inventory	142
Buying and selling timing differences – in the refining segment	(55)
Decrease in margins in the petrochemicals segment	(25)
Decrease in margins in the refining segment	(31)
Decrease in production expenses, mainly energy	51
Decrease in selling and administrative expenses	20
Loss from the loss of material impact in an investee (see Note 11F to the financial statements)	(7)
Negative goodwill arising upon acquisition in 2008 (see section 3.1.3.1.2D)	(15)
	<u>2</u>

Operating profit in the third quarter of 2009 amounted to \$94 million compared to \$54 million in the corresponding period last year.

Oil Refineries Ltd.

The following table presents a description of the main reasons for the changes in consolidated operating profit in the third quarter of 2009 (in USD million):

	7-9.2009 compared to 7-9.2008
Decrease in the scope of sales	(13)
Decrease in other revenue	(5)
Decrease in profit from the trade segment	(6)
Decrease in losses for derivative transactions	(44)
Change in provision for impairment of inventory	56
Buying and selling timing differences – in the refining segment	53
Decrease in margins in the petrochemicals segment	(4)
Decrease in margins in the refining segment	(2)
Decrease in production expenses, mainly energy	6
Other	(1)
	40

For further details of the results, including a breakdown by segment, see section 3.

Production volume

The refining volume in the Company amounted to 5,536,000 tons, with usage of 81.7% in the reporting period and 1,765,000 tons, with usage of 76.5% in the third quarter of 2009 (in 2008 – 8,245,000 tons). The decrease of usage is mainly due to the periodic renovation of CDU 4 in June and July 2009 and the shutdown of the Company's small crude distillation unit (CDU 1) in September 2009, for optimization purposes, and taking into account the capacity of ADU 4 after its upgrade.

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

	1-9.2009	7-9.2009	1-9.2008	7-9.2008	2008
Diesel fuel	1,718	513	1,715	566	2,367
Gasoline	1,177	408	1,242	410	1,664
Kerosene	492	194	645	265	831
Fuel oil	823	237	1,003	334	1,367
Vacuum diesel	416	92	549	198	738
Other	438	148	483	169	624
Total	5,064	1,592	5,637	1,942	7,591

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

	1-9.2009	7-9.2009	1-9.2008	7-9.2008	2008
Gadiv Petrochemical Industries Ltd	346	117	352	113	430
Carmel Olefins Ltd. (Company's share – 50%)	263	93	275	99	307

1.3 Summary of Company developments during and subsequent to the reporting year

1.3.1 Business developments

1.3.1.1. Strategic plan

On October 12, 2008, the Company's board of directors resolved to establish a hydrocracker in the Haifa refinery, as part of the strategic plan it adopted in November 2007. The budget for the hydrocracker, which will produce middle distillates (diesel oil and kerosene), is \$670 million. The hydrocracker is expected to be operational at the beginning of 2012. Upon activation, the hydrocracker will allow production of higher added-value products with each barrel of oil, substantially increasing the complexity of the Haifa refinery. In addition, the plant will increase the flexibility of the refinery when selecting raw materials and the product mix, adapting them to the changing markets conditions.

In view of the global economic crisis, the board of directors gave instructions to reduce the cost of the hydrocracker. The board of directors also asked to reassess the balance of financial investments.

After updated financial analyses for establishment of the hydrocracker, which indicate the need for and feasibility of immediate establishment of the planned hydrocracker, on June 7, 2009 the board of directors approved the adjusted budget of \$500 million for establishment of the hydrocracker.

The board of directors instructed management to complete the long-term credit arrangements to finance the project. Accordingly, the Company is taking steps to complete arrangements for the credit facility through Export Credit Agency to finance purchase of equipment from foreign suppliers, and to receive the additional long-term credit from various sources, which are vital for completion of the project.

In the reporting period, planning of the first stage (feed) has been completed. At the date of the report, the Company is in the advanced stages of negotiations with major equipment suppliers for final proposals.

Performance of works for the project is contingent on long-term finance arrangements, which the management is working to complete, with a repayment period commencing after start of production at the hydrocracker and the approval of the board of directors for these arrangements.

It is noted that the Company raised part of the sum required to finance the strategic plan in December 2007, pursuant to a prospectus published by the Company on November 28, 2007.

The estimates regarding the expected date for completion of the hydrocracker, the scope of investments and production, as well as the Company's ability to raise the required funding to finance the investment, are forward looking statements. These estimates are based on plans prepared by the Company's management and on information received from independent professional parties. There is no certainty that these estimates will materialize as this is a very complex project and its implementation is dependant, among others, upon factors external to the Company, as well as upon the receipt of various regulatory approvals. Should part or all of these estimates fail to materialize, this may materially affect the establishment of the hydrocracker, date of establishment, date of completion, cost and expected production.

At the approval date of the financial statements, the Company has no financial liabilities for the purchase of property, plant and equipment that are not secured by financing.

Oil Refineries Ltd.

1.3.1.2. Implementation of the strategic plan by segment

1. **Refining:** In 2008, organization and staffing of the segment was completed. An internal compliance plan was adopted for environmental quality, health and safety. In addition, the following investments are made as part of the strategic plan:
 - A. Increased refining flexibility at CDU 4: The project has been completed and operation commenced in July 2009. The upgrade allows refining of a very wide range of crude oil types common in the region, and it will be possible to take advantage of many more opportunities for good margins.
 - B. Conversion is in process of the desulfurization facility from heavy vacuum gas oil (HVGO) to moderate catalytic hydrosulfurization. Stage A was completed at the end of the second quarter of 2009 and stage B is expected to be completed in the second quarter of 2010. Operation of stage A produces an additional 1.5-2% of diesel fuel for refining output. Stage B is expected to produce a similar additional output.
 - C. See section 1.3.1.1 above for establishment of the hydrocracker.
 - D. Projects related to environmental quality in the scope of \$52 million were implemented in 2008 and 2009.
 - E. Establishment of a power station: The configuration testing stage has been completed.
2. **Trade:** In 2008, a modern trade center was established, with an information system for managing trade in oil products and the segment started trade operations.
3. **Petrochemicals**
 - A. **Agreement for purchase of the remaining Carmel Olefins shares**

On October 27, 2009, the Company signed an agreement with Israel Petrochemical Enterprises Ltd. (IPE) for acquisition of the remaining 50% of Carmel Olefins shares, such that on completion of the transaction, the Company will hold the full issued share capital of Carmel Olefins, in return for allotment of 17.75% of the Company's shares (after the allotment). This transaction is part of the Company's business strategy, which aims, inter alia, to realize the full synergy potential in the refinery, polymers and aromatics segments. Completion of the transaction is subject to preconditions, including approval of the general meeting of the shareholders to be held on December 2, 2009 and other regulatory approvals from third parties. At the reporting date, some of the preconditions are yet to be fulfilled. Under the agreement, the last date for fulfilling the preconditions is December 30, 2009
 - B. Increased production capacity of paraxylene and benzene at Gadiv: completion is expected in the second quarter of 2010.
 - C. Increased production capacity of phthalic anhydride at Gadiv: completion is expected in the second quarter of 2010.

Oil Refineries Ltd.

D. Acquisition of a company by Carmel Olefins

On April 25, 2008, Carmel Olefins acquired, through Colland Polymers B.V. (“Colland”), Domo Chemicals N.V. (“Domo”) pursuant to an agreement entered into on January 23, 2008. Colland is a wholly-owned subsidiary of Carmel Olefins. Domo is a petrochemical company incorporated in the Netherlands that manufactures and markets polypropylene used as raw material in the plastics industry for a range of uses and products.

The main terms of the agreement are as follows: Carmel Olefins purchased 49% of the shares of Domo for €20 million. In addition, commencing from 2013, the shareholders of Domo who sold Carmel Olefins the Company’s shares (“the sellers”) could be entitled to additional compensation, not to exceed an annual amount of €1 million over five years, in accordance with the terms set out in the agreement. Carmel Olefins, through Colland, has a call option from the purchase date until December 31, 2016, to purchase the balance of the shares for an additional €10 million, net of the dividends to be distributed to Domo, plus annual interest of 5%. The sellers have a put option, exercisable commencing on July 1, 2011, to sell the remaining 51% in Domo to Carmel Olefins at the same terms.

Commencing from May 1, 2008 Carmel Olefins fully consolidates Domo results due to the options, and the minority interests for the shareholders’ balance in Domo are not included.

E. Termination of the investment in TMA

In the period since 2007 and through to the reporting period, Gadiv negotiated for the purchase of 50% of the registered share capital of a Chinese company (“the acquired company”) which benefits in China from the status of a wholly-foreign owned company (WFOE) and which manufactures Trimellitic Anhydride (TMA), a product used mainly as a softener in the polymers industry and as a component in powder colors, and Para Diethyl Benzene (PDEB), a product used mainly in production of paraxylene. In the negotiations, the Company also signed a memorandum of intent.

The negotiations came to an end during the reporting period, without leading to the acquisition of shares by Gadiv in this enterprise.

Gadiv estimates that there is uncertainty regarding the use of the know-how acquired for establishment of another TMA facility, and therefore the costs accumulated in the reporting period decreased by \$1 million.

4. Company administration

In 2008, internal enforcement plans for antitrust issues, securities laws and environmental quality and safety issues were adopted and assimilated.

5. Environmental quality

Alongside the implementation of environmental, reliability and safety projects in the scope of \$50 million in 2008, out of the comprehensive investment plan in these issues, which was included in the strategic plan, and the assimilation of an internal compliance plan for environmental quality and safety, the Company invested effort to raise public awareness of its activity in these areas. This included the investment of great effort in contact with representatives of green organizations and the media, and in deepening their knowledge of the Company's plants, presentation of environmental activities and the planned investments in the subject.

Oil Refineries Ltd.

See section 11.A below for details of the hearing held for the Company in respect of the personal order under which it operates. See section 11.D below for details of the draft amendment of the personal order according to the Company's operations.

1.3.1.3. Preparations for 2009 and organizational changes

As part of the 2009 work plan, which was approved by the board of directors, the Company is implementing efficiency measures in a number of areas, including production, logistics, purchasing, contractor work and human resources, with the aim of ensuring the realization of its strategic plan and its long-term strength and prosperity, on the background of the global economic crisis and its implications on the Israeli economy.

As part of these measures, there were organizational changes at the beginning of 2009, which included incorporation of the activities of the business development unit into other units in the Company. In this context, the Company's vice president for business development and capital market ended his employment at the Company. In addition, the Company appointed a vice president for administration and human resource development.

1. In this context, the chairman of the board, CEO and other officers in the Company have announced their intention to take a 10% reduction on the salary due to them in 2009 (with the exception of provisions and incidental conditions).
2. The Company's directors, including the outside directors, also announced their intention to take a 10% reduction on the directors' remuneration due to them in 2009.
3. On January 6, 2009, CFO Jacob Hirsh announced his resignation. Igal Salhov, who had served as CFO at Carmel Olefins (held 50% by the Company) until that date, was appointed in his place.

In the reporting period, the Company and the workers union signed a special collective agreement. Under the agreement, in 2009 only, the Company's employees will not receive certain payments due to them under the special collective agreements between the Company and its employees. However, if the Company presents a net profit, after taxes, in its financial statements for 2009, each employee will be paid, in the month after publication of the financial statements, the amounts that were not paid in 2009, provided this payment, had it been made in 2009, would not have resulted in a net loss after taxes in 2009.

1.3.2 Developments in the economic environment and in financial markets and their impact on the Company

In reporting period, the Brent crude oil price rose from \$37/barrel at the end of 2008 to \$66/barrel at the end of the period, after great fluctuation in the price of crude oil and oil products in 2008, which was \$90/barrel at the beginning of 2008, rose to \$140/barrel in the middle of the year and fell to \$37/barrel as aforesaid.

A rise in the crude oil price leads to an increase in the volume of working capital that the Company requires to finance its purchases and to an increase in the inventory value in the Company's books. On the other hand, a drop in the crude oil price leads to a reduction in the volume of working capital required by the Company to finance its operations and an impairment of inventory in the Company's books. The Company's exposure to changes in the price of crude oil is hedged in the futures and derivatives markets.

Oil Refineries Ltd.

The increase in the price of crude oil and its products in the reporting period has a material impact on the results, as described in the section below describing the main factors for the increase in gross profit. It is noted that the Company does not hedge the basic inventory value of 600,000 ton by futures contracts. Commencing from September 2009, the Company hedges part of this inventory through options in the event of a material decrease in crude oil prices. Change in the inventory value has no economical and cash flow impact, therefore, the Company reports its operating results after removing these effects and other effects in respect of changes in the value of derivatives in accordance with IFRS.

In the reporting period, there was significant fluctuation in the dollar-shekel exchange rate. Although the Company's functional currency is the dollar, the Company has assets and liabilities denominated in the shekel (mainly due to salaries, payments to suppliers and subcontractors in Israel and payments to institutions and authorities). From the beginning of 2009 and until the end of the third quarter, there was an appreciation of 1%. The impact of the change in exchange rates on the business results in the reporting period amounts to an expense of \$3 million

The CPI rose by 3.4% in the reporting period. The Company raises long-term credit for its operations, inter alia, through a public placement of CPI-linked debentures. To reduce the Company's exposure to changes in the rate of inflation, the Company entered into a currency swap, converting most of its long-term index-linked shekel debentures into dollar loans (see section 6.1.8 below). Parallel to the Company's CPI-linked liabilities for which there were no currency swap transactions, the Company holds shekel assets and assets linked to this index.

As a result of the fluctuations in financial markets in the reporting period, the fair value of the financial derivatives held by the Company increased by \$44 million, which was recognized in the Company's financing revenue.

See section 12.E below for the implications of the changes in the financial markets subsequent to the balance sheet date and the implications of the economic crisis on the Company's financial position.

2. Financial position

2.1 Current assets

At September 30, 2009, consolidated current assets amounted to \$1.501 billion, representing 51% of the total assets, compared to \$1.104 billion, representing 46% of total assets on December 31, 2008. The change in current assets is mainly due to an increase in the inventory balance in the Group, due to an increase in the price, of \$299 million, an increase of \$59 million in trade receivables and an increase of \$52 million in deposits for derivatives, due to the increase in inventory prices.

Non-current assets

At September 30, 2009, non-current assets amounted to \$1427 billion, representing 49% of the total assets, compared to \$1.301 billion, representing 54% of total assets at December 31, 2008. The increase is mainly due to an increase of \$78 million in property, plant and equipment due to the investment in projects in the refining segment offset by depreciation in the period. Increase in investment in investees amounted to \$10 million, mainly due to the change in accounting treatment in IPE, from equity accounting to accounting by available-for-sale financial instruments, the increase in financial derivatives in the amount of \$49 million, offset by a decrease of \$10 million in the loan to Haifa Early Pensions due to reclassification of maturities to current assets and offset by increase in value.

2.2 Current liabilities

At September 30, 2009, consolidated current liabilities amounted to \$1.039 billion, representing 48% of total liabilities, compared to \$737 million, representing 40% of total liabilities at December 31, 2008. The increase is mainly due to an increase of \$225 million in credit and an increase of \$156 million in trade payables, resulting from the increase in prices of oil and oil products and an increase of \$25 million in financial derivatives, offset by Carmel Olefins' loans of \$117 million that were reclassified last year to current liabilities.

2.3 Non-current liabilities

At September 30, 2009, consolidated non-current liabilities amounted to \$1.148 billion, compared to \$1.117 billion at December 31, 2008. The increase of \$31 million is mainly due to reclassification of Carmel Olefins loans of \$117 million at December 31, 2008 to current liabilities, offset by repayment of loans and debentures amounting to \$100 million.

Equity

At September 30, 2009, equity amounted to \$741 million, representing 25% of the balance sheet, compared to \$552 million, representing 23% of the balance sheet at December 31, 2008. The increase in equity is mainly due to profit of \$167 million in the reporting period.

Oil Refineries Ltd.

3. Results of Group operations

3.1 The following tables present selected information for the nine months period

	Petrochemicals											
	Refining		Trade		Polymers		Aromatics		Adjustments to consolidated		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	Nine months ended September 30											
Revenue	2,683	5,822	422	348	289	382	253	429	-	-	3,647	6,981
Inter-company operations	324	576	29	21	-	-	30	45	(383)	(642)	-	-
Total revenue	3,007	6,398	451	369	289	382	283	474	(383)	(642)	3,647	6,981
Cost of sales	2,797	6,182	449	360	146	158	8	40	-	-	3,400	6,740
Inter-company operations	30	45	-	-	116	204	234	389	(380)	(638)	-	-
Total cost of sales	2,827	6,227	449	360	262	362	242	429	(380)	(638)	3,400	6,740
Gross profit (loss)	180	171	2	9	27	20	41	45	(3)	(4)	247	241
Selling, general and administrative expenses	35	51	2	1	17	18	19	21	-	-	73	91
Inter-company operations	-	-	-	-	2	3	1	1	(3)	(4)	-	-
Operating profit (loss) for segments	145	120	-	8	8	(1)	21	23	-	-	174	150
Negative goodwill arising on acquisition											-	15
Loss from the loss of material impact in a former equity-accounted investee											(7)	-
Operating profit											167	165
Financing expenses											(8)	(88)
Share in profits of equity-accounted investees											5	-
Profit before income tax											164	77
Income tax											3	(3)
Net profit											167	74

Oil Refineries Ltd.

3.1.1 Sales turnover

Sales turnover in the **refining segment** (carried out through the Company) amounted to \$3.007 billion in the reporting period, compared to \$6.398 billion in the corresponding period last year. The decrease in sales turnover was mainly due to the decrease in the average price of oil products. The average price per ton of the product index in the Mediterranean area, similar to the product index produced by the Company (the Company's product index) amounted to \$487 in the reporting period, compared to \$936 in the corresponding period last year.

Revenues from the sale of products with a volume of over \$375 million per product in the reporting period were as follows: diesel fuel - \$874 million and gasoline \$766 million.

According to publications of the Ministry of National Infrastructures, there was a decrease of 9% in consumption of distillates in the local market compared to the corresponding period last year, which included an increase of 2% in gasoline consumption offset by a decrease of 20% in consumption of diesel oil for transportation and heating, mainly due to an increase in gasoline-powered vehicles and the slump in operations in the economy. Additionally, there was a decrease of 19% in fuel oil consumption compared to the corresponding period last year, due to the conversion of the Israel Electric Corporation's power station to production of electricity using natural gas.

Sales turnover in the **trade segment**, which commenced operations in 2008 and is carried out through the Company, amounted to \$451 million in the reporting period, compared to \$369 million in the corresponding period last year.

Sales turnover in the petrochemical segment

Sales turnover of **polymers operations** (carried out through Carmel Olefins) decreased by \$93 million in the reporting period compared to the corresponding period last year. The decrease is due to a decrease of \$200 million in selling prices, offset by an increase of \$107 million in sales volume (of which an increase of \$45 million is due to sales of Domo, which was consolidated for the first time commencing from May 1, 2008 and the balance is due to an increase in the sales of products produced by Carmel Olefins).

Sales turnover of **aromatics operations** (carried out through Gadiv) decreased by \$191 million in the reporting period compared to the corresponding period last year. The decrease is mainly due to the decrease of \$147 million in selling prices, a decrease of \$29 million in quantities, a decrease of \$3 million in processing fees and a decrease of \$12 million in other revenue.

3.1.2 Gross profit

The following table presents a description of the main reasons for the increase in gross profit in the **refining and trade segments** in the reporting period, compared to the corresponding period last year (in USD millions):

	September 30, 2009 compared to September 30, 2008
Decrease in other revenue	(8)
Decrease in profit from the trade segment	(7)
Losses from derivative transactions	(31)
Change in provision for impairment of inventory	142
Buying and selling timing differences	(55)
Decrease in sales turnover	(31)
Decrease in margin less refining operations	(31)
Decrease in production expenses	23
	<hr/>
	2
	<hr/>

Oil Refineries Ltd.

The margin from refining operations is the difference between the revenue from sales of the products that the Company sells and the cost of raw materials that it purchases, excluding refinery (dollars per ton). The cost of raw materials includes hedging transactions for the inventory of crude oil and distillates, as described below in the section referring to risk management.

The following table describes the Company's refining margins, offset by the impact of impairment of inventory, buying and selling timing differences and recording of derivatives in accordance with IFRS in USD/ton.

Q1		Q2		Q3		Year
2009	2008	2009	2008	2009	2008	2008
32.4	17.7	17.4	48.9	60.1	58.9	41.4

In the reporting period, Brent crude oil prices rose from \$37/barrel at the beginning of the period to \$66/barrel at the end of the period, after the extreme volatility in the fuel markets in Israel and worldwide in 2008. In 2008, oil prices rose from \$90/barrel to \$140/barrel in the second half of 2008, and fell to \$37/barrel at the end of the year. In the third quarter of 2009, refining margins increased compared to the end of 2008.

The decrease in other revenue was due to the decrease in the sale of energy and water utilities in the reporting period compared to the corresponding period last year, which was largely caused by the decrease in selling prices.

The decrease of \$23 million in production expenses in the reporting period compared to the corresponding period last year was mainly due to the reorganization plan and the impact of the depreciation on shekel expenses.

Gross profit in **polymers operations** amounted to \$27 million in the reporting period, compared to \$20 million in the corresponding period last year.

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

	September 30, 2009 compared to September 30, 2008
Increase in sales turnover	19
Decrease in products index margin and buying and selling timing differences	(17)
Decrease in production and other expenses	5
	<u>7</u>

Oil Refineries Ltd.

Gross profit in **aromatics operations** amounted to \$41 million in the reporting period, compared to \$45 million in the corresponding period last year.

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

	September 30, 2009 compared to September 30, 2008
Decrease in sales quantities	(4)
Decrease in processing fees and other revenue	(15)
Decrease in products index margin	(8)
Decrease in production expenses, in particular energy	23
	<u>(4)</u>

3.1.3 Selling, general and administrative expenses

Selling, general and administrative expenses include mainly payroll, insurance, taxes and authorization fees.

In the reporting period, consolidated selling, general and administrative expenses amounted to \$73 million, compared to \$91 million the corresponding period last year. The decrease in expenses was mainly due to the decrease in salary expenses as a result of the impact of depreciation on payroll expenses and a decrease in municipal tax expenses for an expense from previous years that was recorded last year.

3.1.4 Operating profit and EBITDA

Refining and trade segment

Neutralized operating profit in the refining and trade segments amounted to \$65 million in the reporting period, compared to \$104 million in the corresponding period last year.

Accounting operating profit in the refining and trade segments amounted to \$145 million in the reporting period, compared to \$128 million in the corresponding period last year. The increase in accounting operating profit of \$17 million is due to an increase of \$2 million in gross profit and a decrease of \$15 million in selling and administrative expenses as described above.

Neutralized EBITDA in the refining and trade segment amounted to \$95 million in the reporting period, compared to \$134 million in the corresponding period last year, a decrease of \$39 million.

Accounting EBITDA amounted to \$175 million in the reporting period, compared to EBITDA of \$158 million in the corresponding period last year, an increase of \$17 million.

Petrochemicals segment

Operating profit of **polymers operations** amounted to \$8 million in the reporting period, compared to a loss of \$1 million in the corresponding period last year. The increase is mainly due to an increase of \$7 million in gross profit, as described above.

EBITDA of **polymers operations** amounted to \$28 million in the reporting period, compared to \$19 million in the corresponding period last year.

Operating profit of **aromatics operations** amounted to \$21 million in the reporting period, compared to \$23 million the corresponding period last year.

Oil Refineries Ltd.

EBITDA of **aromatics operations** amounted to \$26 million in the reporting period, compared to \$30 million in the corresponding period last year.

Consolidated accounting operating profit amounted to \$167 million in the reporting period, compared to a profit of \$165 million in the corresponding period last year.

3.1.5 Financing expenses

Net consolidated financing expenses amounted to \$8 million in the reporting period, compared to \$88 million in the corresponding period last year.

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

	September 30, 2009 compared to September 30, 2008
Decrease in interest on loans and debentures	(19)
Decrease in short-term interest	(10)
Increase in revenue from Haifa Early Pensions and securities portfolio interest	(5)
Revaluation, net	(26)
Fair value of hedging	(16)
Other	(4)
	<u>(80)</u>

3.1.6 Company's share in earnings of investees

The Company's share in earnings of investees amounted to a profit of \$5 million in the reporting period, compared to a balance in the corresponding period last year.

3.1.7 Income tax

Tax benefits in the Group amounted to \$3 million in the reporting period, due to the one-time impact of the change in statutory tax on the tax reserves amounting to \$36 million (see section 11.P), offset by tax expenses of \$33 million for profits in the period.

Oil Refineries Ltd.

3.2 Third quarter results compared to the corresponding quarter last year

3.2.1 The following tables present selected information for the three months period

	Petrochemicals											
	Refining		Trade		Polymers		Aromatics		Adjustments to consolidated		Consolidated	
	Three months ended on September 30											
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Revenue	1,043	2,278	192	57	113	142	107	148	-	-	1,455	2,625
Inter-company operations	135	218	11	-	-	-	11	16	(157)	(234)	-	-
Total revenue	1,178	2,496	203	57	113	142	118	164	(157)	(234)	1,455	2,625
Cost of sales	1,072	2,425	205	53	48	65	7	-	-	-	1,332	2,543
Inter-company operations	11	16	-	-	49	65	98	154	(158)	(235)	-	-
Total cost of sales	1,083	2,441	205	53	97	130	105	154	(158)	(235)	1,332	2,543
Gross profit (loss)	95	55	(2)	4	16	12	13	10	1	1	123	82
Selling, general and administrative expenses	13	16	1	1	8	6	7	6	-	-	29	29
Inter-company operations	-	-	-	-	1	1	-	-	(1)	(1)	-	-
Operating profit (loss) for segments	82	39	(3)	3	7	5	6	4	2	2	94	53
Negative goodwill arising on acquisition											-	1
Operating profit (loss)											94	54
Financing revenue (expenses)											(17)	(52)
Share in the (profits) losses of equity accounted investees											1	(3)
Profit (loss) before taxes on income											78	(1)
Tax benefits (income tax)											22	1
Net profit (loss)											100	-

Oil Refineries Ltd.

3.2.2 Turnover

The dollar turnover in the refining segment in the third quarter decreased by 53% compared to the corresponding quarter last year, mainly due to a decrease in product prices and sales volume.

Sales turnover in the **trade segment** amounted to \$203 million, compared to \$57 million in the corresponding period last year.

Sales turnover in the polymer segment decreased by 20% in the third quarter due to a decrease in selling prices offset by an increase in sales volume.

Sales turnover in the aromatics segment decreased by 28% in the third quarter compared to the corresponding quarter last year. The decrease is due to a decrease in selling prices and sales volume.

Revenue from the sale of products with a volume of over \$125 million in the third quarter: gasoline - \$327 million, diesel fuel - \$322 million.

3.2.3 Gross profit

Gross profit in the refining and trade segments amounted to \$93 million in the third quarter compared to \$59 million in the corresponding quarter last year.

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

	7-9.2009 compared to 7-9.2008
Decrease in the margin from refining operations	(2)
Losses due to derivative transactions	(44)
Decrease in revenue in the trade segment	(7)
Impairment of inventory	56
Buying and selling timing differences	53
Decrease in volume of refining and sales	(22)
	<u>34</u>

Gross profit in the polymers segment amounted to \$16 million in the third quarter compared to \$12 million in the corresponding quarter last year.

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

	7-9.2009 compared to 7-9.2008
Increase in sales volume	9
Decrease in products index margin	(3)
Increase in production expenses	(2)
	<u>4</u>

Oil Refineries Ltd.

Gross profit in the aromatics segment amounted to \$13 million in the third quarter, compared to \$10 million in the corresponding quarter last year.

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

	7-9.2009 compared to 7-9.2008
Decrease in production expenses, mainly energy	7
Decrease in processing fees	(4)
	<u>3</u>

3.2.4 Operating profit and EBITDA

Neutralized operating profit in the **refining and trade segment** amounted to \$45 million in the third quarter, compared to \$74 million in the corresponding quarter last year.

Operating profit in the **refining and trade segment** amounted to \$79 million in the third quarter compared to \$42 million in the corresponding quarter last year.

The increase of \$37 million in operating profit in the **refining and trade segment** is due to an increase of \$34 million in gross profit as explained above, and a decrease of \$3 million in administrative and selling expenses.

Neutralized EBITDA in the **refining and trade segment** amounted to \$55 million in the third quarter, compared to \$83 million in the corresponding quarter last year, a decrease of \$28 million.

EBITDA in the refining and trade segment amounted to \$89 million in the third quarter, compared to \$51 million in the corresponding quarter last year.

Operating profit in **polymers operations** amounted to \$7 million in the third quarter compared to \$5 million in the corresponding quarter last year. The increase was mainly due to an increase of \$4 million in gross profit, as described above, offset by an increase in general and administrative expenses of \$2 million.

EBITDA amounted to \$17 million in the third quarter, compared to \$16 million in the corresponding quarter last year.

Operating profit in **aromatics operations** amounted to \$6 million in the third quarter, compared to \$4 million in the corresponding quarter last year.

EBITDA amounted to \$8 million in the third quarter, compared to \$7 million in the corresponding quarter last year.

Operating profit amounted to \$94 million in the third quarter, compared to \$54 million in the corresponding quarter last year.

Oil Refineries Ltd.

3.2.5 Financing

Consolidated financing expenses amounted to \$17 million in the third quarter, compared to \$52 million in the corresponding period last year.

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

	7-9.2009 compared to 7-9.2008
Decrease in interest on loans and debentures	(5)
Increase in short-term interest	(2)
Increase in revenue from Haifa Early Pensions and securities portfolio interest	(7)
Revaluation, net	(7)
Fair value of hedging	(10)
Other	(4)
	<u>(35)</u>

3.2.6 Company's share in earnings (losses) of investees

The Company's share in the third quarter amounted to a profit of \$1 million, compared to a loss of \$3 million in the corresponding quarter last year.

3.2.7 Income tax

In the third quarter, tax benefits amounted to \$22 million, mainly due to the impact of the change in statutory tax on tax reserves amounting to \$36 million last year, offset by tax expenses for profit in the period.

4. Liquidity

Total current assets less current liabilities at September 30, 2009 amounted to \$461 million compared to \$367 million at December 31, 2008. The current ratio at September 30, 2009 is 1.45 compared to 1.5 at December 31, 2008.

Consolidated cash flows from operating activities in the reporting period amounted to \$101 million, Cash flow was mainly from net accounting profit of \$167 million plus adjustments of non-cash activities of \$106 million, offset by an increase of \$172 million in current assets and liabilities, due to the increase in the prices of crude oil and its products in the reporting period.

Cash flows used in investment activity in the reporting period amounted to \$182 million, used mainly to finance investments in property, plant and equipment and for investment in a deposit for derivatives on inventory.

Net cash flows from finance activity amounted to \$74 million in the reporting period, mainly from short-term credit received in the amount of \$224 million, offset by repayment of debentures and long-term loans of \$100 million and payment of interest of \$44 million.

Total cash flows from operating activities less cash used for financing and investment operations led to a decrease of \$8 million in cash balances in the reporting period.

5. Sources of financing

Composition of Group financing sources:

	September 30, 2009	December 31, 2008
	USD millions	USD millions
Sources		
Decrease in cash in the period	246	8
Cash from operating activities (prior to changes in working capital)	-	277
Receipt of short-term credit and deposits from customers and others	128	224
Decrease in working capital, net	307	-
Dividends received from investees	1	4
	682	513
Uses		
Cash used for operating activities (prior to changes in working capital)	-	(76)
Increase in working capital, net	178	-
Repayment of long-term loans and debentures	100	218
Interest paid	48	185
Payment of dividend	-	121
Investments in fixed and other assets	137	142
Investment in deposits	50	25
Investment in associates and negotiable securities, net	-	15
	513	682

Long-term loans and debentures

Long term loans and debentures at September 30, 2009 (after deduction of current maturities) amounted to \$1.008 billion, representing 34% of the balance sheet, compared to \$960 million, representing 40% of the balance sheet as of December 31, 2008. Financial leverage (long term loans and debentures for equity plus long term loans and debentures) at September 30, 2009 is 58% compared to 64% at December 31, 2008.

Total financial liabilities

Current financial liabilities plus long-term loans and debentures amounted to \$1.496 billion at September 30, 2009, representing 51% of the balance sheet, compared to \$1.340 billion, representing 56% of the balance sheet as of December 31, 2008. Financial leverage of total financial liabilities to banks and other credit providers is 67% compared to 71% at December 31, 2008.

Long-term financial liabilities (long-term loans and debentures, including current maturities) amounted to \$1.144 billion at the end of the reporting period: in the Company \$892 million (including \$119 million in current maturities); in Carmel Olefins \$250 million (including \$17 million in current maturities); and in Gadiv \$2 million.

Average volume of sources of finance in the reporting period

Long term loans and debentures (including current maturities) – \$1.168 billion; short term credit – \$241 million; trade payables – \$349 million; trade receivables – \$282 million.

6. 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, 2008, with the exception of those described sections 1.2(1) and 1.3.2 above.

6.1 Sensitivity analysis of the Company's exposure to market risks

6.1.1 Summary of the differences in fair value in view of the sensitivity analysis of the dollar-shekel exchange rate

	Profit (loss)		Fair value	Profit (loss)	
	+10%	+5%	September 30, 2009	-5%	-10%
	4.1338	3.9459	3.758	3.5701	3.3822
	USD thousands				
Long-term shekel linked debentures	48,022	25,154	(528,244)	(27,802)	(58,694)
Long-term shekel debentures	12,947	6,782	(142,415)	(7,496)	(15,824)
Trade receivables(NIS)	(12,506)	(6,551)	137,571	7,241	15,286
Trade payables (NIS)	7,161	3,751	(78,767)	(4,146)	(8,752)
Inventory balance (NIS) (*)	(6,868)	(3,598)	75,550	3,976	8,394
Securities (NIS)	(8,712)	(4,563)	95,827	5,044	10,647
Forward contracts	11,534	6,042	373	(6,678)	(14,097)
Cross currency interest rate swap (CCIRS)	(54,024)	(28,298)	89,690	31,277	66,030
	<u>(2,446)</u>	<u>(1,281)</u>		<u>1,416</u>	<u>2,990</u>

* Inventory denominated in NIS

6.1.2 Summary of the differences in fair value in view of the sensitivity analysis of the euro-dollar exchange rate

Interest for dollar loans	Profit (loss)		Fair value	Profit (loss)	
	+10%	+5%	September 30, 2009	-5%	-10%
	1,525	763	217	(763)	(1,525)
	USD thousands				
Forward contract	1,525	763	217	(763)	(1,525)

6.1.3 Summary of the differences in fair value in view of the sensitivity analysis of the dollar interest rate

	Profit (loss)				Fair value 30.9.2009	Profit (loss)			
	Increase		Addition			Reduction		Decrease	
	+ 10%	+ 5%	+1%	+0.5%	30.9.2009	-0.5%	-1%	-5%	- 10%
	USD thousands								
Interest rate swaps (IRS)	1,421	713	5,812	2,942	(5,784)	(3,016)	(6,107)	(717)	(1,438)
Interest options (caps/floors)	480	241	1,806	917	376	(941)	(1,784)	(242)	(486)
Margin hedging (swap)	(9)	(4)	(57)	(28)	5,709	28	57	4	9
Dollar-linked securities	(56)	(28)	(6)	(3)	11,803	3	6	28	56
Forward contracts	10	7	1	-	522	-	(1)	(5)	(10)
CCIRS	1,205	605	16,406	8,322	89,690	(8,570)	(17,398)	(611)	(1,228)
	<u>3,051</u>	<u>1,532</u>	<u>23,462</u>	<u>12,150</u>		<u>(12,496)</u>	<u>(25,227)</u>	<u>(1,543)</u>	<u>(3,097)</u>

Oil Refineries Ltd.

6.1.4 Summary of the differences in fair value in view of the sensitivity analysis of the price of crude oil and oil products

<u>Change in price</u>	<u>Profit (loss)</u>				<u>Fair value</u> <u>September</u> <u>30, 2009</u>	<u>Profit (loss)</u>				
	<u>Increase</u>					<u>USD thousands</u>	<u>Decrease</u>			
	<u>50% +</u>	<u>20% +</u>	<u>10%+</u>	<u>5%+</u>			<u>5%-</u>	<u>10%-</u>	<u>20%-</u>	<u>50% -</u>
Inventory (*)	269,912	107,965	53,982	26,991	539,823	(26,991)	(53,982)	(107,965)	(269,912)	
Futures	(128,704)	(49,693)	(23,355)	(10,187)	(32,645)	16,149	29,318	55,655	134,667	
Put options	(3,183)	(2,563)	(1,710)	(1,050)	3,228	1,429	3,456	11,528	90,599	
Margin hedging (swap)	13,127	5,251	2,626	1,313	5,709	(1,313)	(2,626)	(5,251)	(13,127)	
	<u>151,152</u>	<u>60,960</u>	<u>31,543</u>	<u>17,067</u>		<u>(10,726)</u>	<u>(23,834)</u>	<u>(46,033)</u>	<u>(57,773)</u>	

(*) Excluding inventory with a fixed price

(**) Assuming product index prices are unchanged

6.1.5 Summary of the differences in fair value in view of the sensitivity analysis of shekel interest in real terms:

<u>Change in interest</u>	<u>Profit (loss)</u>				<u>Fair value</u> <u>September</u> <u>30, 2009</u>	<u>Profit (loss)</u>				
	<u>Increase</u>		<u>Addition</u>			<u>USD thousands</u>	<u>Reduction</u>		<u>Decrease</u>	
	<u>10% +</u>	<u>5% +</u>	<u>1%+</u>	<u>0.5%+</u>			<u>0.5%-</u>	<u>1%-</u>	<u>5%-</u>	<u>10% -</u>
CPI-linked securities	(365)	(182)	(36)	(18)	42,970	18	36	182	365	
Long-term CPI-linked shekel debentures	8,274	4,168	21,055	10,691	(528,244)	(11,031)	(22,415)	(4,232)	(8,528)	
Index-linked CCIRS	(3,702)	(1,859)	(21,216)	(10,788)	80,338	11,163	22,716	1,874	3,764	
	<u>4,207</u>	<u>2,127</u>	<u>(197)</u>	<u>(115)</u>		<u>150</u>	<u>337</u>	<u>(2,176)</u>	<u>(4,399)</u>	

6.1.6 Summary of the differences in fair value in view of the sensitivity analysis of nominal shekel interest

<u>Change in interest</u>	<u>Profit (loss)</u>				<u>Fair value</u> <u>September</u> <u>30, 2009</u>	<u>Profit (loss)</u>				
	<u>Increase</u>		<u>Addition</u>			<u>USD thousands</u>	<u>Reduction</u>		<u>Decrease</u>	
	<u>10% +</u>	<u>5% +</u>	<u>1%+</u>	<u>0.5%+</u>			<u>0.5%-</u>	<u>1%-</u>	<u>5%-</u>	<u>10% -</u>
Securities (NIS)	(457)	(228)	(46)	(23)	52,857	23	46	228	457	
Forward contracts	(3)	(1)	-	-	373	-	-	1	3	
Unlinked shekel debentures	2,028	1,020	4,152	2,098	(142,415)	(2,144)	(4,335)	(1,031)	(2,074)	
Unlinked CCIRS	(1,529)	(768)	(4,425)	(2,237)	9,352	2,286	4,624	774	1,554	
	<u>39</u>	<u>23</u>	<u>(319)</u>	<u>(162)</u>		<u>165</u>	<u>335</u>	<u>(28)</u>	<u>(60)</u>	

Oil Refineries Ltd.

6.1.7 Summary of the differences in fair value in view of the sensitivity analysis of euro interest

Change in interest	Profit (loss)				Fair value September 30, 2009	Profit (loss)			
	Increase		Addition			Reduction		Decrease	
	10% +	5% +	1%+	0.5%+		0.5%-	1%-	-5%	- 10%
USD thousands									
Forward contracts	(15)	(7)	(1)	(1)	217	1	1	7	15

6.1.8 Summary of the differences in fair value in view of the sensitivity analysis of the CPI

	Profit (loss)		Fair value September 30, 2009	Profit (loss)	
	+10%	+5%		-5%	-10%
	USD thousands				
Index-linked securities	4,297	2,149	42,970	(2,149)	(4,297)
Long-term index-linked shekel debentures	(52,824)	(26,412)	(528,244)	26,412	52,824
Cross currency interest rate swap (CCIRS)	44,555	22,277	80,338	(22,277)	(44,555)
	(3,972)	(1,986)		1,986	3,972

6.2 Sensitivity analysis of the exposure to market risks at Carmel Olefins

6.2.1 Summary of the differences in fair value in view of the sensitivity analysis of the dollar-shekel exchange rate

	Profit (loss)		Fair value September 30, 2009	Profit (loss)	
	Increase			Decrease	
	+10%	+5%		-5%	-10%
USD thousands					
Long-term shekel linked debentures	10,098	5,290	(111,079)	(5,847)	(12,342)
Trade receivables(NIS)	(839)	(439)	9,230	486	1,026
Trade payables (NIS)	1,222	640	(13,444)	(708)	(1,495)
Forward contracts	(8,838)	(4,419)	23,285	4,419	8,838
Cross currency interest rate swap (CCIRS)	97	51	(18)	(56)	(119)
	1,740	1,123		(1,706)	(4,092)

Oil Refineries Ltd.

6.2.2 Summary of the differences in fair value in view of the sensitivity analysis of the euro-dollar exchange rate

	Profit (loss)		Fair value September 30, 2009	Profit (loss)	
	Increase			Decrease	
	+10%	+5%		-5%	-10%
			1.466		
	USD thousands				
Trade receivables- euro	(1,803)	(944)	19,828	1,044	2,203
Trade payables - euro	1,265	663	(13,911)	(732)	(1,546)
Other long-term liabilities - euro	689	361	(7,581)	(399)	(843)
Long-term loans - euro	2,880	1,509	(31,682)	(1,668)	(3,521)
Forward contract	(1,969)	(984)	599	984	1,969
	<u>1,062</u>	<u>605</u>		<u>(771)</u>	<u>(1,738)</u>

6.2.3 Summary of the differences in fair value in view of the sensitivity analysis of the GBP-dollar exchange rate

	Profit (loss)		Fair value September 30, 2009	Profit (loss)	
	Increase			Decrease	
	+10%	+5%		-5%	-10%
			1.609		
	USD thousands				
Trade receivables - GBP	(473)	(248)	5,205	274	578
Forward contracts	271	136	108	(136)	(271)
	<u>(202)</u>	<u>(112)</u>		<u>138</u>	<u>308</u>

6.2.4 Summary of the differences in fair value in view of the sensitivity analysis of euro interest

	Profit (loss)		Fair value September 30, 2009	Profit (loss)	
	Increase			Decrease	
	+10%	+5%		-5%	-10%
	USD thousands				
Fixed interest euro loan	20	9	(26,862)	(9)	(20)

6.2.5 Summary of the differences in fair value in view of the sensitivity analysis of dollar interest

	Profit (loss)		Fair value September 30, 2009	Profit (loss)	
	Increase			Decrease	
	+10%	+5%		-5%	-10%
	USD thousands				
CCIRS	(1,640)	(822)	23,285	(821)	1,643

Oil Refineries Ltd.

6.2.6 Summary of the differences in fair value in view of the sensitivity analysis of shekel interest in real terms:

	<u>Profit (loss)</u>		<u>Fair value</u> <u>September</u> <u>30, 2009</u>	<u>Profit (loss)</u>	
	<u>Increase</u>			<u>Decrease</u>	
	<u>+10%</u>	<u>+5%</u>		<u>-5%</u>	<u>-10%</u>
	<u>USD thousands</u>				
Index-linked CCIRS	(2,054)	(1,034)	23,285	1,050	2,111
Long-term index-linked shekel debentures	4,148	2,102	(111,079)	(2,159)	(4,375)
	<u>2,094</u>	<u>1,068</u>		<u>(1,109)</u>	<u>(2,264)</u>

6.2.7 Summary of the differences in fair value in view of the sensitivity analysis of the CPI

	<u>Profit (loss)</u>		<u>Fair value</u> <u>September</u> <u>30, 2009</u>	<u>Profit (loss)</u>	
	<u>Increase</u>			<u>Decrease</u>	
	<u>+10%</u>	<u>+5%</u>		<u>-5%</u>	<u>-10%</u>
	<u>USD thousands</u>				
CCIRS	11,166	5,584	23,285	(5,584)	(11,166)
Debentures	(11,108)	(5,554)	111,079	5,554	11,108
	<u>58</u>	<u>30</u>		<u>(30)</u>	<u>(58)</u>

6.2.8 Summary of differences in fair value in view of the changes in polymer prices

	<u>Profit (loss)</u>		<u>Fair value</u> <u>September</u> <u>30, 2009</u>	<u>Profit (loss)</u>	
	<u>Increase</u>			<u>Decrease</u>	
	<u>+10%</u>	<u>+5%</u>		<u>-5%</u>	<u>-10%</u>
	<u>USD thousands</u>				
Finished goods inventory	3,461	1,731	34,606	(1,731)	(3,461)

Oil Refineries Ltd.

6.3 Consolidated linkage-based report

6.3.1 Consolidated linkage-based report as of September 30, 2009 (USD thousands)

	<u>NIS index- linked</u>	<u>Foreign- currency linked(*)</u>	<u>NIS Unlinked</u>	<u>Non- monetary</u>	<u>Total</u>
Assets					
Cash and cash equivalents	-	3,223	4,245	-	7,468
Deposits	-	77,247	-	-	77,247
Investments in other financial assets at fair value through profit or loss	42,970	11,803	53,815	-	108,588
Future purchase	-	161,271	14,675	-	175,946
Trade receivables	-	250,270	61,818	-	312,088
Other receivables	20,607	5,518	21,931	9,686	57,742
Inventory	-	745,895	78,127	44,194	868,216
Current tax assets	46,530	-	-	-	46,530
Investments in equity-accounted investees	-	-	-	35,844	35,844
Investments in available-for-sale financial assets	-	-	-	10,510	10,510
Loan to Haifa Early Pensions Ltd. (**)	64,140	-	29,923	94,063	-
Long term loans and debit balances (**)	-	700	3,077	3,777	-
Financial assets at fair value through profit or loss	546,580	-	148,719	695,299	-
Employee benefit plan assets	-	-	5,877	5,877	-
Property, plant and equipment	-	-	-	1,161,698	1,161,698
Intangible assets and deferred expenses, net	-	-	-	24,992	24,992
Total assets	720,827	1,255,927	422,207	1,286,924	3,685,885
Liabilities					
Short-term credit and loans	-	(288,982)	(65,276)	-	(354,258)
Trade payables	-	(387,450)	(39,779)	-	(427,229)
Other payables	(7,032)	(27,440)	(43,990)	-	(78,462)
Derivatives at fair value through profit or loss – short term	-	(26,954)	-	-	(26,954)
Future sales	-	(28,823)	(146,601)	-	(175,424)
Provisions	-	(1,982)	(12,403)	-	(14,385)
Financial liabilities at fair value through profit or loss	-	(582,324)	-	-	(582,324)
Debentures (**)	(629,873)	(3,670)	(133,049)	2,684	(763,908)
Bank loans (**)	-	(381,336)	-	2,781	(378,555)
Liabilities for finance lease	(8,816)	-	-	-	(8,816)
Other long-term liabilities	-	(7,581)	-	-	(7,581)
Long-term derivatives at fair value through profit or loss	-	(5,558)	-	-	(5,558)
Employee benefits	-	(485)	(54,017)	-	(54,502)
Liabilities for deferred taxes	-	-	-	(66,664)	(66,664)
Total liabilities	(645,721)	(1,742,585)	(495,115)	(61,199)	(294,462)
Net balance	(75,106)	(486,658)	(72,908)	1,225,725	741,265

(*) Primarily dollar

(**) Including current maturities

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

Oil Refineries Ltd.

6.3.2 Consolidated linkage-based report as of December 31, 2008 (USD thousands)

	<u>NIS index-linked</u>	<u>Foreign-currency linked(*)</u>	<u>NIS Unlinked</u>	<u>Non-monetary</u>	<u>Total</u>
Assets					
Cash and cash equivalents	-	14,194	646	-	14,840
Deposits	-	25,000	-	-	25,000
Derivatives at fair value through profit or loss	-	15,374	-	-	15,374
Future purchase	-	78,684	-	-	78,684
Investments in other financial assets at fair value through profit or loss	49,612	16,432	35,465	-	101,509
Trade receivables	-	173,759	79,456	-	253,215
Other receivables	27,303	9,729	17,580	25,852	80,464
Inventory	-	494,013	34,298	41,096	569,407
Current tax assets	42,047	-	-	-	42,047
Investment in equity-accounted investees	-	-	-	36,005	36,005
Loan to Haifa Early Pensions Ltd. (**)	86,047	-	-	-	86,047
Long term loans and debit balances (**)	-	463	3,014	-	3,477
Long-term financial assets at fair value through profit or loss	499,951	-	150,092	-	650,043
Employee benefit plan assets	-	-	5,007	-	5,007
Property, plant and equipment	-	-	-	1,083,446	1,083,446
Intangible assets and deferred expenses, net	-	-	-	25,170	25,170
Total assets	704,960	827,648	325,558	1,211,569	3,069,735
Liabilities					
Credit and loans	-	(81,645)	(48,774)	-	(130,419)
Trade payables	-	(243,107)	(27,487)	-	(270,594)
Other payables	(1,422)	(31,395)	(33,346)	-	(66,163)
Future sales	-	(18,908)	(61,629)	-	(80,537)
Long-term financial liabilities at fair value through profit or loss	-	(585,674)	-	-	(585,674)
Provisions	-	(2,201)	(10,748)	-	(12,949)
Debentures (**)	(619,875)	(4,455)	(131,510)	3,270	(752,570)
Bank loans (**)	-	(459,736)	-	2,083	(457,653)
Liabilities for finance lease	(8,448)	-	-	-	(8,448)
Other long-term liabilities	-	(7,394)	-	-	(7,394)
Long-term derivatives at fair value through profit or loss	-	(6,900)	-	-	(6,900)
Employee benefits	-	(461)	(72,277)	-	(72,738)
Liabilities for deferred taxes	-	-	-	(65,827)	(65,827)
Total liabilities	(629,745)	(1,441,876)	(385,771)	(60,474)	(2,517,866)
Net balance	75,215	(614,228)	(60,213)	1,151,095	551,869

(*) Primarily dollar

(**) Including current maturities

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

7. Additional information contained in the auditors' report to shareholders

Without qualification to the opinion, the auditors of the Company drew attention to:

- 7.1. The contents of Note 7(A) and Note 8(A-C) and 8(E) to the financial statements as of September 30, 2009, regarding the suits filed against the Company, a subsidiary and a proportionally consolidated company ("the subsidiaries"), the 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 counsels 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 provision regarding this matter was included in the financial statements.
- 7.2. The contents of Note 7(B) and Note 8(D) to the financial statements as of September 30, 2009, regarding the dependency of the Group on services from infrastructure companies.

8. Disclosure of the process for approving the Company's financial statements

The board of directors appointed an audit and balance sheet committee and instructed it, among its other duties, to discuss and make recommendations to the board in connection with the approval of the financial statements. Among the members of the audit committee are Ory Slonim, Avisar Paz and Daphne Schwartz, the directors having accounting and financial expertise, as well as other directors.

The audit and balance sheet committee discusses the financial statements at its meeting at which senior officers of the Company and the external auditor of the Company are in attendance. The committee hears a detailed presentation made by the senior officers and others at the Company, including the CEO and CFO. The presentation includes the material issues contained in the financial reports, including material transactions not conducted in the normal course of business (if any), the significant assessments and critical estimates applied in the financial statements, the accounting policy applied and changes thereto (if any), and the implementation of the fair disclosure principle in the financial statements and accompanying information.

The committee assesses the various aspects of the control and risk management, both those reflected in the financial statements (for example, reporting on financial risks) and those affecting the reliability of the financial statements. The opinion of the external auditor is also heard at the meeting. The committee presents its recommendations regarding the reports to the board of directors.

After receiving the recommendation of the audit and balance sheet committee regarding the financial statements, the board of directors investigates the material issues included in the financial statements, including material transactions not conducted in the normal course of business (if any), the significant assessments and critical estimates applied in the financial statements, the accounting policy applied and changes thereto (if any), and the implementation of the fair disclosure principle in the financial statements and accompanying information. The board of directors assesses the various aspects of the control and risk management, both those reflected in the financial statements (for example, reporting on financial risks) and those affecting the reliability of the financial statements.

The board of directors also studies the recommendations of the audit and balance sheet committee regarding the financial statements being discussed, hears the opinion of the auditor, and where necessary, requests that other matters be reviewed by the board, at its discretion.

The financial statements are submitted to the members of the audit and balance sheet committee and the board of directors a few days prior to the meeting at which they are discussed for purposes of approval.

During the course of the deliberations of the board of directors, questions are raised by the members of the board on various issues, including issues that arose during the audit. The purpose of the entire process is to ensure that the financial statements faithfully present the financial position of the Company.

Oil Refineries Ltd.

The questions and issues raised are addressed when necessary by both Company management through the CEO or CFO and by the auditor of the Company. Following a discussion, the chairman of the board calls for a vote on the approval of the financial statements, after ensuring that members of the board have no further questions and there are no unanswered issues.

The financial statements as of September 30, 2009 were discussed at the audit and balance sheet committee on November 8, 2009 in the presence of the members of the audit and balance sheet committee – Ory Slonim (chair), Yachin Cohen, Avisar Paz, Nehama Ronen and Daphne Schwartz, and with the participation of all the board members. These financial statements were discussed at the meeting of the board of directors on November 8, 2009, in the presence of all the board members. The discussion of the statements was completed and the statements were approved by the Company's board of directors on November 10, 2009.

9. Disclosure regarding the internal auditor in a reporting corporation

On July 19, 2009, the internal auditor, Yehuda Meirovitch, announced his resignation. At the request of the board of directors, the auditor agreed to continue in his position until an auditor is appointed to replace him. On September 1, 2009, at the recommendation of the audit committee, the board of directors appointed Guy Monarov as internal auditor and he began his duties subsequent to the reporting date, on October 18, 2009.

Qualifications of Guy Monarov: CPA, CIA, CISA The new internal auditor is not a Company employee and he is engaged through an agreement to provide internal auditing services.

10. Debentures of the corporation held by the public

On April 23, 2009, Maalot S&P (Maalot) announced that the rating of the Company's debentures (non-negotiable series and negotiable series A-C) has been placed on CreditWatch Negative.

On July 7, 2009, Maalot removed the Company from CreditWatch and restored the negative outlook, while confirming the current rating of i1A, in other words, the rating set in November 2008. The negative outlook reflects the concern that low refining margins in the medium-term, together with the ambitious investment plan, could create pressure on the Company's cash flow.

11. Significant events during the reporting period

A. In January 2009, the Company and Gadiv received a warning and summons to a hearing from the Ministry of Environmental Protection, relating to violations and alleged improper application of the provisions of the personal order ("the warning"). The warning described the alleged violations which referred, inter alia, to the timetables set forth in the order, results of stack samples, submission of certain plans stipulated in the personal order and the way information is sent to the Ministry, as stipulated in the order.

Prior to the date of the hearing, the Company and Gadiv submitted their responses to the warning they received. In the response, they described their arguments and responses to the issues included in the warning. At the conclusion of the hearing, goals and timetables were set for actions to be taken by the Company and Gadiv to reduce the pollution emitted by their facilities. The Company and Gadiv are preparing to implement the mandatory actions under the personal orders and are holding discussions with the Ministry of Environmental Protection regarding additional actions that the Ministry requires. In the reporting period, the Company and Gadiv reached an agreement with the Ministry of Environmental Protection regarding all the issues that arose at the conclusion of the hearing, and they are operating in accordance with these agreements.

Oil Refineries Ltd.

- B.** On August 9, 2009, the Director of the Haifa District in the Ministry of Environment Protection served Carmel Olefins and the CEO of Carmel Olefins with a notice and summons for a hearing, pursuant to the Prevention of Hazards Law - 1961, for alleged non-compliance with the provisions of the personal order applicable to Carmel Olefins in respect of the smoke emission event from Carmel Olefins' plant on August 7, 2009. The hearing was set for August 16, 2009. After the hearing it was determined, inter alia, that a team would be established to examine the event and submit a report within 30 days from the date of the letter of appointment. The examination team will review whether the circumstances of the event and its results require enforcement steps against Carmel Olefins and may recommend drawing conclusions in the future. The letter of appointment is dated August 20, 2009 and was delivered to Carmel Olefins on August 27, 2009. The examination team has been appointed, has started work, and is communicating with Carmel Olefins representatives, however has yet to submit its conclusions. At this stage, it is not possible to assess the exposure of Carmel Olefins for this event.
- C.** On January 25, 2009, a hearing was held at the Ministry of Environmental Protection for the Company and PEI regarding two specific sites where, according to the Ministry, soil and groundwater were contaminated by fuel products. After the hearing, the Company and PEI were required to close the two pipelines along which leakage was found; return them to operation following repair and/or replacement; test impermeability of all the pipelines and submit the results to the Ministry of Environmental Protection. In the hearing, the Company and PEI were warned that if the repair and restoration process does not commence within seven days after the hearing, including removal of the contaminated soil, the Ministry would issue an order for cleanup and removal of the toxic substances.

The Ministry gave notice that the Green Police of the Ministry of Environmental Protection would investigate the events, including the Company's failure to take steps to minimize damage and prevent further contamination of the river and its environs

On March, 1, 2009 the Company received a removal order for toxic substances, pursuant to section 16(A) of the Hazardous Substances Law - 1993 and a clean-up order, pursuant to section 13(B) of the Maintenance of

Cleanliness Law - 1984, demanding that the Company, PEI and their CEOs submit plans to the Ministry of Environmental Protection for soil gas, soil and groundwater surveys and to fence off the contaminated areas and conduct the survey in accordance with the approved plans. The parties are further required to submit to the Ministry a report of the survey findings, including recommendations for the clean-up and rehabilitation of the contaminated soil and groundwater and the restoration of the river and its banks to their former condition, based on the findings of the survey. The parties will also define a short-term and binding timetable for implementing the recommendations of the survey, until all waste and toxins are removed from the soil and groundwater.

The Company commissioned a soil gas, soil and water survey. The company that carried out the survey made recommendations for treatment of the groundwater and recommended a risk survey for the soil. In the reporting period, the Company informed the Ministry that it was continuing pumping at the site, however the Ministry's position, according to which the Company is required to conduct long-term restoration of the area, is unreasonable and does not correspond with the order that was issued, as it has never been established that ORL caused the pollution or that ORL is responsible for performing the activities stipulated in the order. To remove all doubt, the Company informed the Ministry that should the Ministry decide to demand action pursuant to the order, the Company reserves all its rights.

At the beginning of 2009, the Company and EAPC were required, under the terms added to their business licenses, to conduct soil surveys along the pipeline corridor and to apply the survey recommendations according to the suggested timetable approved by the Ministry of Environmental Protection. The Company appealed this condition in its business license through the procedure set up by the law. In the reporting period, the Ministry of Environmental Protection cancelled these terms and issued new terms in the business license, requiring the Company to carry out a historic survey for the pipeline corridor before carrying out soil gas, soil and soil and water surveys along the sections of pipeline corridor suspected of pollution. This survey will include, under the terms, a risk survey and a proposal to treat the pollution. Under the terms in the business license, the Ministry will determine terms and stages for carrying out the soil treatment plan, after approving the plan.

Oil Refineries Ltd.

The Company appealed to the Court for Administrative Affairs against the new terms and under the recommendation of the court, it is negotiating a settlement with the Ministry.

- D. On September 21, 2009, the Company received a draft amendment of the orders to prevent air pollution from the Haifa refinery pursuant to the Prevention of Hazards Law -1961 (“the Personal Order”), prepared by the Ministry of Environmental Protection. According to the draft, the maximum permitted emission of most of the pollutants included in the order would be reduced, 18 months after signing the draft, to low values, which can be achieved by using natural gas in the Company’s plants. Other orders were also added and/or changed in the draft, compared to the version published by the Ministry in November 2008, pursuant to which the Company has been operating since its publication.

On October 20, 2009, the Company informed the Ministry of Environmental Protection that the Ministries of Environmental Protection and National Infrastructures had agreed that use of natural gas was preferable to installation of emission control systems, after ORL described the implications of each of the alternatives, and that ORL shareholders, who purchased the Company’s shares from the Government of Israel, relied on representations of the State regarding the use of natural gas, and also contributed to the heavy investments made in the preparation for its use. Based on these representations, the Company itself invested over NIS 150 million to prepare for the use of natural gas in the refinery and its subsidiaries and in preparations for the changes that were required in the order as agreed with the Ministry of Environmental Protection in 2008.

After these investments were completed and it emerged that the State failed to deliver on its promise and that natural gas would not reach Haifa Bay, the State cannot now expect the Company to pay for its omissions and to even contend, inter alia, that the Company is unable to comply with the requirement for an alternative to natural gas, which also means impairment of its capacity to invest \$500 million in a hydrocracker. Therefore, the Company informed the Ministry of Environmental Protection that the public will not be able to cope with the demands in the draft submitted to ORL and they clearly deviate from the boundaries of reasonability of the authority’s operations. In addition, the Company submitted individual remarks to the order, and there are clarifications with the Ministry regarding these remarks.

- E. Further to Note 20(B)(6) and 20(B)(7) to the financial statements as of December 31, 2008, on May 17, 2009, two residents of Tivon in the north of Israel filed another motion for certification as a class action against the Company and Carmel Olefins, for the same events and grounds included in the claim of the plaintiffs. The Company and Carmel Olefins objected to the addition of this claim, which aims to prevent the settlement arrangement, and asked the court to order the dismissal of the new claim.
- F. On May 7, 2009, IPE announced that it had received a control permit. On that date, the Company received notification from the Government Companies Authority regarding this control permit. The control permit describes the conditions for the operation of IPE and PCH under the control permit: the effectiveness and complete fulfillment of certain agreements signed between Mogdal Ltd. and Mogdal Industries (99) Ltd. and Charabancs Investment N.V. (“Charabancs”) and the effectiveness of the joint control agreement between IPE and PCH and the Israel Corporation Ltd., within 30 days from the date the control permit was granted.

The Government Companies Authority further announced that it would notify the Company when the conditions exist that would allow IPE and PCH to operate under the control permit (the Government Companies Authority gave the Company an update notice as aforesaid).

On May 7, 2009, IPE issued an immediate report announcing that Modgal Ltd. and Mogdal Industries (99) Ltd. had informed IPE of the validation and complete fulfillment of the series of agreements signed between them and Charabancs and that all the terms for the validation of the joint control agreement between IPE and PCH and the Israel Corporation Ltd. had been met. In addition, IPE announced that it had decided that it would not exercise, and would ensure that PCH would not exercise, the call options given to PCH in accordance with the provisions of the joint control agreement.

Oil Refineries Ltd.

After receiving the control permit, commencing from May 7, 2009, the Company no longer had material impact in IPE and accordingly it changed the accounting method for investments from the equity method to accounting by available-for-sale financial assets.

The effect of the aforesaid on the financial statements for the nine months ended on September 30, 2009 is a loss of \$7 million, before tax, as well as tax expenses of \$1.7 million.

G. Establishment of the hydrocracker

Further to Note 11(G) to the financial statements as of December 31, 2008 and as part of the strategic plan adopted in November 2007, on October 12, 2008, the Company's board of directors approved the establishment of a hydrocracker at the Haifa refinery to produce middle distillates, at a total investment of \$670 million, (including an investment of \$37 million approved by the board of directors in November 2007 in order to advance the project). An updated financial analysis for the establishment of the hydrocracker was carried out in view of changes in the global economy, particularly in the oil and fuel products market. The results of the analysis indicated the need for and feasibility of immediate establishment of the planned hydrocracker and on June 7, 2009 the board of directors approved an adjusted budget of approximately \$500 million for establishment of the hydrocracker. Performance of works for the project is contingent on securing long-term financing, which the management is working to complete, with a repayment period that commences after production commences at the hydrocracker and the board of directors' approval of these arrangements.

H. Financial position of Carmel Olefins

Further to Note 16(B)5 and 15(C) to the financial statements as of December 31, 2008, on September 30, 2009, Carmel Olefins entered into a series of agreements ("the agreements") with all the banks that had extended credit to Carmel Olefins.

1. Under the agreements, the banks agreed to change the financial covenants that were in effect prior to the agreements, such that in the exemption period (as defined in section 3 below), the exempting financial covenants would apply ("the new covenants"). Main points:
 - (a) Tangible equity shall not fall below \$138 million. Tangible equity is defined as equity less deferred expenses and other intangible assets.
 - (b) The ratio of the tangible equity to the total balance sheet, less the deposits described in section 8(H)(1)(i) shall not fall below 22%.
 - (c) The ratio between current assets and current liabilities shall not fall below 0.8.
 - (d) The ratio between the total liabilities to banks and financial institutions less moneys due from short- and long-term swap currency transactions and less the deposits described in section 8(H)(1)(i) and the tangible equity on the last day of each quarter, will not exceed 2.4.
 - (e) The average debt coverage ratio (the ratio between the operating profit in the period plus depreciation and amortization and the amount of the principle payments for that period plus payments of interest on long-term loans and short-term credit and the current taxes in that period) over the last eight quarters will not fall below 1.1, provided the calculation does not take into account the quarter ended on December 31, 2008 (instead, up to the fourth quarter of 2010, information from the prior relevant eighth quarter will be used). The measure of the debt covering ratio for the four quarters is cancelled.
 - (f) Carmel Olefins will not distribute or declare dividends to its shareholders without prior written approval from the banks.
 - (g) Carmel Olefins will not acquire or invest in assets in excess of \$10 million without prior written approval from the banks. This approval is not required for the acquisition of the balance of Domo shares.
 - (h) The banks waived their right to demand immediate repayment of Carmel Olefin's bank debts for breach of the original covenants commencing from December 31, 2008 until the date the agreements are signed.

Oil Refineries Ltd.

- (i) Carmel Olefins made the following commitments to the banks, among others: a fixed-rate first lien on all the assets, equipment and machines owned by Carmel Olefins and a fixed-rate first lien on Carmel Olefins' title to the land on which its plant operates in Haifa Bay. In addition to the above guarantees, it was agreed that monetary deposits will be deposited at some of the banks, and will be pledged in favor of those banks.
 2. Carmel Olefins paid the banks the addition of interest and/or commissions.
 3. Under the agreements, the "exemption period" is unlimited in time and commences on the date the agreements are signed and ends when Carmel Olefins complies with the original covenants for four consecutive quarters and presents the banks with a financial plan based on price forecasts, according to which Carmel Olefins is able to meet its debts, under the credit agreements with the banks, by the termination dates of those agreements.
 4. At the end of the exemptions period, the new covenants will be cancelled, the original covenants will be reinstated and the liens on Carmel Olefins assets described in section H(1)(i) above will be lifted.
 5. At September 30, 2009, Carmel Olefins is in compliance with the new covenants. Following the agreements and Carmel Olefins' compliance with the new covenants, Carmel Olefins' long-term loans, which were classified as short-term loans in its financial statements as of December 31, 2008, March 31, 2009 and June 30, 2009 (due to Carmel Olefins' failure to comply with the covenants set by the banks), the loans were reclassified as long-term loans.
- I. On April 23, 2009, Carmel Olefins signed an agreement for the purchase of feedstocks from ORL. The agreement included terms for the purchase of 60,000 tons of propylene per year, which ORL undertook to sell to Carmel Olefins under the obligations that were assigned in the split of the refineries and terms for the purchase of at least 40,500 tons of 4C year. The agreement is valid for 10 years commencing from January 1, 2009, subject to the rights of the parties to terminate the agreement earlier in accordance with the provisions in the agreement.
- J. Further to Note 20(B)(10) to the financial statements as of December 31, 2008, Carmel Olefins reached a settlement agreement with the Haifa municipality regarding the settlement of all the property tax disputes. The settlement was signed by Carmel Olefins and the Haifa municipality in October 2009. The settlement agreement came into effect after approval by the Supreme Court. On November 8, 2009, the financial statements included provisions according to the agreements that were reached. Under the settlement agreement, Carmel Olefins will pay \$11.3 million for the removal of the property tax demands by December 31, 2009. The Company's share in this amount is \$5.7 million) (\$10.5 million at September 30, 2009 – the Company's share is \$5.2 million). This amount will be paid within 14 days after the Supreme Court approves the settlement agreement.
- K. An administrative order was filed against Carmel Olefins for underpayment of import tax, amounting to \$1.2 million in September 2008. Carmel Olefins estimates, based on the opinion of its legal counsel, that it is likely that most of this amount will be cancelled for various professional reasons, either in negotiations with the customs authority or after filing a lawsuit. Carmel Olefins deposited a bank guarantee of \$1 million to delay enforcement and collection procedures.
- L. TMA project**
- In the period since 2007 and through to the reporting period, Gadiv negotiated for the purchase of 50% of the registered share capital of a Chinese company ("the acquired company") which benefits in China from the status of a wholly-foreign owed company (WFOE) and which manufactures Trimellitic Anhydride (TMA), a product used mainly as a softener in the polymer industry and as a component in powder colors, and Para Diethyl Benzene (PDEB), a product used mainly in the production of paraxylene. In the negotiations, Gadiv also signed a memorandum of intent.
- The negotiations came to an end during the reporting period, without leading to the acquisition of shares by Gadiv in this enterprise.

Oil Refineries Ltd.

Gadiv estimates that there is uncertainty regarding the use of know-how acquired for the establishment of a TMA facility, and therefore the costs accumulated in the reporting period were decreased by \$1 million.

- M.** In 2008, the Haifa municipality served Gadiv an assessor notice for property tax for Gadiv facilities at the chemical terminal at the port, from 2001 onwards. In the reporting period, Gadiv and the municipality reached a settlement regarding the basis for the charge and prior charges in which Gadiv paid property tax for the asset for 2001-2009.

N. The surcharge

The government of India announced that it was establishing a procedure to review the import levy on phthalic anhydrides and imposed a temporary surcharge (until August 2009) of 25% of the product price for the import of this material. Gadiv, which exports this material to India as well, demanded the cancellation of the temporary surcharge and the imposition of any surcharge.

Gadiv's claims referred to non-compliance with the conditions required, under international trade agreements and Indian law, for the decision to impose the aforesaid surcharge, as well as the level of the surcharge that was decided.

In the reporting period, the director general of trade levies in India resolved to impose a surcharge on the import of phthalic anhydrides to India, which would also apply to imports from Israel, up to January 28, 2012, at a decreasing rate of between 25% and 15%. On June 30, 2009, the Minister of Finance in India approved a surcharge of 25% until June 30, 2009 and 15% until December 31, 2009.

- O.** On June 4, 2009, Delek Investments and Properties Ltd. and the Company (hereinafter together: "the Offerors") made an offer to all shareholders of the ordinary shares of Gadot Biochemical Industries Ltd. to purchase all their shares in a complete tender offer under section 336 of the Companies Law, under the terms prescribed in the tender offer.

On June 29, 2009, the offerers informed Gadot that the complete tender offer was not accepted, as the acceptance percentage for the tender offer was lower than the minimum acceptance percentage. Therefore, pursuant to section 337(b) of the Securities Law, 5759-1999, the complete tender offer was cancelled and the notice of allowance that was granted, was not accepted.

- P.** On July 14, 2009, the Knesset passed the Economic Arrangements (Amendments for the Application of the Economic Plan for 2009 and 2010) Law - 2009. The Law includes provisions for an additional gradual decrease of up to 18% in the rate of corporate tax, commencing from the 2016 tax year. Pursuant to the amendments, corporate tax rates applicable commencing from the 2009 tax year are as follows: In the 2009 tax year – 26%; in the 2010 tax year – 25%; in the 2011 tax year – 24%; in the 2012 tax year – 23%; in the 2013 tax year - 22%; in the 2014 tax year - 21%; in the 2015 tax year - 20%; and in the 2016 tax year onwards, 18%.

Implications of the change in tax rates were reflected in the third quarter financial statements of 2009 by way of a decrease in the deferred tax liability and recognition of tax revenue of \$36 million.

- Q.** In the reporting period, Delek Group informed the Company that it holds more than 5% of its shares and accordingly, it is an interested party in the Company. The Government Companies Authority notified the Company that Delek Group's holding of a means of control, contrary to section 3(d) of the Government Companies Order (Declaration of Vital State Interest in Oil Refineries Ltd), 5767-2007, in other words, more than 5%, is "an irregular holding", and pursuant to section 7 of the Order, shall not be effective for exercising rights by virtue of the irregular holdings, including for the purpose of receiving a dividend.
- R.** On August 13, 2009, Delek Group Ltd. announced that due to the position of the Government Companies Authority, the group would take steps to sell its surplus holdings in the Company.

Oil Refineries Ltd.

- S. In the nine and three months ended September 30, 2009, the Group recognized a loss from impairment of inventory of finished products and raw materials amounting to \$13 million, as a result of the drop in prices of crude oil and its products towards the end of the third quarter. The loss reflects the difference between the cost of inventory and its net disposal value at the reporting date. The impairment was recognized in the statement of income under cost of sales, refinery and services. See also Note 12(E) below.
- T. In August 2009, the Company notified the Tax Authorities of the submission of an amended tax report for the 2005 tax year, claiming benefits under the Encouragement of Capital Investments Law - 1959. Furthermore, the Company approached the Director General of the Tax Authority regarding the matter. Should it emerge that the Company is in compliance with the conditions set out in the law and the regulations promulgated thereunder, the Company will be entitled to tax benefits pursuant to the provisions of the law for revenue defined as beneficiary income.

In the Company's opinion, the estimated balance of the potential tax benefit for the 2005 tax year amounts to \$60 million. Should it emerge that the Company is not eligible for these tax benefits, the Company will request a tax exemption in the amount of \$16 million for the 2007 tax year.

Subsequent to the balance sheet date, in October 2009, the tax assessor announced the rejection of the Company's request to amend the tax report, claiming that the Company did not have the right to amend the tax report that was submitted. The Company filed a reservation on the tax assessor's determination and asked for a summons to a hearing to clarify its stand if necessary.

At the date of approval of the financial statements, the Company has not yet received a response to its reservation and accordingly, the liability for current tax in the financial statements for the 2005 and 2007 tax years was calculated without the benefit. Receipt of these benefits is subject to compliance with the provisions in the Encouragement of Capital Investments Law and the regulations promulgated thereunder.

12. Subsequent events

- A. Further to Note 20(B)(9) to the financial statements as of December 31, 2008, subsequent to the reporting period, the Company and the Ashdod municipality achieved an arbitration agreement settling all the disagreements between the Company and the municipality regarding development and betterment levies. Under the agreement, the Company will pay the municipality the agreed amounts, within 15 days from the date the agreement is given the validity of judgment. The municipality and the Local Council for Planning and Construction will provide the Company, within two business days from the payment date, approvals for the Land Registrar, according to which there are no debts to the municipality and the local council for the land known as the complex of the Ashdod Refinery.
- B. Further to Note 20(B)(19) to the financial statements as of December 31, 2008, subsequent to the reporting date, the Company received a monetary claim from Haifa Port in the amount of NIS 35 million (\$9.3 million) for non-payment of infrastructure fees for crude oil unloaded at the Kiryat Haim terminal in the period from December 2007 until September 2008. The Company has yet to study the claim and a date for filing a statement of defense has not yet arrived.
- C. Further to Note 20(B)(8) to the financial statements as of December 31, 2008, the Company received the ruling of the Haifa District Court, which accepts the application of Sonol Israel Ltd. and Delek The Israel Fuel Corporation Ltd., two of the Company's partners in Haifa Basic Oils Ltd. (Haifa Basic Oils), after Haifa Basic Oils filed a derivative claim against the Company in the amount of NIS 165 million (\$43.9 million) at the application date. In the ruling, the court found that it was convinced of the existence of the conditions required by law for approval of the claim as a derivative action, and that Haifa Basic Oils has grounds for its allegations against the Company, therefore it will allow investigation of the claim. The Company is studying the decision and will consider its future steps accordingly. The period for appeal has not yet expired and the applicant has yet to file a claim. At this early stage, it is not possible to estimate the outcome of the claim.

Oil Refineries Ltd.

D. Transaction for the acquisition of 50% of Carmel Olefins shares

On October 27, 2009, after receiving the approval of the Company's audit committee and board of directors, the Company and Israel Petrochemical Enterprises Ltd. (IPE) signed an agreement under which, upon closing the transaction, PE will sell the Company all the shares it owns in Carmel Olefins Ltd. ("Carmel Olefins"), comprising 50% of the issued capital of Carmel Olefins ("the acquired Carmel Olefins shares") such that following the acquisition, the Company will hold the full issued share capital of Carmel Olefins. In consideration for the acquired Carmel Olefins shares, the Company will allot IPE 431,610,944 ordinary shares of the Company, comprising (after the allotment and without dilution), 17.75% of the company's issued share capital ("the allotted shares"). The allotted shares will confer the same rights as the ordinary shares of NIS 1 par value in the Company's capital.

Completion of the transaction is subject to preconditions, including approval of the general meeting of the shareholders to be held on December 2, 2009 and regulatory and other approvals from third parties. At the reporting date, some of the preconditions are yet to be fulfilled. The last date for fulfilling the preconditions was set for December 30, 2009.

The Group opted for early adoption of IFRS 3 *Business Combinations*, IFRS 5 *Discontinued Operations*, and IAS 27 *Consolidated and Separate Financial Statements*, revised ("the Standards") commencing from January 1, 2007. Early adoption is expected to affect revaluation of the original investment in Carmel Olefins based on fair value in profit or loss, subject to completion of the merger transaction.

E. Changes in the prices of crude oil and its products

Subsequent to the reporting date, there was material fluctuation in the price of crude oil and its products due to changes in the economic environment. The price of oil, which was \$66/barrel at the date of the financial statements, rose to \$77/barrel on the publication date of the financial statements. As a result of these changes, the Company is expected to cancel the provision for impairment of inventory recognized in cost of sales on September 30, 2009. See section 11(R) above.

The board of directors thanks the management and employees of the Company and its subsidiaries for their efforts and achievements in the reporting period.

Yossi Rosen
Chairman of the board of directors

Yashar Ben Mordechai
CEO

November 10, 2009

**Update to the State of the Company's Affairs in the Periodic Report as of
December 31, 2008**

Information in accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports) -1970

During the reporting period, there were no significant changes or new events in the Company's affairs, with the exception of those set forth in the Directors' Report and below.

1. Section 1.6.25.2.6 in the Description of the Business of the Company at December 31, 2008

The Company signed an agreement with Israel Natural Gas Lines Ltd. ("INGL"), which is establishing the national gas transmission system, for construction of the transmission infrastructure and delivery of natural gas to its plants in Haifa. INGL has completed the plan for transmission of gas to the Company's plants, submitted requests for the required construction permits and has received some of the permits. Completion of the transmission infrastructure to Haifa Bay is contingent upon receipt of the required permits and licenses. Based on ING estimates and the announcement of the Ministry of National Infrastructures, natural gas is expected to reach Haifa Bay by the end of 2009. The Company is making preparations accordingly, to receive and use natural gas at its plants. At the reporting date, and according to information submitted to the Company by INGL, infrastructure works and pipelines to Haifa Bay are in the advanced stage, however INGL has encountered problems in laying down infrastructure in some privately-owned land. In September 2009, the Company asked the Prime Minister to intervene and ensure that all parties involved in the project for delivery of natural gas to Haifa Bay fulfill their responsibility to implement the declared policy of the State of Israel and complete the project on time. For a description of the changes in the personal order requested by the Ministry of Environmental Protection, see Note 8(D) to these financial statements.

The projected delivery date for natural gas to Haifa Bay is based on the assessment of INGL as set forth above, and is forward looking information which is dependent, inter alia, on completion of settlements with landowners along the pipeline and completion of laying down the pipeline, and there is no certainty that this date will be met.

2. Section 1.6.20.3 in the Description of the Business of the Company at December 31, 2008

To the best of the Company's knowledge, the segment of the offshore pipeline owned by PEI in Haifa Bay is expected to be replaced in February-March 2010.

The aforesaid expected date is forward-looking information, based mainly on the estimation of PEI. There is no certainty that the estimations of PEI and the Company regarding this information will be realized.

There is no change in the other information in section 1.6.20.3, including the Company's dependence on services from PEI.

**Auditors' Report for the Shareholders of
Oil Refineries Limited**

Introduction

We have reviewed the accompanying financial information of Oil Refineries Limited and its subsidiaries ("the Group"), including the condensed consolidated interim statement of financial position as of September 30, 2009 and the condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the nine and three months then ended. The board of directors and the management are responsible for preparation and presentation of the interim financial information for these interim periods in accordance with IAS 34 - *Interim Financial Reporting*, and are also responsible for preparation of the interim financial information for these periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) -1970. Our responsibility is to express an opinion on the interim financial information for the periods based on our review.

We did not review the condensed interim financial statements of a proportionally consolidated company, the consolidated assets of which represent approximately 20% of the total consolidated assets as of September 30, 2009, and the consolidated revenue of which represent approximately 8% of the total consolidated revenue for the nine and 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 \$35,844,000 as of September 30, 2009, and the share of the Group in their profits is \$4,711,000 and \$873,000 for the nine months and three months then ended, respectively. The condensed interim financial information of those companies were reviewed by other accountants, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reviews of the other accountants.

Review scope

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

Conclusion

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

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

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

1. The contents of Note 7(A) and Note 8(A)-(C) and (E) to the financial statements, regarding the suits filed against the Company, a subsidiary and a proportionally consolidated company ("the subsidiaries"), the 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 counsels 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 provision regarding this matter was included in the financial statements.
2. The contents of Note 7(B) and Note 8(D) regarding the dependency of the Group on services from infrastructure companies.

Sincerely,

Somekh Chaikin
Certified Public Accountants

November 10, 2009

Oil Refineries Ltd.

Condensed Consolidated Interim Statements of Financial Position
USD thousands

	As at		
	September 30, 2009	September 30, 2008	December 31, 2008
	(Unaudited)		(Audited)
<u>Current assets</u>			
Cash and cash equivalents	7,468	26,333	14,840
Deposits	77,247	-	25,000
Derivatives at fair value through profit or loss	522	3,106	15,374
Investments in other financial assets at fair value through profit or loss	108,588	131,320	101,509
Trade receivables	312,088	517,815	253,215
Other receivables	79,491	121,868	82,642
Inventory	868,216	1,150,429	569,407
Current tax assets	46,530	30,129	42,047
Total current assets	1,500,150	1,981,000	1,104,034
<u>Non-current assets</u>			
Investments in equity-accounted investees	35,844	40,197	36,005
Investments in available-for-sale financial assets (*)	10,510	-	-
Loan to Haifa Early Pensions Ltd.	73,126	93,864	84,740
Long term loans and debit balances	2,965	4,885	2,606
Derivatives at fair value through profit or loss	112,975	103,706	64,369
Employee benefit plan assets	5,877	6,689	5,007
Property, plant and equipment	1,161,698	1,066,178	1,083,446
Intangible assets and deferred expenses, net	24,992	24,816	25,170
Total non-current assets	1,427,987	1,340,335	1,301,343
Total assets	2,928,137	3,321,335	2,405,377

(*) See Note 8 F

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

Oil Refineries Ltd.

Condensed Consolidated Interim Statements of Financial Position
USD thousands

	As at		
	September 30, 2009	September 30, 2008	December 31, 2008
	(Unaudited)		(Audited)
Current liabilities			
Loans and credit	488,394	387,307	380,339
Trade payables	427,229	536,240	270,594
Other payables	81,997	160,155 (*)	70,971 (*)
Derivatives at fair value through profit or loss	26,954	3,398	1,853
Provisions	14,385	30,994	12,949
Total current liabilities	<u>1,038,959</u>	<u>1,118,094</u>	<u>736,706</u>
Non-current liabilities			
Debentures	736,253	817,816	726,554
Bank loans (**)	272,074	381,265	233,749
Liabilities for finance lease	8,816	9,452	8,448
Other long-term liabilities	7,581	8,964	7,394
Derivatives at fair value through profit or loss	5,558	732	6,900
Employee benefits	50,967	70,760 (*)	67,930 (*)
Liabilities for deferred taxes (***)	66,664	125,600	65,827
Total non-current liabilities	<u>1,147,913</u>	<u>1,414,589</u>	<u>1,116,802</u>
Total liabilities	<u>2,186,872</u>	<u>2,532,683</u>	<u>1,853,508</u>
Capital			
Share capital	472,478	472,478	472,478
Capital reserves	34,919	21,015	20,953
Retained earnings	233,868	295,159	58,438
Total capital	<u>741,265</u>	<u>788,652</u>	<u>551,869</u>
Total liabilities and capital	<u><u>2,928,137</u></u>	<u><u>3,321,335</u></u>	<u><u>2,405,377</u></u>

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

(**) See Note 8 H

(***) See Note 8 P

Yossi Rosen
Chairman of the Board

Yashar Ben Mordechai
CEO

Igal Salhov
CFO

Date of approval: November 10, 2009

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

Oil Refineries Ltd.

Condensed Consolidated Interim Statements of Comprehensive Income
USD thousands

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)		(Unaudited)		(Audited)
Revenue	3,647,109	6,981,424	1,454,708	2,624,665	8,257,458
Cost of sales, refinery and services	3,360,451	6,738,068	1,340,590	2,574,325	8,324,149
Revaluation of open transactions in derivatives on prices of goods and margins, net	39,395	2,087	(8,468)	(31,456)	(7,465)
Total cost of sales	3,399,846	6,740,155	1,332,122	2,542,869	8,316,684
Gross profit (loss)	247,263	241,269	122,586	81,796	(59,226)
Selling expenses	31,275	32,215	13,425	11,029	40,582
General and administrative expenses	42,144	58,610	15,470	17,959	67,061
Negative goodwill arising on acquisition	-	(14,535)	-	(692)	(14,535)
Loss from the loss of material impact in a former equity-accounted investee (**)	7,091	-	-	-	-
Operating profit (loss)	166,753	164,979	93,691	53,500	(152,334)
Financing revenue	62,390	56,298(*)	18,119	(25,863)(*)	64,979
Financing expenses	(70,275)	(145,441)(*)	(34,477)	(25,702)(*)	(126,034)
Financing expenses, net	(7,885)	(89,143)	(16,358)	(51,565)	(61,055)
Group's share in profits (losses) of equity accounted investees, net of tax	4,711	437	873	(3,289)	(3,111)
Profit (loss) before taxes on income	163,579	76,273	78,206	(1,354)	(216,500)
Tax benefits (taxes on income)	3,149	(2,754)	21,912	1,396	107,292
Net profit (loss) for the period	166,728	73,519	100,118	42	(109,208)
Other components of comprehensive income					
Actuarial gains (losses) from a defined benefit plan, net	8,702	(5,050)	2,023	(4,885)	(9,318)
Foreign currency translation differences for foreign operations	168	(867)	195	(1,086)	(1,078)
Group's share of other comprehensive income of an equity accounted investee (**)	10,433	(10,339)	-	751	(10,433)
Change in fair value of available-for-sale financial assets, net of tax (**)	1,777	-	954	-	-
Other comprehensive income for the period, net of tax	21,080	(16,256)	3,172	(5,220)	(20,829)
Comprehensive income for the period	187,808	57,263	103,290	(5,178)	(130,037)
Earnings (loss) per share (USD)					
Basic and diluted earnings (losses) per ordinary share	0.083	0.037	0.050	(****)	(0.055)

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

(**) See Note 8 F

(***) See Note 8 P

(****) Less than \$0.001

Due to first-time adoption of the revised IAS 1 commencing from January 1, 2009 in these financial statements, the presentation format of the statement of comprehensive income was changed. See also Note 3A (1) for a description of first-time adoption of the new standards.

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

Oil Refineries Ltd.

Condensed Consolidated Interim Statements of Changes in Equity
USD thousands

	Capital reserve	Capital reserve for share- based payment	Capital reserve for translation differentials	Capital reserve for available for sale financial assets	Capital reserve	Retained earnings	Total
	Nine months ended September 30, 2008 (Unaudited)						
Balance at January 1, 2009 (audited)	472,478	3,986	(1,078)	(10,433)	28,478	58,438	551,869
Comprehensive income for the period							
Profit for the period	-	-	-	-	-	166,728	166,728
Other comprehensive income:							
Foreign currency translation differences for foreign operations	-	-	168	-	-	-	168
Group's share of other comprehensive income of an equity-accounted investee (*)	-	-	-	10,433	-	-	10,433
Change in fair value of available-for-sale financial assets, net of tax (*)	-	-	-	1,777	-	-	1,777
Actuarial gains from a defined benefit plan, net of tax	-	-	-	-	-	8,702	8,702
Total other comprehensive income	-	-	168	12,210	-	8,702	21,080
Total comprehensive income for the period	-	-	168	12,210	-	175,430	187,808
Share-based payment	-	1,588	-	-	-	-	1,588
Balance at September 30, 2009	<u>472,478</u>	<u>5,574</u>	<u>(910)</u>	<u>1,777</u>	<u>28,478</u>	<u>233,868</u>	<u>741,265</u>
	Nine months ended September 30, 2008 (Unaudited)						
Balance at January 1, 2008 (audited)	472,478	558	-	-	28,478	298,289	799,803
Comprehensive income for the period							
Profit for the period	-	-	-	-	-	73,519	73,519
Other comprehensive income:							
Foreign currency translation differences for foreign operations	-	-	(867)	-	-	-	(867)
Group's share of other comprehensive income of an equity-accounted investee	-	-	-	(10,339)	-	-	(10,339)
Actuarial losses from a defined benefit plan, net of tax	-	-	-	-	-	(5,050)	(5,050)
Total other comprehensive income	-	-	(867)	(10,339)	-	(5,050)	(16,256)
Total comprehensive income for the period	-	-	(867)	(10,339)	-	68,469	57,263
Share-based payment	-	3,131	-	-	-	-	3,131
Company's share in capital reserves	-	-	-	54	-	54	1,588
Dividend declared and paid	-	-	-	-	-	(71,599)	(71,599)
Balance at September 30, 2009	<u>472,478</u>	<u>3,689</u>	<u>(867)</u>	<u>(10,339)</u>	<u>28,532</u>	<u>295,159</u>	<u>788,652</u>

(*) See Note 8 F

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

Oil Refineries Ltd.

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

	Capital reserve	Capital reserve for share- based payment	Capital reserve for translation differentials	Capital reserve for available for sale financial assets	Capital reserve	Retained earnings	Total
	Three months ended September 30, 2008 (Unaudited)						
Balance at July 1, 2009	472,478	5,149	(1,105)	823	28,478	131,727	637,550
Comprehensive income for the period							
Profit for the period	-	-	-	-	-	100,118	100,118
Other comprehensive income:							
Foreign currency translation differences for foreign operations	-	-	195	-	-	-	195
Change in fair value of available-for-sale financial assets, net of tax (*)	-	-	-	954	-	-	954
Actuarial gains from a defined benefit plan, net of tax	-	-	-	-	-	2,023	2,023
Total other comprehensive income	-	-	195	954	-	2,023	3,172
Total comprehensive income for the period	-	-	195	954	-	102,141	103,290
Share-based payment	-	425	-	-	-	-	425
Balance at September 30, 2009	472,478	5,574	(910)	1,777	28,478	233,868	741,265
	Three months ended September 30, 2008 (Unaudited)						
Balance at July 1, 2009	472,478	2,660	219	(11,090)	28,551	300,002	792,820
Comprehensive income for the period							
Profit for the period	-	-	-	-	-	42	42
Other comprehensive income:							
Foreign currency translation differences for foreign operations	-	-	(1,086)	-	-	-	(1,086)
Group's share of other comprehensive income of an equity-accounted investee	-	-	-	751	-	-	751
Actuarial losses from a defined benefit plan, net of tax	-	-	-	-	-	(4,885)	(4,885)
Total other comprehensive income	-	-	(1,086)	751	-	(4,885)	(5,220)
Total comprehensive income for the period	-	-	(1,086)	751	-	(4,843)	(5,178)
Share-based payment	-	1,029	-	-	-	-	1,029
Company's share in capital reserve	-	-	-	-	(19)	-	(19)
Balance at September 30, 2009	472,478	3,689	(867)	(10,339)	28,532	295,159	788,652

(*) See Note 8 F

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

Oil Refineries Ltd.

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

	<u>Capital reserve</u>	<u>Capital reserve for share- based payment</u>	<u>Capital reserve for translation differentials</u>	<u>Capital reserve for available for sale financial assets</u>	<u>Capital reserve</u>	<u>Retained earnings</u>	<u>Total</u>
The year ended December 31, 2008							
(Audited)							
Balance at January 1, 2008	472,478	558	-	-	28,478	298,289	799,803
Comprehensive income for the period							
Loss for the period	-	-	-	-	-	(109,208)	(109,208)
Other comprehensive income:							
Foreign currency translation differences for foreign operations	-	-	(1,078)	-	-	-	(1,078)
Group's share of other comprehensive income of an equity-accounted investee	-	-	-	(10,433)	-	-	(10,433)
Actuarial losses from a defined benefit plan, net of tax	-	-	-	-	-	(9,318)	(9,318)
Total other comprehensive income	-	-	(1,078)	(10,433)	-	(9,318)	(20,829)
Total comprehensive income for the period	-	-	(1,078)	(10,433)	-	(118,526)	(130,037)
Dividend paid	-	-	-	-	-	(121,325)	(121,325)
Share-based payment	-	3,428	-	-	-	-	3,428
Balance at December 31, 2008	472,478	3,986	(1,078)	(10,433)	28,478	58,438	551,869

Due to first-time adoption of IAS 1, commencing from January 1, 2009, the presentation format of the interim statement of changes in equity was changed. See also Note 3A (1) for a description of first-time adoption of the new standards.

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

Oil Refineries Ltd.

Condensed Consolidated Interim Statement of Cash Flows
USD thousands

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Net profit (loss) for the period	166,728	73,519	100,118	42	(109,208)
Adjustments required to present the cash flows from operating activities:					
Revenue and expenses not involving cash flows (Appendix A – section A)	106,087	(*) 118,492	8,726	(*) 39,767	(*) 19,927
	272,815	192,011	108,844	39,809	(89,281)
Changes in assets and liabilities (Appendix A - section B)	(171,748)	(*) (257,525)	45,815	(*) 174,951	(*) 298,052
Income tax received (paid), net	(445)	(24,743)	(245)	(12,314)	15,212
Net cash provided by (used in) current activities	100,622	(90,257)	154,414	202,446	223,983
Cash flow for investing activities					
Interest received	1,638	2,299	40	(*) 1,098	1,867
Payment of deposits (investment in deposits), net	(50,439)	-	22,109	-	(25,000)
Acquisition of a subsidiary consolidated for the first time	-	(14,462)	-	-	(14,462)
Investment in equity-accounted investees	-	(796)	-	(763)	(796)
Dividends received from investees	4,452	298 (*)	-	-	953 (*)
Repayment (granting) of long-term loans from others, net	(440)	(333)	(2,028)	182	41
Purchase of securities held for trading	-	(150,000)	-	-	(150,000)
Sale of securities held for trading	-	148,362	-	88,352	148,362
Purchase of property, plant and equipment	(135,289)	(112,431)	(44,627)	(39,036)	(140,221)
Purchase of intangible assets and deferred expenses	(2,239)	(789)	(2,239)	(180)	(1,789)
Net cash provided by (used in) investing activities	(182,317)	(127,852)	(26,745)	49,653	(181,045)
Cash flow from financing activities					
Receipt (payment) of short-term credit, net	224,071	248,070	(80,876)	(184,080)	127,668
Receipt (repayment) of deposits from customers, net	(8,367)	51,930	(5,482)	833	989
Interest paid	(43,613)	(*) (64,799)	(15,513)	(*) (18,955)	(*) (87,736)
Proceeds from transactions in derivatives	2,671	(*) 1,757	-	(*) (677)	(*) 10,014
Repayment of debentures	(19,200)	(97,760)	(6,914)	(7,251)	(104,421)
Repayment of bank loans	(81,252)	(84,491)	(27,803)	(24,854)	(113,825)
Dividends paid	-	(71,599)	-	-	(121,325)
Net cash from (used for) financing activities	69,812	(20,016)	(141,086)	(218,772)	(286,817)
Net increase (decrease) in cash and cash equivalents	(7,385)	(235,001)	(8,919)	17,115	(245,698)
Effect of fluctuations in exchange rate on cash and cash equivalents	13	2,009	(440)	126	1,213
Cash and cash equivalents at the beginning of the year	14,840	259,325	16,827	9,092	259,325
Cash and cash equivalents at the end of the year	7,468	26,333	7,468	26,333	14,840

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

The attached 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 the cash flows from operating activities

	<u>Nine months ended</u>		<u>Three months ended</u>		<u>Year ended</u>
	<u>September 30</u>		<u>September 30</u>		<u>December 31</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>		<u>(Audited)</u>
A. Revenue and expenses not included in the cash flow:					
Depreciation and amortization	57,501	57,338	19,902	20,071	75,699
Negative goodwill arising on acquisition	-	(14,535)	-	(692)	(14,535)
Financing expenses, net	21,856	(*) 97,469	28,602	(*) 39,252	(*) 62,817
Net change in fair value of derivatives	41,370	3,245	(8,636)	(31,186)	(10,456)
Net change in the fair value of the loan to Haifa Early Pensions Ltd.	(9,243)	(13,826)	(4,372)	5,384	(6,009)
Share in the (profits) losses of equity accounted investees	(4,711)	(437)	(873)	3,289	3,111(*)
Loss from the loss of material impact in a former equity-accounted investee (**)	7,091	-	-	-	-
Earnings (losses) from deposits and securities held for trading	(6,216)	(16,647)	(4,410)	4,016	13,164
Share-based payment expenses	1,588	3,131	425	1,029	3,428
Income tax benefit expenses (revenue)	(3,149)	2,754	(21,912)	(1,396)	(107,292)
	<u>106,087</u>	<u>118,492</u>	<u>8,726</u>	<u>39,767</u>	<u>19,927</u>
B. Changes in assets and liabilities					
Decrease (increase) in inventory, net	(298,183)	(94,858)	(82,345)	194,818	485,795
Decrease (increase) in trade and other receivables, net	(44,419)	(149,080)	(19,563)	116,884	156,575
Increase (decrease) in trade and other payables, net	180,835	(10,930)(*)	147,549	(131,032)	(335,758)(*)
Increase (decrease) in employee benefits, net	(9,981)	(2,657)(*)	174	(5,719)	(8,560)(*)
	<u>(171,748)</u>	<u>(257,525)</u>	<u>45,815</u>	<u>174,951</u>	<u>298,052</u>

(*) Reclassified, see Note 2 D(3)

(**) See Note 8 F

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

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009

NOTE 1 – REPORTING ENTITY

- A.** Oil Refineries Ltd. (“the Company” or “ORL”) is a company domiciled and incorporated in Israel. The Company is located in Haifa Bay and its registered address is PO Box 4, Haifa 31000, Israel. The Company and its subsidiaries are industrial companies which operate in Israel and are engaged primarily in the production of oil products, raw materials for the petrochemical industry and materials for the plastics industry. The facilities of the subsidiaries are integrated with those of the Company. The Company also provides water treatment and power generation services (primarily electricity and steam) to a number of industries adjacent to the Haifa refinery.
- B.** Until the date of sale of Oil Refinery Ashdod, the Company had two operational sites: in Haifa Bay and Ashdod. On September 28, 2006, the Company sold all of its shares in Oil Refinery Ashdod (“ORA”). On February 21, 2007, as part of implementation of the privatization that was decided upon on December 26, 2004, the State sold all the shares it held in Company in a private and public offering. Israel Corporation Ltd. (“Israel Corp.”) acquired 36.8% of the Company’s shares and Petroleum Capital Holdings Ltd. (“PCH”) acquired 9.2% of the Company’s shares. Subsequently, Israel Corp. and PCH acquired additional shares, and as of the date of the financial statements, hold 45.08% and 15.76%, respectively. See Note 8 F and 9 D.
- C.** The condensed consolidated interim financial statements as of September 30, 2009 include the statements of the Company, its subsidiary, and a jointly-owned company (hereinafter together: “the Group”) and the Group’s interests in associates. The Company's shares are traded on the Tel Aviv Stock Exchange (“TASE”).

NOTE 2 - BASIS OF PREPARATION

A. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and do not include all of the information required for full annual financial statements. They should be read in conjunction with the financial statements for the year ended December 31, 2008. (“the Annual Report”). Additionally, these statements were prepared in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970. The condensed consolidated interim financial statements were approved by the Company’s board of directors on November 10, 2009.

B Use of estimates and judgments

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

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009

NOTE 2 - BASIS OF PREPARATION (CONTD.)

C. Capital management – objectives, procedures and processes

Policy of the board of directors and management is consistent with the policy applied in the annual financial statements. The Company and the jointly-controlled company, Carmel Olefins Ltd. (Carmel Olefins) are subject to compliance with financial covenants, including a minimum balance of equity (see Note 8 H below and Note 16 C to the annual financial statements).

D. Reclassified

1. Employee benefits for leave

Employee benefits for leave previously presented under long-term employee benefits were reclassified as short-term employee benefits (under other payables) in order to adjust their presentation method to the presentation in the financial statements as of September 30, 2009. See also Note 3 A(3).

	<u>As previously reported</u>	<u>Effect of reclassification</u>	<u>As reported in these financial statements</u>
	<u>USD thousands</u>		
	<u>December 31, 2008</u>		
Other payables	70,056	915	70,971
Employee benefits	68,845	(915)	67,930
	<u>September 30, 2009</u>		
Other payables	159,035	1,120	160,155
Employee benefits	71,880	(1,120)	70,760

2. The comparative figures in the statement of comprehensive income for the nine and three months ended September 30, 2008 were reclassified in order to adjust their presentation method to the presentation in the financial statements as of September 30, 2009 and for the year ended on December 31, 2008, as follows:

	<u>As previously reported</u>	<u>Effect of reclassification</u>	<u>As reported in these financial statements</u>
	<u>USD thousands</u>		
	<u>Nine months ended September 30, 2008</u>		
Financing revenue	67,953	(11,655)	56,298
Financing expenses	(157,096)	11,655	(145,441)
	<u>Three months ended September 30, 2008</u>		
Financing revenue	15,579	(41,442)	(25,863)
Financing expenses	(67,144)	41,442	(25,702)

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009

NOTE 2 - BASIS OF PREPARATION (CONTD.)

D. Reclassified (contd.)

3. Some of the comparative figures in the statement of cash flows for the nine and three months ended September 30, 2008 and the year ended December 31, 2008 were reclassified in order to adjust their presentation method to presentation in the financial statements as of September 30, 2009 as follows:

	As previously reported	Effect of reclassification	As reported in these financial statements
USD thousands			
Nine months ended September 30, 2008			
Operating activities	(86,835)	(3,422)	(90,257)
Investment activities	(128,150)	298	(127,852)
Financing activities	(20,016)	3,124	(16,892)
Three months ended September 30, 2009			
Operating activities	186,846	15,600	202,446
Investment activities	49,041	612	49,653
Financing activities	(218,772)	(16,212)	(234,984)
Year ended December 31, 2008			
Operating activities	223,117	866	223,983
Investment activities	(181,998)	953	(181,045)
Financing activities	(286,817)	(1,819)	(288,636)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Other than the contents of section A below, the Group's accounting policy in these condensed consolidated interim statements is the same policy applied in the annual statements.

A. Initial application of new Accounting Standards

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

(1) Presentation of financial statements

Commencing from January 1, 2009, the Group applies IAS 1 – *Presentation of Financial Statements*, revised (“the Standard”). The Standard permits the presentation of one statement of comprehensive income (a statement combining profit or loss and other comprehensive income) or in two statements - a separate income statement and a statement of comprehensive income). The Group opted to present income and expenses and other comprehensive income in one statement of comprehensive income (statement combining profit or loss and other comprehensive income). The Group also presents a statement of changes in equity immediately after the statement of comprehensive income. The statement includes changes in equity arising from transactions with owners of the Company in their capacity as owners (such as dividends, transactions with controlling shareholders, share issues and options). The Standard is applied retrospectively.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

(2) Segment reporting

Commencing from January 1, 2009, the Group applies IFRS 8 – *Operating Segments* (“the Standard”). Under the Standard, segment reporting shall be in accordance with the “management approach”, namely – in accordance with the format of the internal reports to the Group’s decision-makers. Implementation of the Standard did not have an effect on the financial statements of the Group and segment information for prior reporting periods will not be restated.

An operating segment is a part of the Group that meets the three conditions set forth below:

1. The segment engages in business operations that may generate revenue and may incur expenses.
2. The operational results of the segment are reviewed regularly by the decision makers of the Group, in order to make decisions regarding resources to be allocated and to assess its performance.
3. Separate financial information is available.

For additional information, see Note 5 – Operating Segments.

(3) Employee benefits

Commencing from January 1, 2009, the Group applies IAS 19 – *Employee Benefits*, revised (“the Amendment”), in accordance with Improvements to International Financial Reporting Standards 2008 (Improvements to IFRSs). The Amendment addresses the definition of “short-term employee benefits” and “other long-term employee benefits” to refer to when the benefits are due to be settled. The Amendment is applied retrospectively. Accordingly, Carmel Olefins presents benefits for leave as a short-term employee benefit, measured at the undiscounted amount, which Carmel Olefins expects to pay for exercising this right. For the effect of reclassification on the items in the financial statements, see Note 2(D)(1).

Application of the Amendment, other than the aforesaid, has no effect on the reports.

B. New standards and interpretations not yet adopted

In the framework of the *Improvements to IFRS* project, in April 2009 the IASB published and approved 15 amendments to various IFRSs on a wide range of accounting issues. The amendments are effective for annual periods beginning on or after January 1, 2010, with an option for early adoption, subject to the terms prescribed for each amendment.

Presented hereunder is the amendment that may be relevant to the Group and is expected to have an effect on the financial statements:

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

IAS 17 – *Leases: Classification of leases of land and buildings* (revised) (“the Amendment”). The Amendment eliminates the requirement to classify a lease of land as an operating lease when the title is not expected to pass to the lessee at the end of the lease term. Under the Amendment, classification of the land lease should be based on criteria for classifying a lease as a finance or operating lease.

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

The Amendment is effective for annual financial statements commencing on or after January 1, 2010. Early application of the Amendment is permitted, with disclosure. The Amendment is effective retrospectively, meaning classification of the land lease is determined based on the information available when signing the lease. If there is a change in classification of the lease, the instructions of IAS 17 are effective prospectively from the date of the lease. If, however, information necessary to apply the Amendment retrospectively is not available, classification is determined based on the information available at the adoption date of the Amendment, and the asset and liability related to a land lease that was classified as a finance lease as a result of the Amendment are recognized at their fair values at that date. Any difference between the fair value of the asset and the fair value of the liability is recognized in retained earnings.

The management of the Group is assessing the effect of the Amendment on its financial statements.

C. Exchange rates and linkage

The following table presents information of the dollar exchange rate and the CPI:

	As at				
	September 30, 2009	September 30, 2008	December 31, 2008		
	Representative exchange rate of USD 1/NIS	3.758	3.421	3.802	
Consumer price index in points (on average basis 100=2002)	114.22	111.07	110.44		
	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
USD	(1.16%)	(11.05%)	(4.11%)	2.05%	(1.14%)
Index	3.40%	4.39%	1.25%	2.00%	3.80%

NOTE 4 – SEASONAL FLUCTUATIONS

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

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

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

NOTE 5 – OPERATING SEGMENTS

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 29 to the financial statements as of December 31, 2008, there were no changes in the Group's operating segments set forth below.

These strategic business units are managed separately for the purpose of allocation of resources and assessment of performance and are measured on the basis of the operating profit.

1. Refining: refining of crude oil and production of fuel products
2. Trade: trade in crude oil and distillates and trade in derivatives on the prices of oil and its products

Most trade operations are integrated vertically with operations in the refining segment. The external trade operations are presented as a separate segment commencing from the first quarter in 2008.

3. Petrochemicals:
 - Polymers: production of polymers used as raw materials in the plastics industry
 - Aromatics: production of aromatics and solvents used as raw materials and production of other products

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009
USD thousands

NOTE 5 – OPERATING SEGMENTS (CONTD.)

	<u>Refining</u>		<u>Trade</u>		<u>Petrochemicals</u>				<u>Adjustments to consolidated</u>		<u>Consolidated</u>	
					<u>Polymers</u>		<u>Aromatics</u>		<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>				
	<u>Nine months ended September 30</u> <u>(Unaudited)</u>											
Revenue from external entities	2,682,255	5,821,516 ^(*)	422,013	347,415 ^(*)	289,070	383,147	253,771	429,346	-	-	3,647,109	6,981,424
Revenue from inter-segment sales	323,901	575,874 ^(*)	29,300	21,313 ^(*)	-	-	29,638	44,570	(382,839)	(641,757)	-	-
Segment revenue	<u>3,006,156</u>	<u>6,397,390</u>	<u>451,313</u>	<u>368,728</u>	<u>289,070</u>	<u>383,147</u>	<u>283,409</u>	<u>473,916</u>	<u>(382,839)</u>	<u>(641,757)</u>	<u>3,647,109</u>	<u>6,981,424</u>
Operating profit (loss) for segments	<u>144,928</u>	<u>120,019</u>	<u>(254)</u>	<u>7,764</u>	<u>7,738</u>	<u>(348)</u>	<u>21,432</u>	<u>23,342</u>	<u>-</u>	<u>(333)</u>	<u>173,844</u>	<u>150,444</u>
Negative goodwill arising on acquisition											-	14,535
Loss from loss of material impact in a former equity-accounted investee											(7,091)	-
Operating profit											<u>166,753</u>	<u>164,979</u>
Financing revenue											62,390	56,298 ^(**)
Financing expenses											(70,275)	(145,441) ^(**)
Financing revenue (expenses), net											(7,885)	(89,143)
Group's share in profits of equity accounted investees, net of tax											4,711	437
Profit before income tax											<u>163,579</u>	<u>76,273</u>

(*) Revenue from external entities and revenue from inter-segment sales were reclassified in order to adjust their presentation method to the presentation in the nine and three months ended September 30, 2009

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

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009
USD thousands

NOTE 5 – OPERATING SEGMENTS (CONTD.)

	<u>Refining</u>		<u>Trade</u>		<u>Petrochemicals</u>				<u>Adjustments to consolidated</u>		<u>Consolidated</u>	
					<u>Polymers</u>		<u>Aromatics</u>					
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>Three months ended September 30</u> <u>(Unaudited)</u>											
Revenue from external entities	1,042,672	2,277,774	192,291	57,259	113,007	141,750	106,738	147,882	-	-	1,454,708	2,624,665
Revenue from inter-segment sales	134,358	217,812	11,082	-	-	-	11,086	16,315	(156,526)	(234,127)	-	-
Segment revenue	<u>1,177,030</u>	<u>2,495,586</u>	<u>203,373</u>	<u>57,259</u>	<u>113,007</u>	<u>141,750</u>	<u>117,824</u>	<u>164,197</u>	<u>(156,526)</u>	<u>(234,127)</u>	<u>1,454,708</u>	<u>2,624,665</u>
Operating profit (loss) for segments	<u>81,176</u>	<u>38,753</u>	<u>(2,933)</u>	<u>3,277</u>	<u>7,180</u>	<u>5,001</u>	<u>5,596</u>	<u>4,052</u>	<u>2,672</u>	<u>1,725</u>	<u>93,691</u>	<u>52,808</u>
Negative goodwill arising on acquisition											-	692
Operating profit											93,691	53,500
Financing revenue											18,119	(25,863) (*)
Financing expenses											(34,477)	(25,702) (*)
Financing expenses, net											(16,358)	(51,565)
Group's share in earnings (losses) of investees, net of tax											873	(3,289)
Profit (loss) before taxes on income											<u>78,206</u>	<u>(1,354)</u>

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

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009
USD thousands

NOTE 5 – OPERATING SEGMENTS (CONTD.)

	<u>Petrochemicals</u>				Adjustments to consolidated	Consolidated
	<u>Refining</u>	<u>Trade</u>	<u>Polymers</u>	<u>Aromatics</u>		
Year ended December 31, 2008						
(Audited)						
Revenue from external entities	6,938,698(*)	356,158 (*)	475,193	487,409	-	8,257,458
Revenue from inter-segment sales	<u>679,855(*)</u>	<u>27,133 (*)</u>	<u>-</u>	<u>57,033</u>	<u>(764,021)</u>	<u>-</u>
Segment revenue	<u>7,618,553</u>	<u>383,291</u>	<u>475,193</u>	<u>544,442</u>	<u>(764,021)</u>	<u>8,257,458</u>
Operating profit (loss) for segments	<u>(121,381)</u>	<u>11,379</u>	<u>(66,233)</u>	<u>7,834</u>	<u>1,532</u>	<u>(166,869)</u>
Negative goodwill arising on acquisition						14,535
Operating profit						(152,334)
Financing revenue						64,979
Financing expenses						(126,034)
Financing expenses, net						(61,055)
Group's share in equity accounted investees, net of tax						(3,111)
Loss before taxes on income						<u>(216,500)</u>

(*) Revenue from external entities and revenue from inter-segment sales were reclassified in order to adjust their presentation method to the presentation in the nine and three months ended September 30, 2009

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

At the reporting date, the balance of agreements for approved investments in property, plant and equipment amounted to \$82 million.

At September 30, 2009, property, plant and equipment include advance payments in the amount of \$34 million made by the Group on account of the purchase of property, plant and equipment.

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009
USD thousands

NOTE 7 – CONTINGENT LIABILITIES AND AGREEMENTS

A. Lawsuits

1. Further to Note 20(B), sections 2(a), 2(b), 2(e), 3, 7, 15, 16 and 17 to the financial statements and Note 34(B) to the financial statements as of December 31, 2008, suits have been filed against the Group for physical injury and damage to property allegedly incurred 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 counsels of the Company and its subsidiaries, the Company estimates that, at this stage, it is not possible to assess the aforementioned impact on the financial statements as of September 30, 2009, if any exists, and therefore, no provision regarding this matter was included in the financial statements.
2. Further to Note 20 and Note 34(B) to the financial statements as of December 31, 2008, in the reporting period, there were no significant changes in the lawsuits and contingent liabilities of the Group, other than those described in Note 8 below

B. Agreements

To maintain the operations of the Company, the Company is dependent upon services from the infrastructure companies, PEI and EAPC, which own crucial infrastructure pertaining to the unloading, shipping, storage, and production of crude oil and distillates. In 2010, PEI is expected to carry out reinforcement works on the offshore pipeline used to unload crude oil in Haifa Bay, subject to approval by the competent authorities

NOTE 8 – MATERIAL EVENTS IN THE REPORTING PERIOD

- A.** In January 2009, the Company and Gadiv received a warning and summons to a hearing from the Ministry of Environmental Protection, relating to violations and alleged improper application of the provisions of the personal order (“the warning”). The warning described the alleged violations which referred, inter alia, to the timetables set forth in the order, results of stack samples, submission of certain plans stipulated in the personal order and the way information is sent to the Ministry, as stipulated in the order.

Prior to the date of the hearing, the Company and Gadiv submitted their responses to the warning they received. In the response, they described their arguments and responses to the issues included in the warning. At the conclusion of the hearing, goals and timetables were set for actions to be taken by the Company and Gadiv to reduce the pollution emitted by their facilities. The Company and Gadiv are preparing to implement the mandatory actions under the personal orders and are holding discussions with the Ministry of Environmental Protection regarding additional actions that the Ministry requires. In the reporting period, the Company and Gadiv reached an agreement with the Ministry of Environmental Protection regarding all the issues that arose at the conclusion of the hearing, and they are operating in accordance with these agreements.

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009
USD thousands

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

- B.** On August 9, 2009, the Director of the Haifa District in the Ministry of Environment Protection served Carmel Olefins and the CEO of Carmel Olefins with a notice and summons for a hearing, pursuant to the Prevention of Hazards Law - 1961, for alleged non-compliance with the provisions of the personal order applicable to Carmel Olefins in respect of the smoke emission event from Carmel Olefins' plant on August 7, 2009. The hearing was set for August 16, 2009. After the hearing, it was determined, inter alia, that a team would be established to examine the event and submit a report within 30 days from the date of the letter of appointment. The examination team will review whether the circumstances of the event and its results require enforcement steps against Carmel Olefins and may recommend drawing conclusions in the future. The letter of appointment is dated August 20, 2009 and was delivered to Carmel Olefins on August 27, 2009. The examination team has been appointed, has started work, and is communicating with Carmel Olefins representatives, however has yet to submit its conclusions. At this stage, it is not possible to assess the exposure of Carmel Olefins for this event.
- C.** On January 25, 2009, a hearing was held at the Ministry of Environmental Protection for the Company and PEI regarding two specific sites where, according to the Ministry, soil and groundwater were contaminated by fuel products. After the hearing, the Company and PEI were required to close the two pipelines along which leakage was found, return them to operation following repair and/or replacement, test impermeability of all the pipelines and submit the results to the Ministry of Environmental Protection. In the hearing, the Company and PEI were warned that if the repair and rehabilitation process does not commence within seven days after the hearing, including removal of the contaminated soil, the Ministry would issue an order for cleanup and removal of the toxic substances. The Ministry gave notice that the Green Police of the Ministry of Environmental Protection would investigate the events, including the Company's failure to take steps to minimize damage and prevent further contamination of the river and its environs.

On March, 1, 2009 the Company received a removal order for toxic substances, pursuant to section 16(A) of the Hazardous Substances Law - 1993 and a clean-up order, pursuant to section 13(B) of the Maintenance of Cleanliness Law - 1984, demanding that the Company, PEI and their CEOs submit plans to the Ministry of Environmental Protection for soil gas, soil and groundwater surveys and to fence off the contaminated areas and conduct the survey in accordance with the approved plans. The parties are further required to submit to the Ministry a report of the survey findings, including recommendations for the clean-up and rehabilitation of the contaminated soil and groundwater and the restoration of the river and its banks to their former condition, based on the findings of the survey. The parties will also define a short-term and binding timetable for implementing the recommendations of the survey, until all waste and toxins are removed from the soil and groundwater.

The Company commissioned a soil gas, soil and water survey. The company that carried out the survey made recommendations for treatment of the groundwater and recommended a risk survey for the soil. In the reporting period, the Company informed the Ministry that it was continuing pumping at the site, however the Ministry's position, according to which the Company is required to conduct long-term restoration of the area, is unreasonable and does not correspond with the order that was issued, as it has never been established that ORL caused the pollution or that ORL is responsible for performing the activities stipulated in the order. To remove all doubt, the Company informed the Ministry that should the Ministry decide to demand action pursuant to the order, the Company reserves all its rights.

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009
USD thousands

NOTE 8 – MATERIAL EVENTS IN THE REPORTING PERIOD

C. (contd.)

At the beginning of 2009, the Company and EAPC were required, under the terms added to their business licenses, to conduct soil surveys along the pipeline corridor and to apply the survey recommendations according to the suggested timetable approved by the Ministry of Environmental Protection. The Company appealed this condition in its business license through the procedure set up by the law. In the reporting period, the Ministry of Environmental Protection cancelled these terms and issued new terms in the business license, requiring the Company to carry out a historic survey for the pipeline corridor before carrying out soil gas, soil and soil and water surveys along the sections of pipeline corridor suspected of pollution. This survey will include, under the terms, a risk survey and a proposal to treat the pollution. Under the terms in the business license, the Ministry will determine terms and stages for carrying out the soil treatment plan, after approving the plan. The Company appealed to the Court for Administrative Affairs against the new terms and under the recommendation of the court, it is negotiating a settlement with the Ministry.

- D.** On September 21, 2009, the Company received a draft amendment of the orders to prevent air pollution from the Haifa refinery pursuant to the Prevention of Hazards Law - 1961 (“the Personal Order”), prepared by the Ministry of Environmental Protection. According to the draft, the maximum permitted emission of most of the pollutants included in the order would be reduced, 18 months after signing the draft, to low values, which can be achieved by using natural gas in the Company’s plants. Other orders were also added and/or changed in the draft, compared to the version published by the Ministry in November 2008, pursuant to which the Company has been operating since its publication.

On October 20, 2009, the Company informed the Ministry of Environmental Protection that the Ministries of Environmental Protection and National Infrastructures had agreed that use of natural gas was preferable to installation of emission control systems, after ORL described the implications of each of the alternatives, and that ORL shareholders, who purchased the Company’s shares from the Government of Israel, relied on representations of the State regarding the use of natural gas, and also contributed to the heavy investments made in the preparation for its use. Based on these representations, the Company itself invested over NIS 150 million to prepare for the use of natural gas in the refinery and its subsidiaries and in preparations for the changes that were required in the order as agreed with the Ministry of Environmental Protection in 2008.

After these investments were completed and it emerged that the State failed to deliver on its promise and that natural gas would not reach Haifa Bay, the State cannot now expect the Company to pay for its omissions and to even contend, inter alia, that the Company is unable to comply with the requirement for an alternative to natural gas, which also means impairment of its capacity to invest \$500 million in a hydrocracker. Therefore, the Company informed the Ministry of Environmental Protection that the public will not be able to cope with the demands in the draft submitted to ORL and they clearly deviate from the boundaries of reasonability of the authority’s operations. In addition, the Company submitted individual remarks to the order, and there are clarifications with the Ministry regarding these remarks.

- E.** Further to Note 20(B)(6) and 20(B)(7) to the financial statements as of December 31, 2008, on May 17, 2009, two residents of Tivon in the north of Israel filed another motion for certification as a class action against the Company and Carmel Olefins, for the same events and grounds included in the claim of the plaintiffs. The Company and Carmel Olefins objected to the addition of this claim, which aims to prevent the settlement arrangement, and asked the court to order the dismissal of the new claim. The ruling on this matter has yet to be made.

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009
USD thousands

NOTE 8 – MATERIAL EVENTS IN THE REPORTING PERIOD

- F. On May 7, 2009, IPE announced that it had received a control permit. On that date, the Company received notification from the Government Companies Authority regarding this control permit. The control permit describes the conditions for the operation of IPE and PCH under the control permit: the effectiveness and complete fulfillment of certain agreements signed between Mogdal Ltd. and Mogdal Industries (99) Ltd. and Charabancs Investment N.V. (“Charabancs”) and the effectiveness of the joint control agreement between IPE and PCH and the Israel Corporation Ltd., within 30 days from the date the control permit was granted.

The Government Companies Authority further announced that it would notify the Company when the conditions exist to allow IPE and PCH to operate under the control permit (the Government Companies Authority gave the Company an update notice as aforesaid).

On May 7, 2009, IPE issued an immediate report announcing that Modgal Ltd. and Mogdal Industries (99) Ltd. had informed IPE of the validation and complete fulfillment of the series of agreements signed between them and Charabancs and that all the terms for the validation of the joint control agreement between IPE and PCH and the Israel Corporation Ltd. had been met.

In addition, IPE announced that it had decided that it would not exercise, and would ensure that PCH would not exercise, the call options given to PCH in accordance with the provisions of the joint control agreement.

After receiving the control permit, commencing from May 7, 2009, the Company no longer had material impact in IPE and accordingly it changed the accounting method for investments from the equity method to accounting by available-for-sale financial assets.

The effect of the aforesaid on the financial statements for the nine months ended on September 30, 2009 is a loss of \$7 million, before tax, as well as tax expenses of \$1.7 million.

G. Establishment of a hydrocracker

Further to Note 11(G) to the financial statements as of December 31, 2008 and as part of the strategic plan adopted in November 2007, on October 12, 2008, the Company’s board of directors approved the establishment of a hydrocracker at the Haifa refinery to produce middle distillates, at a total investment of \$670 million, (including an investment of \$37 million approved by the board of directors in November 2007 in order to advance the project). An updated financial analysis for the establishment of the hydrocracker was carried out in view of changes in the global economy, particularly in the oil and fuel products market. The results of the analysis indicated the need for and feasibility of immediate establishment of the planned hydrocracker and on June 7, 2009 the board of directors approved an adjusted budget of approximately \$500 million for establishment of the hydrocracker. Performance of works for the project is contingent on securing long-term financing, which the management is working to complete, with a repayment period that commences after production commences at the hydrocracker and the board of directors’ approval of these arrangements.

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009
USD thousands

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

H. Financial position of Carmel Olefins

Further to Note 16(B)5 and 15(C) to the financial statements as of December 31, 2008, on September 30, 2009, Carmel Olefins entered into a series of agreements (“the agreements”) with all the banks that had extended credit to Carmel Olefins.

1. Under the agreements, the banks agreed to change the financial covenants that were in effect prior to the agreements, such that in the exemption period (as defined in section 3 below, the exempting financial covenants would apply (“the new covenants”). Main points:
 - a. Tangible equity shall not fall below \$138 million. Tangible equity is defined as equity less deferred expenses and other intangible assets.
 - b. The ratio of the tangible equity to the total balance sheet, less the deposits described in Note 8(H)(1)(i) shall not fall below 22%.
 - c. The ratio between current assets and current liabilities shall not fall below 0.8.
 - d. The ratio between the total liabilities to banks and financial institutions less moneys due from short- and long-term swap currency transactions and less the deposits described in Note 8(H)(1)(i) and the tangible equity on the last day of each quarter, will not exceed 2.4.
 - e. The average debt coverage ratio (the ratio between the operating profit in the period plus depreciation and amortization and the amount of the principle payments for that period plus payments of interest on long-term loans and short-term credit and the current taxes in that period) over the last eight quarters will not fall below 1.1, provided the calculation does not take into account the quarter ended on December 31, 2008 (instead, up to the fourth quarter of 2010, information from the prior relevant eighth quarter will be used). The measure of the debt-covering ratio for the four quarters is cancelled.
 - f. Carmel Olefins will not distribute or declare dividends to its shareholders without prior written approval from the banks.
 - g. Carmel Olefins will not acquire or invest in assets in excess of \$10 million without prior written approval from the banks. This approval is not required for the acquisition of the balance of Domo shares.
 - h. The banks waived their right to demand immediate repayment of Carmel Olefin’s bank debts for breach of the original covenants commencing from December 31, 2008 until the date the agreements are signed.
 - i. Carmel Olefins made the following commitments to the banks, among others: a fixed-rate first lien on all the assets, equipment and machines owned by Carmel Olefins and a fixed-rate first lien on Carmel Olefins’ title to the land on which its plant operates in Haifa Bay. In addition to the above guarantees, it was agreed that monetary deposits will be deposited at some of the banks, and will be pledged in favor of those banks.
2. Carmel Olefins paid the banks the addition of interest and/or commissions.

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009
USD thousands

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

H. Financial position of Carmel Olefins (contd.)

3. Under the agreements, the “exemption period” is unlimited in time and commences on the date the agreements are signed and ends when Carmel Olefins complies with the original covenants for four consecutive quarters and presents the banks with a financial plan based on price forecasts, according to which Carmel Olefins is able to meet its debts, under the credit agreements with the banks, by the termination dates of those agreements.
 4. At the end of the exemptions period, the new covenants will be cancelled, the original covenants will be reinstated and the liens on Carmel Olefins assets described in section H(1)(i) above will be lifted.
 5. At September 30, 2009, Carmel Olefins is in compliance with the new covenants. Following the agreements and Carmel Olefins’ compliance with the new covenants, Carmel Olefins’ long-term loans, which were classified as short-term loans in its financial statements as of December 31, 2008, March 31, 2009 and June 30, 2009 (due to Carmel Olefins’ failure to comply with the covenants set by the banks), the loans were reclassified as long-term loans.
- I.** On April 23, 2009, Carmel Olefins signed an agreement for the purchase of feedstocks from ORL. The agreement included terms for the purchase of 60,000 tons of propylene per year, which ORL undertook to sell to Carmel Olefins under the obligations that were assigned in the split of the refineries and terms for the purchase of at least 40,500 tons of 4C year. The agreement is valid for 10 years commencing from January 1, 2009, subject to the rights of the parties to terminate the agreement earlier in accordance with the provisions in the agreement.
- J.** Further to Note 20(B)(10) to the financial statements as of December 31, 2008, Carmel Olefins reached a settlement agreement with the representative of Haifa municipality regarding the settlement of all the property tax disputes. The settlement agreement was signed by Carmel Olefins and Haifa municipality in October 2009. The settlement agreement came into effect after approval by the Supreme Court. On November 8, 2009, the financial statements included provisions according to the agreements that were reached. Under the settlement agreement, Carmel Olefins will pay \$11.3 million to remove the property tax demands, by December 31, 2009. The Company’s share in this amount is \$5.7 million) (\$10.5 million at September 30, 2009 – the Company’s share is \$5.2 million). This amount will be paid within 14 days after the Supreme Court approves the settlement agreement.
- K.** An administrative order was filed against Carmel Olefins for underpayment of import tax, amounting to \$1.2 million in September 2008. Carmel Olefins estimates, based on the opinion of its legal counsel, that it is likely that most of this amount will be cancelled for various professional reasons, either in negotiations with the customs authority or after filing a lawsuit. Carmel Olefins deposited a bank guarantee of \$1 million to delay enforcement and collection procedures.

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009
USD thousands

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

L. TMA project

In the period since 2007 and through to the reporting period, Gadiv negotiated for the purchase of 50% of the registered share capital of a Chinese company (“the acquired company”) which benefits in China from the status of a wholly-foreign owed company (WFOE) and which manufactures Trimellitic Anhydride (TMA), a product used mainly as a softener in the polymer industry and as a component in powder colors, and Para Diethyl Benzene (PDEB), a product used mainly in the production of paraxylene. In the negotiations, Gadiv also signed a memorandum of intent.

The negotiations came to an end during the reporting period, without leading to the acquisition of shares by Gadiv in this enterprise.

Gadiv estimates that there is uncertainty regarding the use of know-how acquired for the establishment of a TMA facility, and therefore the costs accumulated in the reporting period were decreased by \$1 million.

- M.** In 2008, the Haifa municipality served Gadiv an assessor notice for property tax for Gadiv facilities at the chemical terminal at the port, from 2001 onwards. In the reporting period, Gadiv and the municipality reached a settlement regarding the basis for the charge and prior charges where Gadiv paid property tax for the asset for 2001-2009.

N. Surcharge

The government of India announced that it was establishing a procedure to review the import levy on phthalic anhydrides and imposed a temporary surcharge (until August 2009) of 25% of the product price for the import of this material. Gadiv, which exports this material to India as well, demanded the cancellation of the temporary surcharge and the imposition of any surcharge. Gadiv’s claims referred to non-compliance with the conditions required, under international trade agreements and Indian law, for the decision to impose the aforesaid surcharge, as well as the level of the surcharge that was decided.

In the reporting period, the director general of trade levies in India resolved to impose a surcharge on the import of phthalic anhydrides to India, which would also apply to imports from Israel, up to January 28, 2012, at a decreasing rate of between 25% and 15%. On June 30, 2009, the Minister of Finance in India approved a surcharge of 25% until June 30, 2009 and 15% until December 31, 2009.

- O.** On June 4, 2009, Delek Investments and Properties Ltd. and the Company (hereinafter together: “the Offerors”) made an offer to all shareholders of the ordinary shares of Gadot Biochemical Industries Ltd. to purchase all their shares in a complete tender offer under section 336 of the Companies Law, under the terms prescribed in the tender offer.

On June 29, 2009, the offerors informed Gadot that the complete tender offer was not accepted, as the acceptance percentage for the tender offer was lower than the minimum acceptance percentage. Therefore, pursuant to section 337(b) of the Securities Law - 1999, the complete tender offer was cancelled and the notice of allowance that was granted, was not accepted.

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009
USD thousands

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

- P.** On July 14, 2009, the Knesset passed the Economic Arrangements Law (Amendments for the Application of the Economic Plan for 2009 and 2010) - 2009. The Law includes provisions for an additional gradual decrease of up to 18% in the rate of corporate tax, commencing from the 2016 tax year. Pursuant to the amendments, corporate tax rates applicable commencing from the 2009 tax year are as follows: in the 2009 tax year – 26%; in the 2010 tax year – 25%; in the 2011 tax year – 24%; in the 2012 tax year – 23%; in the 2013 tax year - 22%; in the 2014 tax year - 21%; in the 2015 tax year - 20%; and in the 2016 tax year onwards, 18%."

Implications of the change in tax rates were reflected in the third quarter financial statements of 2009 by way of a decrease in the deferred tax liability and recognition of tax revenue of \$36 million.

- Q.** In the reporting period, Delek Group informed the Company that it holds more than 5% of its shares and accordingly, it is an interested party in the Company. The Government Companies Authority notified the Company that Delek Group's holding of a means of control, contrary to section 3(d) of the Government Companies Order (Declaration of Vital State Interest in Oil Refineries Ltd) - 2007, in other words, more than 5%, is "an irregular holding", and pursuant to section 7 of the Order, shall not be effective for exercising rights by virtue of the irregular holdings, including for the purpose of receiving a dividend.

On August 13, 2009, Delek Group Ltd. announced that due to the position of the Government Companies Authority, the group would take steps to sell its surplus holdings in the Company.

- R.** In the nine and three months ended September 30, 2009, the Group recognized a loss from impairment of inventory of finished products and raw materials amounting to \$13 million, as a result of the drop in prices of crude oil and its products towards the end of the third quarter. The loss reflects the difference between the cost of inventory and its net disposal value at the reporting date. The impairment was recognized in the statement of income under cost of sales, refinery and services. See also Note 9(E) below.
- S.** In August 2009, the Company notified the Tax Authorities of the submission of an amended tax report for the 2005 tax year, claiming benefits under the Encouragement of Capital Investments Law - 1959. Furthermore, the Company approached the Director General of the Tax Authority regarding the matter. Should it emerge that the Company is in compliance with the conditions set out in the law and the regulations promulgated thereunder, the Company will be entitled to tax benefits pursuant to the provisions of the law for revenue defined as beneficiary income.

In the Company's opinion, the estimated balance of the potential tax benefit for the 2005 tax year amounts to \$60 million. Should it emerge that the Company is not eligible for these tax benefits, the Company will request a tax exemption in the amount of \$16 million for the 2007 tax year.

Subsequent to the balance sheet date, in October 2009, the tax assessor announced the rejection of the Company's request to amend the tax report, claiming that the Company did not have the right to amend the tax report that was submitted. The Company filed a reservation on the tax assessor's determination and asked for a summons to a hearing to clarify its stand if necessary.

At the date of approval of the financial statements, the Company has not yet received a response to its reservation and accordingly, the liability for current tax in the financial statements for the 2005 and 2007 tax years was calculated without the benefit. Receipt of these benefits is subject to compliance with the provisions in the Encouragement of Capital Investments Law and the regulations promulgated by virtue of the law.

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009
USD thousands

NOTE 9 – MATERIAL EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- A.** Further to Note 20(B)(9) to the financial statements as of December 31, 2008, subsequent to the reporting period, the Company and the Ashdod municipality achieved an arbitration agreement settling all the disagreements between the Company and the municipality regarding development and betterment levies. Under the agreement, the Company will pay the municipality the agreed amounts, within 15 days from the date the agreement is given the validity of judgment. The municipality and the Local Council for Planning and Construction will provide the Company, within two business days from the payment date, approvals for the Land Registrar, according to which there are no debts to the municipality and the local council for the land known as the complex of the Ashdod Refinery.
- B.** Further to Note 20(B)(19) to the financial statements as of December 31, 2008, subsequent to the reporting date, the Company received a monetary claim from Haifa Port in the amount of NIS 35 million (\$9.3 million) for non-payment of infrastructure fees for crude oil unloaded at the Kiryat Haim terminal in the period from December 2007 until September 2008. The Company has yet to study the claim and a date for filing a statement of defense has not yet arrived.
- C.** Further to Note 20(B)(8) to the financial statements as of December 31, 2008, the Company received the ruling of the Haifa District Court, which accepts the application of Sonol Israel Ltd. and Delek The Israel Fuel Corporation Ltd., two of the Company's partners in Haifa Basic Oils Ltd. (Haifa Basic Oils), after Haifa Basic Oils filed a derivative claim against the Company in the amount of NIS 165 million (\$43.9 million) (at the application date). In the ruling, the court found that it was convinced of the existence of the conditions required by law for approval of the claim as a derivative action, and that Haifa Basic Oils has grounds for its allegations against the Company, therefore it will allow investigation of the claim. The Company is studying the decision and will consider its future steps accordingly. The period for appeal has not yet expired and the applicant has yet to file a claim. At this early stage, it is not possible to estimate the outcome of the claim.
- D. Transaction for the acquisition of 50% of Carmel Olefins shares**

On October 27, 2009, after receiving the approval of the Company's audit committee and board of directors, the Company and Israel Petrochemical Enterprises Ltd. (IPE) signed an agreement under which, upon closing the transaction, PE will sell the Company all the shares it owns in Carmel Olefins Ltd. ("Carmel Olefins"), comprising 50% of the issued capital of Carmel Olefins ("the acquired Carmel Olefins shares") such that following the acquisition, the Company will hold the full issued share capital of Carmel Olefins. In consideration for the acquired Carmel Olefins shares, the Company will allot IPE 431,610,944 ordinary shares of the Company, comprising (after the allotment and without dilution), 17.75% of the company's issued share capital ("the allotted shares"). The allotted shares will confer the same rights as the ordinary shares of NIS 1 par value in the Company's capital.

Completion of the transaction is subject to preconditions, including approval of the general meeting of the shareholders to be held on December 2, 2009 and regulatory and other approvals from third parties. At the reporting date, some of the preconditions are yet to be fulfilled. The last date for fulfilling the preconditions was set for December 30, 2009.

The Group opted for early adoption of IFRS 3 *Business Combinations*, IFRS 5 *Discontinued Operations* and IAS 27 *Consolidated and Separate Financial Statements*, revised ("the Standards") commencing from January 1, 2007. Early adoption is expected to affect revaluation of the original investment in Carmel Olefins on the basis of fair value in profit or loss, subject to completion of the merger transaction.

Oil Refineries Ltd.
Notes to the Financial Statements
As of September 30, 2009
USD thousands

**NOTE 9 – MATERIAL EVENTS SUBSEQUENT TO THE BALANCE SHEET
DATE (CONTD.)**

E. Changes in the prices of crude oil and its products

Subsequent to the reporting date, there was material fluctuation in the price of crude oil and its products due to changes in the economic environment. The price of oil, which was \$66/barrel on the reporting date, rose to \$77/barrel on the publication date of the financial statements. As a result of these changes, the Company is expected to cancel the provision for impairment of inventory recognized in cost of sales on September 30, 2009. See also Note 8(R) above.