



Oil Refineries Ltd.

Condensed Consolidated Interim Financial Statements

as of June 30 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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Directors' Report on the State of the Company's Affairs
for the period ended June 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 June 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 primary operations are the production of oil products, feedstock for the petrochemical industry and materials for the plastics industry. In addition, the Company is involved in the trading of crude oil and its 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 the required feedstock entirely or mostly from the Company on an ongoing basis through pipelines and return all or part of 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 various fields of operations leads 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, the 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 dependency of the subsidiaries 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 provide it with 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 in 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 the revenue from the sale of the Company's product index and the ex-refinery cost of the raw materials purchased by the Company (mainly crude oil). The level of the margin is based on the index of the products and their 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 distillates are highly volatile and are set, inter alia, by global supply and demand. 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: one, supply and demand of crude oil and the other, 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 \$52/barrel compared to an average of \$109/ton in the corresponding period last year, and compared to \$37/barrel on December 31, 2008. Concurrently, there was also a decrease in the prices of fuel products that the Company produces from crude oil 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) a loss of \$5 million due to timing differences between purchase and selling prices, on the Company's unhedged basic inventory of 600,000 tons, for which changes in its value do not generate cash flow exposure for the Company; (2) net profit of \$86 million due to the 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; (3) loss in respect of the impact of changes in fair value of derivatives on prices of goods, due to the transition to international financial reporting standards (IFRS) in the amount of \$34 million.

In the refining segment, operating profit, EBITDA and the refining margin after neutralizing these three impacts is \$17 million, \$36 million and \$25.4 per ton, respectively.

The operating loss, EBITDA and refining margin, as reflected in the financial statements (without neutralizing these impacts) is \$64 million, \$84 million and \$37.9 per ton, respectively.

In the reporting period, neutralized refining margins decreased to \$25.4 per ton, compared to \$33.2 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 \$17.5 per ton in the reporting period compared to \$36.5 per ton in the corresponding period last year. See section 3.1.2 for further details.

It is noted that there are differences in a number of parameters between the refining margin of the Company and the Reuters margin. These include the composition of the crude oil (the Company also refines crude oil types that are not Ural), the composition and quality of the products produced by the refineries and the difference generated as result of 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, the comparison to the Reuters' margin is likely to provide insight in relation to the trends of the development of the Company's refining margin, and does not constitute an exact criterion for estimating the Company's refining margin in the short term.

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

| | <u>1-6.2009</u> | <u>4-6.2009</u> | <u>1-6.2008</u> | <u>4-6.2008</u> | <u>1-12.2008</u> |
|---|-----------------|-----------------|-----------------|-----------------|------------------|
| Ural margin in the Mediterranean (dollar/barrel) | 2.4 | 1.4 | 0.5 | 6.3 | 5.5 |
| Neutralized margin (dollar/barrel) | 3.5 | 2.4 | 4.6 | 6.7 | 5.7 |
| Neutralized margin (dollar/ton) | 25.4 | 17.4 | 33.2 | 48.9 | 41.4 |
| Neutralization of impact: | | | | | |
| Accounting method for derivatives according to IFRS | (8.9) | (18.9) | (11.6) | (17.6) | 0.7 |
| Buying and selling timing differences | (1.3) | 17.8 | 25.5 | 35.5 | (9.9) |
| Provision for impairment of inventory | 22.7 | - | - | - | (22.3) |
| Accounting margin (dollar/ton) | 37.9 | 16.3 | 47.1 | 66.8 | 9.9 |

Consolidated operating profit amounted to \$73 million in the reporting period, compared to operating profit of \$111million in the corresponding period last year, a decrease of \$38 million.

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

| | <u>1-6.2009 compared to 1-6.2008</u> |
|---|--|
| Decrease in the scope of sales | (2) |
| Decrease in other revenue | (17) |
| Decrease in profit from the trade segment | (1) |
| Decrease in losses for derivative transactions | 13 |
| Provision for impairment of inventory | 86 |
| Buying and selling timing differences – in the refining segment | (108) |
| Decrease in margins in the petrochemicals segment | (21) |
| Decrease in margins in the refining segment | (29) |
| Decrease in production expenses, mainly energy | 46 |
| Decrease in selling and administrative expenses | 16 |
| Loss from the loss of material impact in a former equity-accounted investee (see Note 8E to the financial statements) | (7) |
| Goodwill arising upon acquisition in 2008 (see section 1.3.1.2(3)A) | (14) |
| | (38) |

The second quarter of 2009 ended in an operating loss of \$7 million, compared to an operating profit of \$96 million in the corresponding period last year.

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

| | 4-6.2009 compared to 4-6.2008 |
|---|--|
| Decrease in the scope of sales | (4) |
| Decrease in other revenue | (8) |
| Decrease in profit from the trade segment | (1) |
| Decrease in losses for derivative transactions | 1 |
| Buying and selling timing differences – in the refining segment | (42) |
| Decrease in margins in the petrochemicals segment | (11) |
| Decrease in margins in the refining segment | (58) |
| Decrease in production expenses, mainly energy | 27 |
| Decrease in selling and administrative expenses | 14 |
| Loss from the loss of material impact in a former equity-accounted investee (see Note 8E to the financial statements) | (7) |
| Goodwill created upon acquisition in 2008 (see section 1.3.1.2(3)A) | (14) |
| | (103) |

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

Production volume

The refining volume in the Company amounted to 3,772,000 tons, with usage of 87.2% in the reporting period, and 1,805,000 tons, with usage of 85.7% in the second quarter of 2009 (in 2008 – 8,245,000 tons). The decrease of usage is mainly due to the commencement of periodic renovation of Raw Refinery Plant 4 at the beginning of June 2009.

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

| | 1-6.2009 | 4-6.2009 | 1-6.2008 | 4-6.2008 | 2008 |
|---------------|-----------------|-----------------|-----------------|-----------------|-------------|
| Diesel fuel | 1,204 | 572 | 1,149 | 565 | 2,367 |
| Gasoline | 769 | 405 | 832 | 409 | 1,664 |
| Kerosene | 298 | 147 | 380 | 211 | 831 |
| Fuel oil | 586 | 255 | 669 | 331 | 1,367 |
| Vacuum diesel | 325 | 127 | 351 | 177 | 738 |
| Others | 290 | 147 | 314 | 156 | 624 |
| Total | 3,472 | 1,653 | 3,695 | 1,849 | 7,591 |

The following table presents the breakdown of the output of the consolidated companies (in thousands of tons):

| | 1-6.2009 | 4-6.2009 | 1-6.2008 | 4-6.2008 | 2008 |
|---|-----------------|-----------------|-----------------|-----------------|-------------|
| Gadiv Petrochemical Industries Ltd. | 229 | 120 | 239 | 110 | 430 |
| Carmel Olefins Ltd. (the Company's share – 50%) | 170 | 89 | 137 | 70 | 307 |

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

1.3.1 Corporate developments

1.3.1.1. Strategic plan

On October 12, 2008, the Company's board of directors decided, as part of the strategic plan it adopted in November 2007, to establish a hydrocracker in the Haifa refinery. The hydrocracker, which will produce middle distillates (diesel oil and kerosene), 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 hydrocracker will increase the flexibility of the refinery in terms of ability to select the raw materials and product mix, adapting them to the changing markets.

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

After an updated financial analysis for the 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 for establishment of the hydrocracker, from \$670 million to \$500 million.

The Company's 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 the purchase of equipment from foreign suppliers, and to receive the additional long-term credit from various sources, which is vital for completion of the project.

In the reporting period, planning of the first stage (feed) has been completed. As of 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 arranging 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.

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 the completion of the hydrocracker, the scope of investments in it and its 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.

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As of the approval date of the financial statements, the Company has no financial liabilities for the purchase of fixed assets that are not covered by secured financial financing.

1.3.1.2. Implementation of the strategic plan by segment

1. Refining: In 2008, organization and staffing 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 flexibility of refining at Crude Refining Terminal 4 is in process. Operation is expected to be renewed after shutdown for renovation in the third quarter of 2009. The upgrade will allow refining of a very wide range of crude oil types common in the region, such that utilization of the plant will increase and it will be possible to take advantage of more opportunities for good margins. The renovation of the hydrocracker and the investment operations were completed subsequent to the reporting period and the upgraded hydrocracker started operation.

B. Conversion of the desulfurization facility from heavy vacuum gas oil (HVGO) to moderate catalytic hydrosulfurization is in process. Stage A was completed at the end of the second quarter of 2009 and stage B will be conducted in the third quarter of 2010. Operation of stage A is expected to produce an additional 1.5% of diesel fuel for refining output. Stage B is expected to produce a similar additional output. The Company is acting to advance the implementation of stage B.

C. See section 1.3.1.1 above for establishment of the hydrocracker.

D. Projects related to environmental quality in the scope of \$50 million were implemented in 2008.

E. Establishment of a power station: The configuration testing stage has been completed.

2. Trade: In 2008, a modern commercial center was established and the information system for managing trade in oil products was implemented.

3. Petrochemicals

A. Agreement for the purchase of the remaining Carmel Olefins shares

On June 24, 2008, the Company signed an agreement with Israel Petrochemical Enterprises Ltd. (IPE) for the acquisition of the remaining 50% of Carmel Olefins shares in return for the allotment of 20.53% 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. It was also agreed that the Company would sell IPE all of the Company's shares in IPE ("the acquired IPE shares"), representing 12.29% of the share capital of IPE, in consideration for \$40 million.

On December 31, 2008, the agreement for the purchase of Carmel Olefins expired, without the fulfillment of all the preconditions defined in the agreement and therefore the transaction was not completed.

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However, as the main reasons underlying the decision of the board of directors to approve the merger of Carmel Olefins with the Company are still valid today, the Company and IPE agreed to continue to cooperate in an attempt to complete the merger, and if the conditions ripen, the issue will be brought to the organs of the Company.

- B.** Increased production capacity of paraxylene and benzene at Gadiv: completion is expected in the first quarter of 2010.
- C.** Increased production capacity of phthalic anhydride at Gadiv: completion is expected in the first quarter of 2010.
- 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 amount of €1 million a year for a five-year period, 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, for the purchase of the balance of the shares for an additional €10 million, net of the dividends to be distributed to Domo, plus interest at a rate of 5% per annum. The sellers have a put option, exercisable commencing on July 1, 2011 for the sale of the remaining 51% in Domo to Carmel Olefins at the same terms.

Commencing 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 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, 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 the establishment of another TMA facility, and therefore the costs accumulated in the reporting period were decreased by \$1 million.

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4. Company headquarters

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.

See section 15.1 below for details of the hearing held for the Company in respect of the personal order under which it operates.

1.3.1.3. The Company's preparation 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, contractual work and human resources, with the aim of ensuring the realization of its strategic plan and its long-term strength and prosperity, against 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. In addition, the Company's directors, including the outside directors, 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 this date, was appointed in his place.

In the reporting period, a special collective agreement was signed between the Company and the workers union. 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 deducting taxes, in its financial statements for 2009, each employee shall 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.

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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 \$68/barrel at the end of the period, after great fluctuation in the price of crude oil and its 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.

In the reporting period, prices of fuel products produced and sold by the Company decreased, compared with the corresponding period last year. There was no full correlation between the dates of the changes in product prices and the scope of these changes and the dates of the changes in the prices of crude oil and the scope of changes, which resulted in fluctuation in the refining margin.

A rise in the price of crude oil leads to an increase in the volume of working capital required by the Company 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 price of crude oil 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.

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 against the basic inventory value of 600,000 ton. 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 second quarter, there was a depreciation of 3%. The impact of the change in exchange rates on the business results in the reporting period amounts to an expense of \$4 million.

In the reporting period, the CPI rose by 2%. The Company finances 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 index-linked liabilities for which there were no currency swap transactions, the Company holds assets linked to this index.

As a result of the crisis in the financial markets in the reporting period, the fair value of the financial derivatives held by the Company increased by \$19 million, which was recognized in the Company's financing revenue.

See section 16 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

On June 30, 2009, consolidated current assets amounted to \$1,420 million, representing 51% of the total assets, compared to \$1,104 million, 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 quantity and in the price, of \$216 million, an increase of \$53 million in trade receivables (after offsetting the discount of \$130 million on June 30, 2009 and \$108 million on December 31, 2008) and an increase of \$74 million in deposits for derivatives, due to the increase in inventory prices.

Non-current assets

On June 30, 2009, non-current assets amounted to \$1,355 million, representing 49% of the total assets, compared to \$1,301 million, representing 54% of total assets on December 31, 2008. The increase is mainly due to an increase of \$52 million in property, plant and equipment due to the investment in projects in the refining segment (see also section 1.3.1.2 above) offset by depreciation for the period. Increase in investment in investees amounted to \$9 million, mainly due to the change in accounting treatment in IPE, from equity accounting to accounting as available-for-sale financial instruments, the increase in financial derivatives in the amount of \$10 million, due to the impact of the depreciation in the period, which caused a decrease of \$20 million in the value of derivatives less the impact of the change in interest of \$24 million and less the impact in the change in the index of \$6 million. This was offset by a decrease of \$15 million in the loan to Haifa Early Pensions, due to the effect of depreciation of \$3 million offset by the increase of \$5 million in the fair value and the increase of \$17 million in current maturities for the loans fund and for the interest recognized in other payables.

2.2 Current liabilities

On June 30, 2009, consolidated current liabilities amounted to \$1,096 million, representing 51% of total liabilities, compared to \$737 million, representing 40% of total liabilities at December 31, 2008. The increase is mainly due to the increase of \$298 million in credit and an increase of \$32 million in trade payables, mainly due to the increase in prices of oil and its products and an increase of \$33 million in financial derivatives.

2.3 Non-current liabilities

Consolidated non-current liabilities amounted to \$1,041 million at June 30, 2009, compared to \$1,117 million at December 31, 2008. The decrease of \$76 million is mainly due to repayment of loans and debentures and the erosion of shekel debentures due to the depreciation in the reporting period.

2.4 Shareholders' equity

Equity at June 30, 2009 amounted to \$638 million, representing 23% 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 the profit of \$67 million in the reporting period.

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3. Results of the Group's operations

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

| | Refining | | Trade | | Petrochemicals | | | | Adjustments to consolidated | | Consolidated | |
|---|----------------------------------|--------------|------------|------------|----------------|------------|------------|------------|-----------------------------|--------------|--------------|--------------|
| | | | | | Polymers | | Aromatics | | | | | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | Six months ended June 30, | | | | | | | | | | | |
| Revenue | 1,622 | 3,522 | 248 | 311 | 177 | 241 | 146 | 282 | - | - | 2,193 | 4,356 |
| Inter-company operations | 207 | 380 | - | - | - | - | 19 | 28 | (226) | (408) | - | - |
| Total revenue | 1,829 | 3,902 | 248 | 311 | 177 | 241 | 165 | 310 | (226) | (408) | 2,193 | 4,356 |
| Cost of sales | 1,724 | 3,757 | 244 | 307 | 99 | 93 | 1 | 40 | - | - | 2,068 | 4,197 |
| Inter-company operations | 19 | 28 | - | - | 66 | 140 | 136 | 235 | (221) | (403) | - | - |
| Total cost of sales | 1,743 | 3,785 | 244 | 307 | 165 | 233 | 137 | 275 | (221) | (403) | 2,068 | 4,197 |
| Gross profit (loss) | 86 | 117 | 4 | 4 | 12 | 8 | 28 | 35 | (5) | (5) | 125 | 159 |
| Selling, general and administrative expenses | 22 | 36 | 1 | - | 11 | 11 | 11 | 15 | - | - | 45 | 62 |
| Inter-company operations | - | - | - | - | 1 | 2 | 1 | 1 | (2) | (3) | - | - |
| Operating profit (loss) for segments | 64 | 81 | 3 | 4 | - | (5) | 16 | 19 | (3) | (2) | 80 | 97 |
| Negative goodwill arising on acquisition | | | | | | | | | | | | 14 |
| Loss from the loss of material impact in a former equity-accounted investee | | | | | | | | | | | (7) | - |
| Operating profit | | | | | | | | | | | 73 | 111 |
| Financing revenue (expenses) | | | | | | | | | | | 9 | (38) |
| Share in the profits of equity accounted investees | | | | | | | | | | | 4 | 4 |
| Profit before income tax | | | | | | | | | | | 86 | 77 |
| Income tax | | | | | | | | | | | (19) | (4) |
| Net profit | | | | | | | | | | | 67 | 73 |

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3.1.1 Sales turnover

Sales turnover of the **refining segment** (carried out through the Company) amounted to \$1,829 million in the reporting period, compared to \$3,902 million 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 \$434 in the reporting period, compared to \$893 in the corresponding period last year.

Revenues from the sale of products with a volume of over \$250 million per product in the reporting period were as follows: diesel fuel - \$552 million and gasoline \$439 million.

According to publications of the Ministry of National Infrastructures, there was a decrease of 8% in consumption of distillates in the local market compared to the corresponding period last year, which included an increase of 2% in the consumption of gasoline offset by a decrease of 18% 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 16% in the consumption of fuel oil 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 the first quarter of 2008 and is carried out through the Company, amounted to \$248 million in the reporting period, compared to \$311 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 \$64 million in the reporting period compared to the corresponding period last year. The decrease is due to an increase in sales quantities of \$81 million, (of which and increase of \$46 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), offset by a decrease of \$145 million in the selling prices.

Sales turnover of **aromatics operations** (carried out through Gativ) decreased by \$145 million in the reporting period compared to the corresponding period last year. The decrease is mainly due to the decrease of \$100 million in selling prices, a decrease of \$34 million in quantities, a decrease of \$9 million in processing fees and a decrease of \$2 million in other revenue.

3.1.2 Gross profit

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

| | June 30, 2009 compared to June 30, 2008 |
|---|--|
| Decrease in other revenue | (7) |
| Decrease in profit from the trade segment | (1) |
| Increase in profits for derivative transactions | 13 |
| Provision for impairment of inventory | 86 |
| Buying and selling timing differences | (108) |
| Decrease in turnover | (9) |
| Decrease in margin less refining operations | (29) |
| Decrease in production expenses | 24 |
| | <u>(31)</u> |

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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 the 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 UDS/ton.

| Q1 | | Q2 | | Six months | | Year |
|------|------|------|------|------------|------|------|
| 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2008 |
| 32.4 | 17.7 | 17.4 | 48.9 | 25.4 | 33.2 | 41.4 |

In the reporting period, Brent crude oil prices rose from \$37/barrel at the beginning of the period to \$68/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. During the second quarter of 2009, refining margins dropped compared to the end of 2008, due to the relative price increase of oil and the end of the winter.

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 the selling prices.

The decrease of \$24 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 appreciation on shekel expenses.

Gross profit in **polymers operations** amounted to \$12 million in the reporting period, compared to gross profit of \$8 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):

| | June 30, 2009 compared to June 30, 2008 |
|---|--|
| Increase in sales turnover | 12 |
| Decrease in products index margin and buying and selling timing differences | (14) |
| Decrease in production and other expenses | 6 |
| | <u>4</u> |

Gross profit in **aromatics operations** amounted to \$28 million in the reporting period, compared to \$35 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):

| | June 30, 2009 compared to June 30, 2008 |
|---|--|
| Decrease in sales quantities | (5) |
| Decrease in processing fees | (10) |
| Decrease in products index margin | (7) |
| Decrease in production expenses, in particular energy | 15 |
| | <u>(7)</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 \$45 million, compared to \$62 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 the depreciation on payroll expenses and a decrease in municipal tax expenses.

3.1.4 Operating profit and EBIDTA

Refining and trade segment

The neutralized operating income in the refining and trade segments amounted to \$19 million in the reporting period, compared to a loss of \$29 million in the corresponding period last year.

The accounting operating loss amounted to \$67 million in the reporting period, compared to a profit of \$85 million in the corresponding period last year. The decrease in the accounting operating profit of \$18 million is due to a decrease of \$31 million in gross profit and a decrease of \$13 million in selling and administrative expenses as described above.

Neutralized EBITDA of the refining and trade segment amounted to \$39 million in the reporting period, compared to \$51 million in the corresponding period last year, a decrease of \$12 million.

Accounting EBITDA amounted to \$87 million in the reporting period, compared to EBITDA of \$107 million in the corresponding period last year, a decrease of \$20 million.

Petrochemicals segment

The operating profit in the **polymers operations** was balanced in the reporting period, compared to a loss of \$5 million in the corresponding period last year. The increase is mainly due to an increase of \$4 million in gross profit, as described above.

EBITDA of the **polymers operations** amounted to \$14 million in the reporting period, compared to \$7 million in the corresponding period last year.

Operating profit of **aromatics operations** amounted to \$16 million in the reporting period, compared to \$19 million the corresponding period last year.

EBITDA of the **aromatics operations** amounted to \$20 million in the reporting period, compared to \$22 million in the corresponding period last year.

Consolidated accounting operating profit amounted to \$73 million in the reporting period, compared to operating profit of \$111 million in the corresponding period last year.

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3.1.5 Financing expenses

Net consolidated financing income amounted to \$9 million in the reporting period compared to expenses of \$38 million in the corresponding period last year.

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

| | June 30, 2009 compared to June 30, 2008 |
|--|--|
| Interest on loans and debentures | (14) |
| Short-term interest | (8) |
| Haifa Early Pensions and securities portfolio interest | 2 |
| Revaluation | (17) |
| Fair value of hedging | (9) |
| Other | (1) |
| | <u>(47)</u> |

3.1.6 Company's share in earnings of investees

The Company's share in the earnings of investees amounted to a profit of \$4 million in the reporting period, similar to the corresponding period last year.

3.1.7 Income tax

Tax expenses in the Group amounted to \$19 million in the reporting period, compared to tax expenses of \$4 million in the corresponding period last year. The tax expense in the corresponding period last year was relatively low, mainly due to changes in deferred tax reserves as a result of the impact of the appreciation.

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3.2 Expenses in the second quarter of 2009 compared to the corresponding quarter last year

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

| | <u>Petrochemicals</u> | | | | | | | | | | | |
|---|-----------------------------------|--------------|--------------|-------------|-----------------|-------------|------------------|-------------|------------------------------------|--------------|---------------------|--------------|
| | <u>Refining</u> | | <u>Trade</u> | | <u>Polymers</u> | | <u>Aromatics</u> | | <u>Adjustments to consolidated</u> | | <u>Consolidated</u> | |
| | <u>Three months ended June 30</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> |
| Revenue | 837 | 1,961 | 190 | 232 | 92 | 134 | 89 | 144 | - | - | 1,208 | 2,471 |
| Inter-company operations | 122 | 192 | - | - | - | - | 10 | 17 | (132) | (209) | - | - |
| Total revenue | 959 | 2,153 | 190 | 232 | 92 | 134 | 99 | 161 | (132) | (209) | 1,208 | 2,471 |
| Cost of sales | 946 | 2,039 | 187 | 230 | 48 | 60 | 5 | 24 | - | - | 1,186 | 2,353 |
| Inter-company operations | 10 | 17 | - | - | 40 | 71 | 78 | 118 | (128) | (206) | - | - |
| Total cost of sales | 956 | 2,056 | 187 | 230 | 88 | 131 | 83 | 142 | (128) | (206) | 1,186 | 2,353 |
| Gross profit (loss) | 3 | 97 | 3 | 2 | 4 | 3 | 16 | 19 | (4) | (3) | 22 | 118 |
| Selling, general and administrative expenses | 11 | 21 | 1 | - | 4 | 6 | 6 | 9 | - | - | 22 | 36 |
| Inter-company operations | - | - | - | - | 1 | 1 | - | - | (1) | (1) | - | - |
| Operating profit (loss) for segments | (8) | 76 | 2 | 2 | (1) | (4) | 10 | 10 | (3) | (2) | - | 82 |
| Negative goodwill arising on acquisition | | | | | | | | | | | | 14 |
| Loss from the loss of material impact in a former equity-accounted investee | | | | | | | | | | | (7) | - |
| Operating profit (loss) | | | | | | | | | | | (7) | 96 |
| Financing revenue (expenses) | | | | | | | | | | | (6) | (22) |
| Share in the (profits) losses of equity accounted investees | | | | | | | | | | | (1) | 9 |
| Profit (loss) before taxes on income | | | | | | | | | | | (14) | 83 |
| Tax benefits (income tax) | | | | | | | | | | | 6 | (12) |
| Net profit (loss) | | | | | | | | | | | (8) | 71 |

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3.2.2 Turnover

The dollar turnover of the refining segment in the second quarter of 2009 decreased by 57% 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 \$190 million, compared to \$232 million in the corresponding period last year.

The turnover in the polymers segment in the second quarter of 2009 decreased by 31% due to a decrease in selling prices offset by an increase in sales volume.

The turnover in the aromatics segment decreased by 38% in the second quarter of 2009 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 second quarter of 2009 were as follows: gasoline - \$263 million and diesel fuel – 268 million

3.2.3 Gross profit

The gross profit in the refining and trade segment amounted to \$6 million in the second quarter of 2009, compared to \$99 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):

| | 4-6.2009 compared to 4-6.2008 |
|---|--|
| Decrease in the margin from refining operations | (58) |
| Increase in profits for derivative transactions | 1 |
| Buying and selling timing differences | (42) |
| Decrease in volume of refining and sales | (9) |
| Decrease in production expenses | 15 |
| | <u>(93)</u> |

The gross profit in the polymers segment amounted to \$4 million in the second quarter of 2009, compared to a profit of \$3 million in the corresponding quarter last year.

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

| | 4-6.2009 compared to 4-6.2008 |
|-----------------------------------|--|
| Decrease in products index margin | (7) |
| Increase in sales volume | 5 |
| Decrease in production expenses | 3 |
| | <u>1</u> |

The gross profit in the aromatics segment amounted to \$16 million in the second quarter of 2009, compared to \$19 million in the corresponding quarter last year.

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

| | 4-6.2009 compared to 4- 6.2008 |
|---|---|
| Decrease in products index margin | (4) |
| Decrease in production expenses, in particular energy | 8 |
| Decrease in processing fees | (7) |
| | <hr/> |
| | (3) |
| | <hr/> <hr/> |

3.2.4 Operating profit and EBITDA

Neutralized operating loss in the **refining and trade segment** amounted to \$3 million in the second quarter of 2009, compared to a neutralized operating profit of \$41 million in the corresponding quarter last year.

Operating loss in the **refining and trade segment** amounted to \$6 million in the second quarter of 2009, compared to profit of \$78 million in the corresponding quarter last year.

The decrease of \$84 million in operating profit in the **refining and trade segment** is due to a decrease of \$93 million in the gross profit, as explained above, offset by of \$9 million in sales and administrative expenses (mainly due to a decrease of \$5 million in municipal tax expenses and a decrease of \$4 million in salary expenses due to the appreciation).

Neutralized EBITDA of the **refining and trade segment** amounted to \$8 million in the second quarter of 2009, compared to \$53 million in the corresponding quarter last year, a decrease of \$45 million.

The EBITDA of the **refining and trade segment** amounted to \$5 million in the second quarter of 2009 compared to \$90 million in the corresponding quarter last year

The operating loss of the **polymers operations** amounted to \$1 million in the second quarter of 2009, compared to a loss of \$4 million in the corresponding quarter last year. The decrease in the operating loss is mainly due to an increase of \$1 million in gross profit as explained above, and a decrease of \$2 million in administrative and general expenses.

The EBITDA amounted to \$5 million in the second quarter of 2009, compared to zero in the corresponding quarter last year.

The operating profit in the **aromatics operations** amounted to \$10 million in the second quarter of 2009, compared to a profit of \$10 in the corresponding quarter last year.

The EBITDA amounted to \$13 million in the second quarter of 2009, compared to \$11 million in the corresponding quarter last year.

The consolidated results in the second quarter of 2009 amounted to an operating loss of \$7 million, compared to an operating profit of \$96 million in the corresponding quarter last year.

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3.2.5 Financing

Net consolidated financing expenses amounted to \$6 million in the second quarter of 2009, compared to expenses of \$22 million in the corresponding period last year.

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

| | 4-6.2009 compared to 4-6.2008 |
|--|--|
| Interest on loans and debentures | (5) |
| Short-term interest | (4) |
| Haifa Early Pensions and securities portfolio interest | 7 |
| Revaluation | (14) |
| Fair value of hedging | 1 |
| Other | (1) |
| | <u>(16)</u> |

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

The Company's share in the second quarter of 2009 amounted to a loss of \$1 million, compared to a profit of \$9 million in the corresponding quarter last year.

3.2.7 Income tax

Tax benefits in the second quarter of 2009 amounted to \$6 million, compared to expenses of \$12 million in the corresponding quarter last year. The difference in tax is due to the loss in the second quarter of 2009 of the year, compared to a profit in the corresponding quarter last year.

4. Liquidity

Total current assets less current liabilities as of June 30, 2009 amounted to \$324 million compared to \$367 million as of December 31, 2008. The current ratio as of June 30, 2009 is 1.3 compared to 1.5 on December 31, 2008.

Consolidated cash flows from operating activities in the reporting period amounted to a negative amount of \$54 million, mainly due to the accounting profit less adjustments of non-cash activities and an increase in current assets and liabilities, as a result of 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 \$156 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 \$211 million in the reporting period, mainly from short-term credit received in the amount of \$305 million, offset by repayment of debentures and long-term loans of \$66 million for payment of interest of \$28 million.

The total cash flows from operating activities less cash used for financing and investment operations led to an increase of \$1 million in cash balances in the reporting period.

5. Sources of financing

Composition of the Group's sources of financing:

| | <u>June 30, 2009</u> | <u>December 31, 2008</u> |
|--|----------------------|--------------------------|
| | <u>Unaudited</u> | <u>Audited</u> |
| | <u>USD millions</u> | |
| Sources | | |
| Decrease in cash flow in the period | - | 244 |
| Cash from operating activities (prior to changes in working capital) | 141 | - |
| Receipt of short-term credit and deposits from customers and others | 305 | 128 |
| Decrease in working capital, net | - | 298 |
| Dividends received from investees | 4 | 1 |
| | <u>450</u> | <u>671</u> |
| Uses | | |
| Cash used for operating activities (prior to changes in working capital) | - | 149 |
| Increase in working capital, net | 218 | - |
| Repayment of long term loans and debentures | 66 | 218 |
| Payment of dividend | - | 121 |
| Investments in fixed and other assets | 91 | 142 |
| Investment in deposits | 73 | 25 |
| Investment in associates and negotiable securities, net | - | 16 |
| Increase in cash balance in the period | 2 | - |
| | <u>450</u> | <u>671</u> |

Long-term loans and debentures

The long term loans and debentures as of June 30, 2009 (after deduction of current maturities) amounted to \$886 million, representing 32% 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 shareholders' equity plus long term loans and debentures) as of June 30, 2009 is 58% compared to 64% as of December 31, 2008.

Total financial liabilities

Current financial liabilities plus long-term loans and debentures amounted to \$1,565 million at June 30, 2009, representing 56% of the balance sheet, compared to \$1,340 million, representing 56% of the balance sheet at December 31, 2008. Financial leverage of total financial liabilities to banks and other credit providers is 71% compared to 71% at December 31, 2008.

Long-term financial debt (long-term loans and debentures, including current maturities) amounted to \$1,022 million at the end of the reporting period: in the Company \$887 million (including \$117 million in current maturities); in Carmel Olefins \$133 million (including \$14 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) – \$1,055 million; short term credit – \$397 million; trade payables – \$286 million; trade receivables – \$280 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 set forth in the Directors' Report of December 31, 2008.

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 June 30, 2009 | Profit (loss) | |
|--|-----------------|-----------------|-----------------------------|---------------|---------------|
| | Increase of | | | Decrease of | |
| | 10%+ | 5%+ | | 5%- | 10%- |
| Changes in exchange rates | 4,3109 | 4,115 | 3,919 | 3,723 | 3,527 |
| USD thousands | | | | | |
| Long-term linked shekel debentures | 39,067 | 20,463 | (429,733) | (22,618) | (47,748) |
| Long-term shekel debentures | 11,321 | 5,930 | (124,528) | (6,554) | (13,836) |
| Trade receivables(NIS) | (9,191) | (4,814) | 101,101 | 5,321 | 11,233 |
| Trade payables (NIS) | (7,892) | (4,134) | 86,815 | 4,569 | 9,646 |
| Inventory balance (NIS) (*) | (7,318) | (3,833) | 80,500 | 4,237 | 8,944 |
| Nominal and index-linked shekel securities portfolio | (8,212) | (4,302) | 90,335 | 4,754 | 10,037 |
| Forward contracts | 8,438 | 4,420 | 677 | (4,885) | (10,314) |
| Swapping principal and interest | (51,618) | (27,038) | 58,533 | 29,884 | 63,088 |
| | <u>(25,405)</u> | <u>(13,308)</u> | | <u>14,708</u> | <u>31,050</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

| | Profit (loss) | | Fair value June 30, 2009 | Profit (loss) | |
|----------------------------------|---------------|--------------|-----------------------------|---------------|--------------|
| | Increase of | | | Decrease of | |
| | 10%+ | 5%+ | | 5%- | 10%- |
| Changes in exchange rates | 1.553 | 1.483 | 1.412 | 1.342 | 1.271 |
| USD thousands | | | | | |
| Forward contract | 1,469 | 734 | (340) | (734) | (1,469) |

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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 June 30, 2009 | Profit (loss) | | | |
|---------------------------------|---------------|--------------|---------------|---------------|-----------------------------|-----------------|-----------------|----------------|----------------|
| | Increase of | | Addition of | | | Reduction of | | Decrease of | |
| | 10% + | 5% + | 1%+ | 0.5%+ | | 0.5%- | 1%- | 5%- | 10% - |
| | USD thousands | | | | | | | | |
| Interest rate swaps (IRS) | 2,130 | 1,068 | 7,746 | 3,921 | (656) | (4,019) | (8,116) | (1,075) | (2,157) |
| Swap hedging | (36) | (18) | (118) | (59) | 11,914 | 59 | 118 | 18 | 36 |
| Dollar-linked securities | (80) | (40) | (8) | (4) | 36,276 | 4 | 8 | 40 | 80 |
| Forward contract | 23 | 12 | 2 | 1 | 337 | (1) | (2) | (12) | (24) |
| Swapping principal and interest | 1,422 | 715 | 17,234 | 8,750 | 58,533 | (9,025) | (18,336) | (724) | (1,456) |
| | <u>3,459</u> | <u>1,737</u> | <u>24,856</u> | <u>12,609</u> | | <u>(12,982)</u> | <u>(26,328)</u> | <u>(1,753)</u> | <u>(3,521)</u> |

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

| | Profit (loss) | | | | Fair value June 30, 2009 | Profit (loss) | | | |
|-------------------|----------------|---------------|---------------|---------------|-----------------------------|-----------------|-----------------|-----------------|------------------|
| | Increase of | | Addition of | | | Reduction of | | Decrease of | |
| | 10% + | 5% + | 1%+ | 0.5%+ | | 0.5%- | 1%- | 5%- | 10% - |
| | USD thousands | | | | | | | | |
| Inventory (*) | 229,039 | 91,615 | 45,808 | 22,904 | 483,133 | (22,904) | (45,808) | (91,615) | (229,039) |
| Futures | (141,895) | (56,758) | (28,379) | (14,189) | (47,077) | 14,189 | 28,379 | 56,758 | 141,895 |
| Swap hedging (**) | 14,331 | 5,733 | 2,866 | 1,433 | 11,914 | (1,433) | (2,866) | (5,733) | (14,331) |
| | <u>101,475</u> | <u>40,590</u> | <u>20,295</u> | <u>10,148</u> | | <u>(10,148)</u> | <u>(20,295)</u> | <u>(40,590)</u> | <u>(101,475)</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> | Profit (loss) | | | | Fair value June 30, 2009 | Profit (loss) | | | |
|--|---------------|--------------|----------------|----------------|-----------------------------|---------------|--------------|----------------|----------------|
| | Increase of | | Addition of | | | Reduction of | | Decrease of | |
| | 10% + | 5% + | 1%+ | 0.5%+ | | 0.5%- | 1%- | 5%- | 10% - |
| | USD thousands | | | | | | | | |
| CPI-linked securities | (314) | (157) | (31) | (16) | 38,547 | 16 | 31 | 157 | 314 |
| Long-term CPI-linked shekel debentures | 12,700 | 6,434 | 16,046 | 8,143 | (429,733) | (8,391) | (17,039) | (6,608) | (13,397) |
| Swapping principal and CPI-linked interest | (3,677) | (1,847) | (20,583) | (10,470) | 55,521 | 10,843 | 22,075 | 1,864 | 3,746 |
| | <u>8,709</u> | <u>4,430</u> | <u>(4,568)</u> | <u>(2,343)</u> | | <u>2,468</u> | <u>5,067</u> | <u>(4,587)</u> | <u>(9,337)</u> |

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

| Change in interest | Profit (loss) | | | | Fair value June 30, 2009 | Profit (loss) | | | |
|--|----------------------|--------------|--------------------|----------------|-------------------------------------|----------------------|--------------------|------------|------------|
| | Increase of | | Addition of | | | Reduction of | Decrease of | | |
| | 10% + | 5% + | 1%+ | 0.5%+ | | | 0.5%- | 1%- | 5%- |
| USD thousands | | | | | | | | | |
| Securities (NIS) | (463) | (232) | (46) | (23) | 51,789 | 23 | 46 | 232 | 367 |
| Forward contracts | 3 | 1 | 1 | 1 | 677 | (1) | (1) | (1) | (3) |
| Unlinked shekel debentures | 3,051 | 1,540 | - | - | (124,528) | - | - | (1,570) | (3,171) |
| Swapping principle and non-linked interest | (2,881) | (1,451) | (6,415) | (3,257) | 3,013 | 3,360 | 6,825 | 1,473 | 2,968 |
| | <u>(290)</u> | <u>(142)</u> | <u>(6,460)</u> | <u>(3,279)</u> | | <u>3,382</u> | <u>6,870</u> | <u>134</u> | <u>161</u> |

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 June 30, 2009 | Profit (loss) | | | |
|---------------------------|----------------------|-------------|--------------------|--------------|-------------------------------------|----------------------|--------------------|------------|------------|
| | Increase of | | Addition of | | | Reduction of | Decrease of | | |
| | 10% + | 5% + | 1%+ | 0.5%+ | | | 0.5%- | 1%- | 5%- |
| USD thousands | | | | | | | | | |
| Forward contracts | (23) | (12) | (2) | (1) | (340) | 1 | 2 | 12 | 23 |

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

| Changes in exchange rates | Profit (loss) | | Fair value June 30, 2009 | Profit (loss) | |
|--|----------------------|--------------|-------------------------------------|----------------------|----------------|
| | Increase of | | | Decrease of | |
| | 10%+ | 5%+ | | 5%- | 10%- |
| USD thousands | | | | | |
| CPI-linked securities | 3,855 | 1,927 | 38,547 | (1,927) | (3,855) |
| Long-term CPI-linked shekel debentures | (42,973) | (21,487) | (429,733) | 21,487 | 42,973 |
| Swapping principal and interest | 42,252 | 21,126 | 55,521 | (21,126) | (42,252) |
| | <u>3,134</u> | <u>1,566</u> | | <u>(1,566)</u> | <u>(3,134)</u> |

6.1.9 Summary of the differences in fair value in view of the change in price of marketable securities

| Changes in exchange rates | Profit (loss) | | Fair value June 30, 2009 | Profit (loss) | |
|----------------------------------|----------------------|------------|-------------------------------------|----------------------|-------------|
| | Increase of | | | Decrease of | |
| | 10%+ | 5%+ | | 5%- | 10%- |
| USD thousands | | | | | |
| Securities portfolio | 10,164 | 5,082 | 101,641 | (5,082) | (10,164) |

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 June 30, 2009 | Profit (loss) | |
|------------------------------------|---------------|--------------|-----------------------------|----------------|----------------|
| | Increase of | | | Decrease of | |
| | 10%+ | 5%+ | | 5%- | 10%- |
| Changes in exchange rates | 3.527 | 3.723 | 3.919 | 4.115 | 4.3109 |
| | USD thousands | | | | |
| Long-term linked shekel debentures | 9,396 | 4,922 | (103,349) | (5,440) | (11,483) |
| Trade receivables(NIS) | (592) | (310) | 6,509 | 343 | 723 |
| Trade payables (NIS) | 1,037 | 543 | (11,407) | (601) | (1,267) |
| Forward contracts | 101 | 53 | (56) | (58) | (123) |
| Swapping principal and interest | (8,712) | (4,311) | 15,505 | 4,311 | 8,712 |
| | <u>1,230</u> | <u>897</u> | | <u>(1,445)</u> | <u>(3,438)</u> |

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 June 30, 2009 | Profit (loss) | |
|------------------------------------|---------------|--------------|-----------------------------|---------------|----------------|
| | Increase of | | | Decrease of | |
| | 10%+ | 5%+ | | 5%- | 10%- |
| Exchange rate fluctuations | 1.553 | 1.483 | 1.412 | 1.342 | 1.271 |
| | USD thousands | | | | |
| Trade receivables- euro | (1,785) | (935) | 19,634 | 1,034 | 2,182 |
| Trade payables - euro | 887 | 465 | (9,758) | (514) | (1,084) |
| Other long-term liabilities - euro | 698 | 366 | (7,678) | (404) | (853) |
| Long-term loans - euro | 2,902 | 1,520 | (31,916) | (1,680) | (3,546) |
| Forward contract | (1,699) | (849) | 910 | 849 | 1,699 |
| | <u>1,003</u> | <u>567</u> | | <u>(715)</u> | <u>(1,602)</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 June 30, 2009 | Profit (loss) | |
|-----------------------------------|---------------|--------------|-----------------------------|---------------|--------------|
| | Increase of | | | Decrease of | |
| | 10%+ | 5%+ | | 5%- | 10%- |
| Exchange rate fluctuations | 1.495 | 1.578 | 1.661 | 1.744 | 1.827 |
| | USD thousands | | | | |
| Trade receivables- GBP | (329) | (173) | 3,619 | 191 | 402 |
| Forward contracts | 136 | 68 | 13 | (68) | (136) |
| | <u>(193)</u> | <u>(105)</u> | | <u>123</u> | <u>266</u> |

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

| | Profit (loss) | | Fair value June 30, 2009 | Profit (loss) | |
|---------------------------|---------------|-----|-----------------------------|---------------|-------|
| | Increase of | | | Decrease of | |
| | 10%+ | 5%+ | | 5%- | 10%- |
| Change in interest | | | | | |
| | USD thousands | | | | |
| Fixed interest euro loan | 400 | 202 | (22,456) | (205) | (414) |

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

| Change in interest | Profit (loss) | | Fair value June 30, 2009 | Profit (loss) | |
|---------------------------------|---------------|-------|-----------------------------|---------------|-------|
| | Increase of | | | Decrease of | |
| | 10%+ | 5%+ | | 5%- | 10%- |
| | USD thousands | | | | |
| Swapping principal and interest | (1,956) | (979) | 15,505 | (980) | 1,960 |

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

| Change in interest | Profit (loss) | | Fair value June 30, 2009 | Profit (loss) | |
|--|---------------|---------|-----------------------------|---------------|---------|
| | Increase of | | | Decrease of | |
| | 10%+ | 5%+ | | 5%- | 10%- |
| | USD thousands | | | | |
| Swapping principal and CPI-linked interest | (2,257) | (1,139) | 15,506 | 1,160 | 2,342 |
| Long-term CPI-linked shekel debentures | 4,050 | 2,054 | (103,349) | (2,112) | (4,285) |
| | 1,793 | 915 | | (952) | (1,943) |

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

| Change in interest | Profit (loss) | | Fair value June 30, 2009 | Profit (loss) | |
|-----------------------------|---------------|---------|-----------------------------|---------------|----------|
| | Increase of | | | Decrease of | |
| | 10%+ | 5%+ | | 5%- | 10%- |
| | USD thousands | | | | |
| Debenture swap transactions | 10,173 | 5,086 | 15,505 | (5,086) | (10,173) |
| Debentures | (10,335) | (5,168) | (103,349) | 5,168 | 10,335 |
| | (162) | (82) | | 82 | 162 |

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

| Change in interest | Profit (loss) | | Fair value June 30, 2009 | Profit (loss) | |
|-----------------------------|---------------|-------|-----------------------------|---------------|---------|
| | Increase of | | | Decrease of | |
| | 10%+ | 5%+ | | 5%- | 10%- |
| | USD thousands | | | | |
| Debenture swap transactions | 2,495 | 1,247 | 24,944 | (1,247) | (2,495) |

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6.3 Consolidated linkage-based report

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

| | NIS index- linked | Foreign-currency linked(*) | NIS Unlinked | Non- monetary | Total |
|---|----------------------|-------------------------------|------------------|------------------|--------------------|
| Assets | | | | | |
| Cash and cash equivalents | - | 13,345 | 3,482 | - | 16,827 |
| Short-term deposit | - | 99,274 | - | - | 99,274 |
| Future purchase | - | 139,179 | 32,660 | - | 171,839 |
| Investment in other financial assets at fair value through profit or loss | 38,547 | 11,251 | 52,332 | - | 102,130 |
| Trade receivables | - | 265,942 | 40,702 | - | 306,644 |
| Other receivables | 19,962 | 2,914 | 7,666 | 15,986 | 46,528 |
| Inventory | - | 695,577 | 56,466 | 33,213 | 785,256 |
| Current tax assets | 43,845 | - | - | - | 43,845 |
| Investments in equity-accounted investees | - | - | - | 44,209 | 44,209 |
| Loan to Haifa Early Pensions Ltd. (**) | 88,384 | - | - | - | 88,384 |
| Long term loans and debit balances (**) | - | 705 | 2,736 | - | 3,441 |
| Long-term derivatives at fair value through profit or loss | 517,095 | - | 145,277 | - | 662,372 |
| Employee benefit plan assets | - | - | 5,378 | - | 5,378 |
| Property, plant and equipment | - | - | - | 1,135,845 | 1,135,845 |
| Intangible assets and deferred expenses, net | - | - | - | 22,971 | 22,971 |
| Total assets | 707,833 | 1,228,187 | 346,699 | 1,252,224 | 3,534,943 |
| Liabilities | | | | | |
| Short-term credit and loans | - | (395,463) | (39,927) | - | (435,390) |
| Trade payables | - | (237,512) | (64,717) | - | (302,229) |
| Other payables | (1,380) | (28,870) | (31,445) | - | (61,695) |
| Future sales | - | (46,012) | 125,490 | - | (171,502) |
| Short-term derivatives at fair value through profit or loss | - | (35,174) | - | - | (35,174) |
| Provisions | - | (2,216) | (10,976) | - | (13,192) |
| Financial liabilities at fair value through profit and loss | - | (588,334) | - | - | (588,334) |
| Debentures (**) | (595,823) | (3,931) | (127,584) | 2,800 | (724,538) |
| Bank loans (**) | - | (406,736) | - | 1,750 | (404,986) |
| Liabilities for finance lease | (8,285) | - | - | - | (8,285) |
| Other long-term liabilities | - | (7,678) | - | - | (7,678) |
| Long-term future sale | - | (656) | - | - | (656) |
| Employee benefits | - | (467) | (55,395) | - | (55,862) |
| Liabilities for deferred taxes | - | - | - | (87,872) | (87,872) |
| Total liabilities | (605,488) | (1,753,049) | (455,534) | (83,322) | (2,897,393) |
| Net balance | 102,345 | (524,862) | (108,835) | 1,168,902 | 637,550 |

(*) 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.

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

| | NIS index- linked | Foreign-currency linked(*) | NIS Unlinked | Non- monetary | Total |
|---|----------------------|-------------------------------|------------------|------------------|--------------------|
| Assets | | | | | |
| Cash and cash equivalents | - | 14,194 | 646 | - | 14,840 |
| Short-term deposit | - | 25,000 | - | - | 25,000 |
| Derivatives at fair value through profit or loss | - | 15,374 | - | - | 15,374 |
| Future purchase | - | 78,684 | - | - | 78,684 |
| Investment 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 | 20,724 | 9,729 | 24,159 | 25,852 | 80,464 |
| Inventory | - | 494,013 | 34,298 | 41,096 | 569,407 |
| Current tax assets | 42,047 | - | - | - | 42,047 |
| Affiliates | - | - | - | 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 derivatives 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 | 698,381 | 827,648 | 332,137 | 1,211,569 | 3,069,735 |
| Liabilities | | | | | |
| Short-term 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 derivatives 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 future sale | - | (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 | 68,636 | (614,228) | (53,634) | 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 qualifying their opinion, the auditors of the Company drew attention to:

- 7.1. The contents of Note 7(A) and Note 8(A) to 8(C) 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.
- 7.2. The contents of Note 7(B) 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 Mr. Ori Slonim, Mr. Avisar Paz and Mrs. 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.

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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 goal of the entire process is to ensure that the financial statements faithfully present the financial position of the Company.

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 June 30, 2009 were discussed at the audit and balance sheet committee on August 9, 2009 in the presence of the audit and balance sheet committee members – Uri Slonim (chair), Yachin Cohen, Avisar Paz, Nechama Ronen and Daphne Schwartz, and with the participation of the chairman of the board, Yossi Rosen, and board members David Federman, Ran Croll, Uzi Natanel and Arie Silberberg, and were discussed and approved in full at the board of directors of the Company on August 16, 2009.

9. Disclosure regarding the internal auditor in a reporting corporation

- 9.1. Name of auditor: Yehuda Meirovitch, in office since 1988
Qualifications: MBA, CIA
- 9.2. The auditor is an employee of the Company.
- 9.3. Scope of employment during the reporting period: Full time + two audit employees + the engagement of two outside offices for internal audits in a scope of 4,500 hours in 2009.
- 9.4. The audit plan is based on a multi-year plan to cover the main issues of the Company every two or three years. Other issues once every three or four years and the management's routine audit requirements.
- 9.5. The internal audit plan includes audit issues at Gadiv, which constitutes a material holding of ORL, and refers also to commercial and other connections with companies in which ORL has holdings.
- 9.6. The internal auditor conducts the audit in accordance with professional standards generally accepted in Israel and other countries.
- 9.7. The internal auditor reports directly to the chairman of the board of directors.
- 9.8. The audit reports were presented and discussed at the following meetings of the audit committee:
 - 9.8.1 The work plan for the 2009 internal audit was approved at the meeting of the audit committee in February 2009. At this meeting, the committee discussed the performance of a comprehensive risk survey for the Company, which will include a separate section for internal audit purposes. The committee decided to convene another meeting as soon as possible to discuss hedging against risks in acquisition of crude oil and distillates and a number of issues that were not discussed at the previous meeting.
 - 9.8.2 In the meeting held in March 2009, the audit committee discussed a number of issues from the interim internal audit report for 2008. In this meeting, decisions were made to correct faults found in the audit of these issues.
 - 9.8.3 In the meeting held in April 2009, the audit committee discussed and reported the following:
 - The status of implementation of the decisions to correct faults found in the 2006-2007 audits in areas that have not been fully corrected.
 - Implementation of the enforcement plan in the Company in various areas.
 - Progress in finding an external party to carry out a comprehensive risk survey for the Company.

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- The management's method for correcting the faults that were found in two audit reports in the trade segment – trade in crude oil and hedging of transactions for the import and export of fuel products.
- Other audits in accordance with the work plan of the internal audit for 2008.

9.8.4 In the meeting held in May 2009, the audit committee discussed a number of audit reports, such as payments to contractors and service providers, the payroll system in the Company, shipping and transportation in the Company's ships and revenue from sales to customers on the local market. The committee recorded the resolutions of the Company's management to correct the faults that were found in the various issues, including the timetable for implementation. A report was also made on the performance of the 2008 audit plan.

9.9. The nature and continuity of operations and the internal auditor's work plan are reasonable under the circumstances, in the Company's estimation, and will serve to achieve the purposes of the corporation's internal audit. The internal auditor has free access, as set out in section 9 of the Internal Audit Law, 5752-1992, including constant and direct access to the corporation's information systems, including financial data.

9.10. 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. Accordingly, a date for the termination of the auditor's position has yet to be determined. This date will be determined once the decision has been made to appoint the auditor's replacement.

10. Debentures of the corporation held by the public

10.1. In the reporting period, there were no significant changes in the three debenture series issued by the Company and offered to the public in a prospectus, the debenture trustees, conditions for the call for immediate redemption of the debentures and the Company's compliance with these conditions and the collateral for the debentures as described in the Directors' Report of December 31, 2008, with the exception of changes in the debenture rating as set forth in section 10.2 below.

10.2. Debenture rating

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

| <u>Series</u> | <u>Date of issue</u> | <u>Rating proximate to date of issue</u> | <u>Rating on June 30, 2009</u> | <u>Rating company</u> | <u>Date and reference of immediate report on the updated rating²</u> |
|---------------|----------------------|--|--------------------------------|-----------------------|---|
| Series A | December 3, 2007 | AA/Stable | A/Negative | S&P Maalot | November 13, 2008, ref. no. 2008-01-316449 |
| Series B | December 3, 2007 | AA/Stable | A/Negative | S&P Maalot | November 13, 2008, ref. no. 2008-01-316449 |
| Series C | December 3, 2007 | AA/Stable | A/Negative | S&P Maalot | November 13, 2008, ref. no. 2008-01-316449 |

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. This reflects the consequences of the uncertainty in the refining industry in the medium term, the financing of the investments plan and the acquisition of Carmel Olefins and the change in the structure of control in the Company.

In the second quarter of 2009, previous estimates regarding erosion of margins started to materialize, alongside the Company's update on the decrease in the financial scope of the investment plan.

² The immediate reports included in this position are presented as a reference.

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. Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management of the Group companies 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.

When preparing the accounting estimates used to prepare the Group's financial statements, management was required to make assumptions regarding the circumstances and events involving substantial uncertainty and relied on past experience, various facts, external factors and reasonable assumptions according to the circumstances appropriate for each estimate.

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.

In the reporting period, there were no material changes in the estimates identified by the Company as critical, the consideration in the assessments and assumptions that affected the application of the policy, as set forth in section 13 of the Directors' Report of December 31, 2008.

12. Corporate governance

In 2008, the board of directors adopted a procedure based on the recommendations of the Goshen Committee and the recommendations regarding their implementation as submitted to the Company by Adv. Dr. Yoram Danziger. On December 30, 2008, the Company added a provision in its regulations whereby as long as the Company has a controlling shareholder or a holder of a control block, at least one third of the members of the board of directors will be independent directors, as defined in section 219(E) of the Companies Law. As of the reporting date, the audit committee has not discussed and determined the identity of the independent directors. There are nine directors in the Company, of which two are outside directors, and one another director who meets the qualification condition of an independent director, subject to the approval of the organs of the Company in respect of additional compensation for outside directors and independent directors with expertise, as defined in the compensation regulations.

13. Meetings of the board of directors

During the reporting period, there were 8 board meetings and 28 meetings of board committees.

14. Salaries of senior officers and considerations on which the board of directors bases such salaries

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

The Company has a policy of granting bonuses to its senior officers, at the discretion of the CEO and the approval of the relevant organs, based, inter alia, on the Company's results.

At the beginning of 2009, the chairman of the board, CEO and other officers in the Company announced their decision to waive 10% of their salary (with the exception of provisions and incidental conditions) in 2009. This is part of the 2009 work plan to ensure implementation of the Company's strategic plan and its long-term strength and prosperity, against the background of the global economic crisis and its implications on the Israeli economy.

15. Significant events during the reporting period

- 15.1.** In January 2009, the Company and Gadiv received from the Ministry of Environmental Protection a warning and summons to a hearing relating to violations and alleged defective 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, the results of the stack samples, the submission of certain plans stipulated in the personal order and to 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 response to the warning they received. In the response, they detailed 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 to reduce the pollution emitted by its facilities. The Company is preparing to implement the mandatory actions under the personal orders.

In the reporting period, the Company reached an agreement with the Ministry of Environmental Protection regarding all the issues that arose at the conclusion of the hearing, and it is operating in accordance with these agreements.

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; to return them to operation following repair and/or replacement; to test impermeability of all the pipelines and to 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 the 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 act 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, 5753-1993 and a clean-up order, pursuant to section 13(B) of the Maintenance of Cleanliness Law, 5744-1984, 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 carried out a soil gas, soil and water survey. In accordance with the approval of the Ministry of Environmental Protection, the company that carried out the survey made recommendations for treatment of the groundwater and recommended a risk survey for the soil. The Company applied to the Ministry of Environmental Protection for approval to act in accordance with the recommendations of these surveys.

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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. As of the reporting date, the Company is still reviewing the new terms.

- 15.2.** 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 where Gadiv paid property tax for the asset for 2001-2009.
- 15.3.** 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.³ 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 act that PCH would not exercise the call options given to PCH in accordance with the provisions of the joint control agreement.

On June 7, 2009, the board of directors of the Company elected David Federman and Arie Silberberg as directors in the Company, and David Federman as deputy chairman of the board.

- 15.4.** Disclosure of the expected cash flow for financing the repayment of Carmel Olefins liabilities

As reflected in the financial statements of Carmel Olefins, as of June 30, 2009, Carmel Olefins has an operating capital deficit of \$252 million. The deficit is mainly due to reclassification of long-term loans of \$222 million to short-term as a result of non-compliance with the financial covenants set with the banks.

The management of Carmel Olefins estimates that in the second quarter of 2009, demand started to stabilize and the inventory level of the Company’s finished goods decreased significantly. Margins are no longer eroding and product prices at the end of the second quarter of 2009 and the beginning of the third quarter compared to feedstock prices have a positive contribution. Working capital is expected to continue to be negative until the financial covenants are arranged with the banks. Carmel Olefins is currently negotiating with these corporations to reach an arrangement.

³ The Government Companies Authority gave the Company an update notice as aforesaid.

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In view of the progress of the negotiations, Carmel Olefins estimates that, as of the reporting date, it will receive letters of waiver from all the banks. This is forward-looking information and as such may not materialize and is not under the control of the Carmel Olefins alone, therefore there is no certainty that it will materialize.

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

| | First year | Second year |
|---|----------------------|--------------------|
| | USD thousands | |
| Sources | | |
| Cash flow at the beginning of the period | 27,386 | 70,396 |
| Cash flow from operating activities (before interest) | 102,131 | 62,090 |
| Total sources | 129,517 | 132,486 |
| Uses | | |
| Investments in property, plant and equipment | 9,711 | 12,000 |
| Periodic treatment costs | - | 15,000 |
| Liability for repayment of debentures (interest) | 11,103 | 11,103 |
| Liability for repayment of long-term loans (principle + interest) | 38,307 | 37,644 |
| Payment of dividend | - | 20,000 |
| Total uses | 59,121 | 95,747 |
| Cash balance at end of period | 70,396 | 36,739 |

1. As of the approval date of the financial statements, the board of directors of Carmel Olefins examined the market situation, business forecasts of Carmel Olefins and its cash flow forecast. The board of directors of Carmel Olefins estimates that, based on this information, it is able to repay its liabilities.
2. Carmel Olefins' estimate of its cash flow is based on the forecasted margins, implementation of the planned efficiency measures and reduction of fixed expenses, including the early retirement plan that led to a reduction of human resources, gross payroll expenses and employee benefits.

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

- 15.5.** 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 per 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.
- 15.6.** 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.

The tender offer is subject to the notice of allowance from the offerees referring to at least 869,451 shares representing 60.76% of the shares offered for sale (7.74% of the Company's issued share capital less the dormant shares, at the specification date ("the minimum acceptance percentage").

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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.

15.7. Further to Note 20(B)(6) and 20B(7) to the financial statements as of December 31, 2008, on May 17, 2009, two residents of Tivon in the north of Israel filed a motion for certification as a class action for the same events and grounds included in the claim of the plaintiffs, against the Company and Carmel Olefins. 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.

15.8. Credit rating of Carmel Olefins

In April 2009, Midroog rating company placed Carmel Olefins debentures on the watch list. In December 2008, Midroog downgraded the rating of Carmel Olefins debentures from Aa2 with negative outlook to A1 with stable outlook. The downgrade was due to the failure of Carmel Olefins to meet the leverage goals set at the initial rating date, inter alia, due to fluctuations in raw material prices alongside an increase in the financial debt in 2007-2008 to complete the investment plan and finance the acquisition of a company.

15.9. Procedures for cancelling the surcharge

The government of India announced that it was establishing a procedure to examine 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. Subsequent to the reporting date, 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%. This decision will come into effect only after approval by the Minister of Finance in India.

16. Material events subsequent to the balance sheet date

16.1. Impact of changes in exchange rates

From the end of the reporting period and up to the approval date of the financial statements, there was a 3.3% appreciation in the shekel-dollar exchange rate. The Company, as part of its risk management policy, uses hedging transactions to neutralize part of this exposure. The effect of the appreciation on the Group's business results, after the results of the hedging transactions, is estimated at \$200,000 in financing expenses.

16.2. On July 19, 2009, the internal auditor announced his resignation. For further details, see section 9.10 above.

16.3. On July 7, 2009, Maalot removed the Company from CreditWatch and restored the negative outlook, while confirming the current rating of iIA, in other words, the rating set in November 2008. See also section 10.2

16.4. On July 14, 2009, the Knesset passed the Economic Arrangements (Amendments for the Application of the Economic Plan for 2009 and 2010) Law, 5759-2009. 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 will be 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 \$33 million.

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16.5. Subsequent to the reporting date, 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 the State's Vital Interests in Oil Refineries Ltd), 5767-2007, in other words, more than 5%, is "an irregular holdings", 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.

16.6. On August 9, 2009, the Director of the Haifa District of the Ministry of Environmental Protection gave Carmel Olefins and the CEO of Carmel Olefins notice and a summons to a hearing under the Prevention of Hazards Law, 5721-1961, for alleged non-compliance with the provisions of the personal order applicable to Carmel Olefins for the smoke emission event from Carmel Olefin's plant on August 7, 2009. The hearing was set for August 16, 2009.

16.7. Submission of an amended tax report for the 2005 tax year

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, 5719-1959. Furthermore, the Company approached the Director General of the Tax Authority regarding the matter. If it emerges 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 revenue.

In the Company's opinion, the estimated balance of the potential tax benefit for the 2005 tax year amounts to \$60 million. Alternately, if it emerges 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.

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

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

Yossi Rosen

Chairman of the board of directors

Yashar Ben Mordechai

CEO

August 16, 2009

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

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports, 5730-1970).

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.



Auditors Report for the Shareholders of Oil Refineries Limited

We have reviewed the accompanying financial information of Oil Refineries Limited and its subsidiaries ("the Group"), including the condensed consolidated interim statement of financial position as of June 30, 2009 and the condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six and three months then ended. The board of directors and the management are responsible for preparation and presentation of the 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), 5730-1970. 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 June 30, 2009, and the consolidated revenue of which represent approximately 8% of the total consolidated revenue for the six 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 \$34,791 thousand as of June 30, 2009, and the share of the Group in their profits is \$3,838 thousand for the six months and their loss is \$753 thousand for the three months then ended.. The condensed interim financial information of those companies were reviewed by other accountants, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reviews of the other accountants.

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.

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

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

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

1. The contents of Note 7(A) and Note 8(A) to (C) 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) regarding the dependency of the Group on services from infrastructure companies.

Sincerely,

Somekh Chaikin
Certified Public Accountants

Haifa, August 16, 2009

Oil Refineries Ltd.

Condensed Consolidated Interim Statements of Financial Position USD thousands

| | As at | | |
|--|------------------|------------------|-------------------|
| | June 30, 2009 | June 30, 2008 | December 31, 2008 |
| | (Unaudited) | | (Audited) |
| <u>Current assets</u> | | | |
| Cash and cash equivalents | 16,827 | 9,092 | 14,840 |
| Deposits | 99,274 | - | 25,000 |
| Derivatives at fair value through profit or loss | 337 | 391 | 15,374 |
| Investments in other financial assets at fair value through profit or loss | 102,130 | 223,688 | 101,509 |
| Trade receivables | 306,644 | 675,608 | 253,215 |
| Other receivables | 65,959 | 84,082 | 82,642 |
| Inventory | 785,256 | 1,346,296 | 569,407 |
| Current tax assets | 43,845 | 5,894 | 42,047 |
| Total current assets | 1,420,272 | 2,345,051 | 1,104,034 |
| <u>Non-current assets</u> | | | |
| Investments in equity-accounted investees | 34,971 | 42,043 | 36,005 |
| Investments in available-for-sale financial assets (*) | 9,238 | - | - |
| Loan to Haifa Early Pensions Ltd. | 69,769 | 99,248 | 84,740 |
| Long term loans and debit balances | 2,625 | 4,990 | 2,606 |
| Derivatives at fair value through profit or loss | 74,038 | 120,891 | 64,369 |
| Employee benefit plan assets | 5,378 | 7,446 | 5,007 |
| Property, plant and equipment | 1,135,845 | 1,052,605 | 1,083,446 |
| Intangible assets and deferred expenses, net | 22,971 | 25,700 | 25,170 |
| Total non-current assets | 1,354,835 | 1,352,923 | 1,301,343 |
| Total assets | 2,775,107 | 3,697,974 | 2,405,377 |

(*) See Note 8E

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 | | |
|--|---------------|---------------|-------------------|
| | June 30, 2009 | June 30, 2008 | December 31, 2008 |
| | (Unaudited) | | (Audited) |
| <u>Current liabilities</u> | | | |
| Loans and credit | 678,484 | 572,222 | 380,339 |
| Trade payables | 302,229 | 697,525 | 270,594 |
| Other payables | 67,169 | 131,461 (*) | 70,971 (*) |
| Derivatives at fair value through profit or loss | 35,174 | 28,309 | 1,853 |
| Provisions | 13,192 | 31,856 | 12,949 |
| Total current liabilities | 1,096,248 | 1,461,373 | 736,706 |
| <u>Non-current liabilities</u> | | | |
| Debentures | 698,583 | 827,898 | 726,554 |
| Bank loans | 187,847 | 407,999 | 233,749 |
| Liabilities for finance lease | 8,285 | 9,447 | 8,448 |
| Other long-term liabilities | 7,678 | 10,372 | 7,394 |
| Derivatives at fair value through profit or loss | 656 | - | 6,900 |
| Employee benefits | 50,388 | 70,451 (*) | 67,930 (*) |
| Liabilities for deferred taxes | 87,872 | 117,614 | 65,827 |
| Total non-current liabilities | 1,041,309 | 1,443,781 | 1,116,802 |
| Total liabilities | 2,137,557 | 2,905,154 | 1,853,508 |
| <u>Equity</u> | | | |
| Share capital | 472,478 | 472,478 | 472,478 |
| Capital reserves | 33,345 | 20,340 | 20,953 |
| Retained earnings | 131,727 | 300,002 | 58,438 |
| Total equity | 637,550 | 792,820 | 551,869 |
| Total liabilities and capital | 2,775,107 | 3,697,974 | 2,405,377 |

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

Yossi Rosen
Chairman of the Board

Yashar Ben Mordechai
CEO

Igal Salhov
CFO

Date of approval: August 16, 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

| | Six months ended June 30, | | Three months ended June 30, | | Year ended December 31, |
|--|------------------------------|------------------|--------------------------------|------------------|----------------------------|
| | 2009 | 2008 | 2009 | 2008 | 2008 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| Revenue | 2,192,401 | 4,356,759 | 1,208,043 | 2,471,063 | 8,257,458 |
| Cost of sales, refinery and services | 2,019,861 | 4,163,743 | 1,138,884 | 2,339,570(*) | 8,324,149 |
| Revaluation of open transactions in derivatives on prices of goods and margins, net | 47,863 | 33,543 | 46,618 | 13,056 | (7,465) |
| Total cost of sales | 2,067,724 | 4,197,286 | 1,185,502 | 2,352,626 | 8,316,684 |
| Gross profit (loss) | 124,677 | 159,473 | 22,541 | 118,437 | (59,226) |
| Selling expenses | 17,850 | 21,186 | 9,077 | 10,718 | 40,582 |
| General and administrative expenses | 26,674 | 40,651 | 13,553 | 25,918 | 67,061 |
| Negative goodwill arising on acquisition | - | (13,843) | - | (13,843) | (14,535) |
| Loss from the loss of material impact in a former equity-accounted investee (**) | 7,091 | - | 7,091 | - | - |
| Operating profit (loss) | 73,062 | 111,479 | (7,180) | 95,644 | (152,334) |
| Financing revenue | 44,271 | 82,161 (*) | (14,501) | 50,749(*) | 64,979 |
| Financing expenses | (35,798) | (119,739)(*) | 8,609 | (71,655)(*) | (126,034) |
| Financing income (expenses), net | 8,473 | (37,578) | (5,892) | (20,906) | (61,055) |
| Group's share in profits (losses) of equity accounted investees, net of tax | 3,838 | 3,726 | (753) | 8,796 | (3,111) |
| Profit (loss) before taxes on income | 85,373 | 77,627 | (13,825) | 83,534 | (216,500) |
| Tax benefits (taxes on income) | (18,763) | (4,150) | 5,844 | (12,150) (*) | 107,292 |
| Net profit (loss) for the period | 66,610 | 73,477 | (7,981) | 71,384 | (109,208) |
| Other components of comprehensive income | | | | | |
| Actuarial gains (losses) from a defined benefit plan, net | 6,679 | (165) | 6,512 | (165) | (9,318) |
| Foreign currency translation differences for foreign operations | (27) | 219 | 227 | 219 | (1,078) |
| Group's share of other comprehensive income of an equity accounted investee (**) | 10,433 | (11,090) | 15,232 | (11,090) | (10,433) |
| Change in fair value of available-for-sale financial assets, net of tax (**) | 823 | - | 823 | - | - |
| Other comprehensive income for the period, net of tax | 17,908 | (11,036) | 22,794 | (11,036) | (20,829) |
| Comprehensive income for the period | 84,518 | 62,441 | 14,813 | 60,348 | (130,037) |
| Earnings (loss) per share (USD) | | | | | |
| Basic and diluted earnings (losses) per ordinary share | 0.033 | 0.037 | (0.004) | 0.036 | (0.055) |

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

(**) See Note 8E

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 3(1)(A) 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

| | <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> |
|---|---|---|--|--|----------------------------|------------------------------|----------------|
| | Six months ended June 30, 2009 (Unaudited) | | | | | | |
| Balance as of January 1, 2009 (audited) | 472,478 | 3,986 | (1,078) | (10,433) | 28,478 | 58,438 | 551,869 |
| Comprehensive income for the period | | | | | | | |
| Profit for the period | - | - | - | - | - | 66,610 | 66,610 |
| Other comprehensive income | | | | | | | |
| Foreign currency translation differences for foreign operations | - | - | (27) | - | - | - | (27) |
| Group's share of other comprehensive income of an equity-accounted investee (*) | - | - | - | 10,433 | - | - | 10,433 |
| Change in fair value of available-for-sale financial assets, net of tax (*) | - | - | - | 823 | - | - | 823 |
| Actuarial gains from a defined benefit plan, net of tax | - | - | - | - | - | 6,679 | 6,679 |
| Total other comprehensive income | - | - | (27) | 11,256 | - | 6,679 | 17,908 |
| Total comprehensive income for the period | - | - | (27) | 11,256 | - | 73,289 | 84,518 |
| Options issued to employees | - | 1,163 | - | - | - | - | 1,163 |
| Balance on June 30, 2009 | 472,478 | 5,149 | (1,105) | 823 | 28,478 | 131,727 | 637,550 |
| | Six months ended June 30, 2008 (Unaudited) | | | | | | |
| Balance on January 1, 2008 (audited) | 472,478 | 558 | - | - | 28,478 | 298,289 | 799,803 |
| Comprehensive income for the period | | | | | | | |
| Profit for the period | - | - | - | - | - | 73,477 | 73,477 |
| Other comprehensive income | | | | | | | |
| Foreign currency translation differences for foreign operations | - | - | 219 | - | - | - | 219 |
| Group's share of other comprehensive income of an equity-accounted investee (*) | - | - | - | (11,090) | - | - | (11,090) |
| Actuarial losses from a defined benefit plan, net of tax | - | - | - | - | - | (165) | (165) |
| Total other comprehensive income | - | - | 219 | (11,090) | - | (165) | (11,036) |
| Total comprehensive income for the period | - | - | 219 | (11,090) | - | 73,312 | 62,441 |
| Options issued to employees | - | 2,102 | - | - | - | - | 2,102 |
| Company's share in capital reserves | - | - | - | 73 | - | 73 | - |
| Dividend declared and paid | - | - | - | - | - | (71,599) | (71,599) |
| Balance on June 30, 2008 | 472,478 | 2,660 | 219 | (11,090) | 28,551 | 300,002 | 792,820 |

(*) See Note 8E

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> |
|---|----------------------------|---|--|--|----------------------------|------------------------------|----------------|
| Three months ended June 30, 2009 | | | | | | | |
| (Unaudited) | | | | | | | |
| Balance on April 1, 2009 | 472,478 | 4,650 | (1,332) | (15,232) | 28,478 | 133,196 | 622,238 |
| <u>Comprehensive income for the period</u> | | | | | | | |
| Loss for the period | - | - | - | - | - | (7,981) | (7,981) |
| <hr style="border-top: 1px dashed black;"/> | | | | | | | |
| <u>Other comprehensive income</u> | | | | | | | |
| Foreign currency translation differences for foreign operations | - | - | 227 | - | - | - | 227 |
| Group's share of other comprehensive income of an equity-accounted investee (*) | - | - | - | 15,232 | - | - | 15,232 |
| Change in fair value of available-for-sale financial assets, net of tax (*) | - | - | - | 823 | - | - | 823 |
| Actuarial gains from a defined benefit plan, net of tax | - | - | - | - | - | 6,512 | 6,512 |
| Total other comprehensive income | - | - | 227 | 16,055 | - | 6,512 | 22,794 |
| <hr style="border-top: 1px dashed black;"/> | | | | | | | |
| Total comprehensive income for the period | - | - | 227 | 16,055 | - | (1,469) | 14,813 |
| Options issued to employees | - | 499 | - | - | - | - | 499 |
| Balance on June 30, 2009 | <u>472,478</u> | <u>5,149</u> | <u>(1,105)</u> | <u>823</u> | <u>28,478</u> | <u>131,727</u> | <u>637,550</u> |
| <hr style="border-top: 1px solid black;"/> | | | | | | | |
| Three months ended June 30, 2008 | | | | | | | |
| (Unaudited) | | | | | | | |
| Balance on April 1, 2008 | 472,478 | 1,305 | - | - | 28,478 | 300,382 | 802,643 |
| <u>Comprehensive income for the period</u> | | | | | | | |
| Profit for the period | - | - | - | - | - | 71,384 | 71,384 |
| <hr style="border-top: 1px dashed black;"/> | | | | | | | |
| <u>Other comprehensive income</u> | | | | | | | |
| Foreign currency translation differences for foreign operations | - | - | 219 | - | - | - | 219 |
| Group's share of other comprehensive income of an equity-accounted investee (*) | - | - | - | (11,090) | - | - | (11,090) |
| Actuarial losses from a defined benefit plan, net of tax | - | - | - | - | - | (165) | (165) |
| Total other comprehensive income | - | - | 219 | (11,090) | - | (165) | (11,036) |
| <hr style="border-top: 1px dashed black;"/> | | | | | | | |
| Total comprehensive income for the period | - | - | 219 | (11,090) | - | 71,219 | 60,348 |
| Options issued to employees | - | 1,355 | - | - | - | - | 1,355 |
| Company's share in capital reserves | - | - | - | 73 | - | 73 | |
| Dividend declared and paid | - | - | - | - | - | (71,599) | (71,599) |
| Balance on June 30, 2008 | <u>472,478</u> | <u>2,660</u> | <u>219</u> | <u>(11,090)</u> | <u>28,551</u> | <u>300,002</u> | <u>792,820</u> |

(*) See Note 8E

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> |
|---|----------------------------|---|--|--|----------------------------|------------------------------|------------------|
| Three months ended June 30, 2009 (Unaudited) | | | | | | | |
| Balance on January 1, 2008 | 472,478 | 558 | - | - | 28,478 | 298,289 | 799,803 |
| <u>Comprehensive income for the period</u> | | | | | | | |
| Loss for the period | - | - | - | - | - | (109,208) | (109,208) |
| <u>Other comprehensive income:</u> | | | | | | | |
| 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 declared and paid | - | - | - | - | - | (121,325) | (121,325) |
| Options issued to employees | - | 3,428 | - | - | - | - | 3,428 |
| Balance as of December 31, 2008 | 472,478 | 3,986 | (1,078) | (10,433) | 28,478 | 58,438 | 551,869 |

(*) See Note 8E

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 3(1)(A) 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

| | Six months ended | | Three months ended | | Year ended |
|--|------------------|------------------|--------------------|------------------|----------------------|
| | June 30, 2009 | June 30, 2008 | June 30, 2009 | June 30, 2008 | December 31, 2008 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| Cash flows from operating activities | | | | | |
| Profit (loss) for the period | 66,610 | 73,477 | (7,981) | 71,384 | (109,208) |
| Adjustments required to present the cash flows from operating activities: | | | | | |
| Revenue and expenses not involving cash flows (Appendix A – section A) | 97,361 | 97,449 | 73,781 | 36,621 | 18,108 |
| Changes in assets and liabilities (Appendix A - section B) | 163,971 | 170,926 | 65,800 | 108,005 | (91,100) |
| Income tax received (paid), net | (217,563) | (432,476) | (152,088) | (350,311) | 298,052 |
| Net cash provided by (used in) current activities | (200) | (12,429) | 231 | 2,226 | 15,212 |
| | (53,792) | (273,979) | (86,057) | (240,080) | 222,164 |
| Cash flow for investing activities | | | | | |
| Interest received | 1,598 | 1,813 | 1,588 | 540 | 1,867 |
| Investment in deposits | (72,548) | - | (35,720) | - | (25,000) |
| Acquisition of a subsidiary consolidated for the first time | - | (14,462) | - | (14,462) | (14,462) |
| Investment in equity-accounted investees | - | (33) | - | (33) | (796) |
| Dividends received from investees | 4,452 | 298 (*) | - | 298 (*) | 953 (*) |
| Repayment (granting) of long-term loans from others, net | 1,588 | (515) | (110) | (353) | 41 |
| Purchase of securities held for trading | - | (150,000) | - | - | (150,000) |
| Sale of securities held for trading | - | 60,010 | - | 60,010 | 148,362 |
| Purchase of property, plant and equipment | (90,662) | (73,105) | (35,912) | (32,749) | (140,221) |
| Purchase of intangible assets and deferred expenses | - | (899) | - | (884) | (1,789) |
| Net cash provided by (used in) investment activities | (155,572) | (176,893) | (70,154) | 12,367 | (181,045) |
| Cash flow from financing activities | | | | | |
| Short-term credit received, net | 304,947 | 432,150 | 203,557 | 285,400 | 127,668 |
| Receipt (repayment) of deposits from customers, net | (2,885) | 51,097 | 5,704 | 48,741 | 989 |
| Interest paid | (28,100) | (65,442) | (16,493) | (37,775) | (85,162) |
| Proceeds from transactions in derivatives | 2,671 | 2,696 | 2,671 | 3,084 | 9,259 |
| Repayment of debentures | (12,286) | (90,509) | (6,490) | (6,224) | (104,421) |
| Repayment of bank loans | (53,449) | (59,637) | (28,799) | (29,842) | (113,825) |
| Dividends paid | - | (71,599) | - | (71,599) | (121,325) |
| Net cash from (used for) financing activities | 210,898 | 198,756 | 160,150 | 191,785 | (286,817) |
| Net increase (decrease) in cash and cash equivalents | 1,534 | (252,116) | 3,939 | (35,928) | (245,698) |
| Effect of fluctuations in exchange rate on cash and cash equivalents | 453 | 1,883 | 281 | 3,162 | 1,213 |
| Cash and cash equivalents at the beginning of the period | 14,840 | 259,325 | 12,607 | 41,858 | 259,325 |
| Cash and cash equivalents at the end of the period | 16,827 | 9,092 | 16,827 | 9,092 | 14,840 |

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

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

| | Six months ended | | Three months ended | | Year ended |
|--|------------------|------------------|--------------------|------------------|----------------------|
| | June 30, 2009 | June 30, 2008 | June 30, 2009 | June 30, 2008 | December 31, 2008 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| A. Income and expenses not included in the cash flows: | | | | | |
| Depreciation and amortization | 37,599 | 37,267 | 19,757 | 19,285 | 75,699 |
| Negative goodwill arising on acquisition | - | (13,843) | - | (13,843) | (14,535) |
| Financing expenses (income), net | (6,746) | 76,941 | 17,940 | 30,082 | 60,998 |
| Net change in fair value of derivatives | 50,006 | 34,431 | 47,316 | 15,116 | (10,456) |
| Net change in the fair value of the loan to Haifa Early Pensions Ltd. | (4,871) | (19,210) | (7,762) | (10,415) | (6,009) |
| Share in the (profits) losses of equity accounted investees | (3,838) | (3,726) (*) | 753 | (8,796) (*) | 3,111 |
| Loss from the loss of material impact in a former equity-accounted investee (**) | 7,091 | - | 7,091 | - | - |
| Earnings (losses) from deposits and securities held for trading | (1,806) | (20,663) | (5,969) | (8,313) | 13,164 |
| Share-based payment expenses | 1,163 | 2,102 | 499 | 1,355 | 3,428 |
| Income tax benefit expenses (revenue) | 18,763 | 4,150 | (5,844) | 12,150 | (107,292) |
| | 97,361 | 97,449 | 73,781 | 36,621 | 18,108 |
| B. Changes in assets and liabilities | | | | | |
| Decrease (increase) in inventory, net | (215,838) | (289,676) | (67,539) | (170,766) | 485,795 |
| Decrease (increase) in trade and other receivables, net | (24,856) | (265,964) | (56,876) | (169,202) | 156,575 |
| Increase (decrease) in trade and other payables, net | 33,286 | 120,102 | (26,884) | (9,324) | (335,758) |
| Increase (decrease) in employee benefits, net | (10,155) | 3,062 | (789) | (1,019) | (8,560) |
| | (217,563) | (432,476) | (152,088) | (350,311) | 298,052 |

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

(**) See Note 8E

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

Oil Refineries Ltd.

Notes to the Financial Statements As of June 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 the Haifa Bay and its official address is PO Box 4, Haifa 31000, Israel. The Company and its subsidiaries are industrial companies which operate in Israel and are engaged primarily in the production of oil products, feedstock for the petrochemical industry and materials for the plastics industry. The facilities of the subsidiaries are integrated with those of the Company. In addition, the Company 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 the Ashdod Oil Refinery, the Company had two operational sites: one in the Haifa Bay area and the other in Ashdod. On September 28, 2006, the Company sold all of its shares in Ashdod Oil Refinery (“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. The Israel Corporation Ltd. acquired 36.8% of the Company’s shares and Petroleum Capital Holdings Ltd. (“PCH”) acquired 9.2% of the Company’s shares. Subsequently, the Israel Corporation Ltd. and PCH acquired additional shares, and as of the date of the financial statements, hold 45.08% and 15.76%, respectively. See Note 8E.
- C. The condensed consolidated interim financial statements as of June 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), 5730-1970.

The condensed consolidated interim financial statements were approved by the Company’s Board of Directors on August 16, 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 June 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 8C below and Note 16C 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 June 30, 2009. See also Note 3A(3).

| | As previously reported | Effect of reclassification | As reported in these financial statements |
|--------------------------|-------------------------------|-----------------------------------|--|
| USD thousands | | | |
| December 31, 2008 | | | |
| Other payables | 70,056 | 915 | 70,971 |
| Employee benefits | 68,845 | (915) | 67,930 |
| June 30, 2008 | | | |
| Other payables | 130,341 | 1,120 | 131,461 |
| Employee benefits | 71,571 | (1,120) | 70,451 |

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

| | As previously reported | Effect of reclassification | As reported in these financial statements |
|---|-------------------------------|-----------------------------------|--|
| USD thousands | | | |
| Six months ended June 30, 2008 | | | |
| Financing revenue | 52,375 | 29,786 | 82,161 |
| Financing expenses | (89,953) | (29,786) | (119,739) |
| Three months ended June 30, 2008 | | | |
| Financing revenue | 13,005 | 37,744 | 50,749 |
| Financing expenses | (33,911) | (37,744) | (71,655) |
| Cost of sales | 2,340,206 | (636) | 2,339,570 |
| Income tax | 11,514 | 636 | 12,150 |

Oil Refineries Ltd.

**Notes to the Financial Statements
As of June 30, 2009**

NOTE 2 - BASIS OF PREPARATION (CONT'D)

D. Reclassified (contd.)

3. Some of the comparative figures in the statement of cash flows for the six and three months ended on June 30, 2008 and for the year ended on December 31, 2008 were reclassified in order to adjust their presentation method to the presentation in the statement of cash flows for the six and three months ended on June 30, 2009.

| | As previously reported | Effect of reclassification | As reported in these financial statements |
|---|-----------------------------------|---------------------------------------|--|
| USD thousands | | | |
| Six months ended June 30, 2008 | | | |
| Operating activities | (273,681) | (298) | (273,979) |
| Investment activities | (177,191) | 298 | (176,893) |
| Three months ended June 30, 2008 | | | |
| Operating activities | (239,782) | (298) | (240,080) |
| Investment activities | 12,069 | 298 | 12,367 |
| Year ended December 31, 2008 | | | |
| Operating activities | 223,117 | (953) | 222,164 |
| Investment activities | (181,998) | 953 | (181,045) |

Notes to the Financial Statements
As of June 30, 2009

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 in their capacity as owners (such as dividends, transactions with controlling shareholders, share issues and options). The Standard is applied retrospectively.

(2) Segment reporting.

Commencing from January 1, 2009, the Group applies IFRS 8 – *Operating Segments* (“the Standard”). The Standard states that 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.

Notes to the Financial Statements
As of June 30, 2009

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

(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 IFRS 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:

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 the regular criteria for classifying a lease as a finance or operating lease.

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

The 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.

Oil Refineries Ltd.

Notes to the Financial Statements As of June 30, 2009

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

C. Exchange rates and linkage

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

| | As at | | |
|---|------------------|------------------|----------------------|
| | June 30, 2009 | June 30, 2008 | December 31, 2008 |
| Representative exchange rate of USD1/NIS | 3.919 | 3.352 | 3.802 |
| Consumer price index in points (on average basis 100=2002) | 112.80 | 108.89 | 110.44 |

(2) The following table presents information of the change in the dollar exchange rate and the CPI:

| | Six months ended | | Three months ended | | Year ended |
|-------|------------------|------------------|--------------------|------------------|----------------------|
| | June 30, 2009 | June 30, 2008 | June 30, 2009 | June 30, 2008 | December 31, 2008 |
| USD | 3.08% | (12.84%) | (6.42%) | (5.66%) | (1.14%) |
| Index | 2.13% | 2.34% | 2.28% | 2.24% | 3.80% |

NOTE 4 – SEASONAL FLUCTUATIONS

The Company manufactures oil products based on standards that change according to the seasons. 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 fluctuations 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.

**Notes to the Financial Statements
As of June 30, 2009**

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 June 30, 2009
USD thousands**

NOTE 5 – OPERATING SEGMENTS (CONTD.)

| | Petrochemicals | | | | | | | | | | | |
|---|--------------------------|------------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------------------|------------------|------------------|---------------------|
| | Refining | | Trade | | Polymers | | Aromatics | | Adjustments to consolidated | | Consolidated | |
| | Six months ended June 30 | | | | | | | | | | | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | (Unaudited) | | | | | | | | | | | |
| Income from external entities | 1,621,365 | 3,522,429 | 247,940 | 311,469 | 176,063 | 241,397 | 147,033 | 281,464 | - | - | 2,192,401 | 4,356,759 |
| Income from sales between segments | 207,761 | 379,375 | - | - | - | - | 18,552 | 28,255 | (226,313) | (407,630) | - | - |
| Income from the segment | <u>1,829,126</u> | <u>3,901,804</u> | <u>247,940</u> | <u>311,469</u> | <u>176,063</u> | <u>241,397</u> | <u>165,585</u> | <u>309,719</u> | <u>(226,313)</u> | <u>(407,630)</u> | <u>2,192,401</u> | <u>4,356,759</u> |
| Operating profit (loss) for segments | <u>63,752</u> | <u>81,266</u> | <u>2,679</u> | <u>4,487</u> | <u>558</u> | <u>8,494</u> | <u>15,836</u> | <u>19,290</u> | <u>(2,672)</u> | <u>(2,058)</u> | <u>80,153</u> | <u>111,479</u> |
| Loss from the loss of material impact in a former equity-accounted investee | | | | | | | | | | | (7,091) | - |
| Operating profit | | | | | | | | | | | <u>73,062</u> | <u>111,479</u> |
| Financing revenue | | | | | | | | | | | 44,271 | 82,161(*) |
| Financing expenses | | | | | | | | | | | <u>(35,798)</u> | <u>(119,739)(*)</u> |
| Financing income (expenses), net | | | | | | | | | | | 8,473 | (37,578) |
| Group's share in profits of equity accounted investees, net of tax | | | | | | | | | | | <u>3,838</u> | <u>3,726</u> |
| Profit before income tax | | | | | | | | | | | <u>85,373</u> | <u>77,627</u> |

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

Oil Refineries Ltd.

**Notes to the Financial Statements
As of June 30, 2009
USD thousands**

NOTE 5 OPERATING SEGMENTS (CONTD.)

| | Petrochemicals | | | | | | | | | | | |
|---|----------------------------|-----------|---------|---------|----------|---------|-----------|---------|-----------------------------|-----------|--------------|-------------|
| | Refining | | Trade | | Polymers | | Aromatics | | Adjustments to consolidated | | Consolidated | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | Three months ended June 30 | | | | | | | | | | | |
| | (Unaudited) | | | | | | | | | | | |
| Income from external entities | 837,527 | 1,960,630 | 189,449 | 232,469 | 91,749 | 133,751 | 89,318 | 144,213 | - | - | 1,208,043 | 2,471,063 |
| Income from sales between segments | 121,577 | 192,577 | - | - | - | - | 9,950 | 16,610 | (131,527) | (209,187) | - | - |
| Income from the segment | 959,104 | 2,153,207 | 189,449 | 232,469 | 91,749 | 133,751 | 99,268 | 160,823 | (131,527) | (209,187) | 1,208,043 | 2,471,063 |
| Operating profit (loss) for segments | (8,326) | 75,993 | 2,316 | 2,487 | (1,388) | 9,504 | 9,981 | 9,952 | (2,672) | (2,292) | (89) | 95,644 |
| Loss from the loss of material impact in a former equity-accounted investee | | | | | | | | | | | (7,091) | - |
| Operating profit (loss) | | | | | | | | | | | (7,180) | 95,644 |
| Financing revenue | | | | | | | | | | | (14,501) | 50,749(*) |
| Financing expenses | | | | | | | | | | | 8,609 | (71,655)(*) |
| Financing expenses, net | | | | | | | | | | | (5,892) | (20,906) |
| Group's share in (profits) losses of equity accounted investees, net of tax | | | | | | | | | | | (753) | 8,796 |
| Profit (loss) before taxes on income | | | | | | | | | | | (13,825) | 83,534 |

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

Oil Refineries Ltd.
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USD thousands

NOTE 5 OPERATING SEGMENTS (CONTD.)

| | Petrochemicals | | | | Adjustments to consolidated | Consolidated |
|--|-----------------------|----------------|-----------------|-----------------------|--|---------------------|
| | Refining | Trade | Polymers | Aromatic s | | |
| Year ended December 31, 2008 | | | | | | |
| (Audited) | | | | | | |
| Income from external entities | 6,911,565 | 383,291 | 475,193 | 487,409 | - | 8,257,458 |
| Income from sales between segments | 706,988 | - | - | 57,033 | (764,021) | - |
| Income from the segment | <u>7,618,553</u> | <u>383,291</u> | <u>475,193</u> | <u>544,4-2</u> | <u>(764,021)</u> | <u>8,257,458</u> |
| Operating profit (loss) for segments | <u>(121,381)</u> | <u>11,379</u> | <u>(51,698)</u> | <u>7,834</u> | <u>1,532</u> | <u>(152,334)</u> |
| Financing revenue | | | | | | 64,979 |
| Financing expenses | | | | | | (126,034) |
| Financing expenses, net | | | | | | (61,055) |
| Group's share in profits of equity accounted investees, net of tax | | | | | | <u>(3,111)</u> |
| Loss before taxes on income | | | | | | <u>(216,500)</u> |

Oil Refineries Ltd.
Notes to the Financial Statements
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NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

As of the date of the financial statements, the balance of agreements for approved establishment works amounts to \$89 million.

As of June 30, 2009, property, plant and equipment include advance payments of \$28 million made by the Group on account of the purchase of property, plant and equipment.

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 June 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, during 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 the second half of 2009, PEI is expected to carry out reinforcement works on the offshore pipeline used to unload crude oil in Haifa bay, subject to approvals by the competent authorities.

NOTE 8 – MATERIAL EVENTS IN THE REPORTING PERIOD

- A. January 2009, the Company and Gadiv received from the Ministry of Environmental Protection a warning and summons to a hearing relating to violations and alleged defective 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, the results of the stack samples, the submission of certain plans stipulated in the personal order and to 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 detailed 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.

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

- B.** 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; to return them to operation following repair and/or replacement; to test impermeability of all the pipelines and to 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 the 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 act 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, 5753- 1993 and a clean-up order, pursuant to section 13(B) of the Maintenance of Cleanliness Law, 5744-1984, 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. The Company applied to the Ministry of Environmental Protection for approval to act in accordance with the recommendations of these surveys.

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 implement 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 along 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 approval of the plan. As of the reporting date, the Company is still reviewing the new terms.

- C.** 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 for the same events and grounds included in the claim of the plaintiffs, against the Company and Carmel Olefins. 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.

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

- D.** 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. This reflects the consequences of the uncertainty in the refining industry in the medium term, the financing of the investments plan and the acquisition of Carmel Olefins and the change in the structure of control in the Company.

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.

- E.** 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 act 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 a material impact in IPE and accordingly it changed the accounting treatment for investments from equity accounting to accounting as available-for-sale financial assets.

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

F. Establishment of a hydrocracker

Further to Note 11(G) of the financial statements 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.

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

G. Financial position of Carmel Olefins

- (1) As reflected in the financial statements of Carmel Olefins as of June 30, 2009, Carmel Olefins has an operating capital deficit of \$252 million. The deficit is mainly due to reclassification of long-term loans of \$222 million to short-term as a result of non-compliance with the financial covenants set with the banks. See Note 16B(5) and 16C to the Group's annual financial statements as of December 31, 2008.
- (2) Carmel Olefins is in the advanced stages of negotiations with all the banks regarding the conditions that must be fulfilled before the banks agree to revise the financial covenants applicable to Carmel Olefins, for an unlimited time and against additional collateral, and for deeds of waiver for the breach of the existing covenants up until the date of the deed of waiver. In accordance with the emerging agreements between Carmel Olefins and the banks, the additional collateral shall remain valid for 12 months after Carmel Olefins returns to compliance with the financial covenants that were in effect in November 2008. The drafting of the relevant documents in respect of the aforesaid is in an advanced stage, however as of the reporting date, the relevant documents have not been signed and the emerging agreements have not yet received the required legal sanction.

- H.** 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 per 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.

I. 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.

- J.** 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.

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

K. Procedures for cancelling the surcharge

The government of India announced that it was establishing a procedure to examine 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.

Subsequent to the reporting date, 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%. This decision will come into effect only after approval by the Minister of Finance in India.

- L.** 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.

The tender offer is subject to the notice of allowance from the offerees referring to at least 869,451 shares representing 60.76% of the shares offered for sale (7.74% of the Company's issued share capital less the dormant shares, at the specification date ("the minimum acceptance percentage"))

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, 5759-1999, the complete tender offer was cancelled and the notice of allowance that was granted, was not accepted.

Oil Refineries Ltd.
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NOTE 9 – MATERIAL EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- A.** On July 14, 2009, the Knesset passed the Economic Arrangements (Amendments for the Application of the Economic Plan for 2009 and 2010) Law, 5759-2009. 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 will be 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 \$33 million.
- B.** On August 9, 2009, the Director of the Haifa District of the Ministry of Environmental Protection gave Carmel Olefins and the CEO of Carmel Olefins notice and a summons to a hearing under the Prevention of Hazards Law, 5721-1961, for alleged non-compliance with the provisions of the personal order applicable to Carmel Olefins for the smoke emission event from Carmel Olefin's plant on August 7, 2009. The hearing was set for August 16, 2009.
- C.** Subsequent to the reporting date, 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 the State's Vital Interests in Oil Refineries Ltd), 5767-2007, in other words, more than 5%, is "an irregular holdings", 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 act to sell its surplus holdings in the Company.

D. Submission of an amended tax report for the 2005 tax year

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, 5719-1959. Furthermore, the Company approached the Director General of the Tax Authority regarding the matter. If it emerges 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 revenuee.

In the Company's opinion, the estimated balance of the potential tax benefit for the 2005 tax year amounts to \$60 million. Alternately, if it emerges 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.

As of the approval date of the financial statements, the Company has not yet received a response to its application for eligibility for the tax exemption and accordingly, the provision for 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.