

# Oil Refineries Ltd.



## **Condensed Consolidated Financial Statements September 30, 2011**

**(Unaudited)**

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

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## **Directors' Report on the State of the Company's Affairs For the Period Ended September 30, 2011**

The Board of Directors is pleased to present the Directors' Report on the State of the Company's Affairs for the period ended September 30, 2011 ("the Reporting Period"). The report is presented under the assumption that the Company's Periodic Report for 2010 ("the Periodic Report"), which was restated to retrospectively reflect misstatement of financial derivatives, is available to the reader. For details see Note 2(D)(2) to the condensed consolidated interim financial statements as of September 30, 2011.

### **1. Description of the Company and its Business Environment**

#### **1.1 General**

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

#### **1.2 Implementation of the strategic plan**

According to strategic plan approved by the Company's Board of Directors in November 2007, the Company is establishing the project for clean fuel production (hydrocracker) at a total investment of USD 500 million. The hydrocracker is expected to start running by the end of the second quarter of 2012. Up to the end of the Reporting Period, the Company had invested USD 283 million in the hydrocracker and has undertaken further liabilities of USD 168 million for the project, which is progressing according to the planned timetable.

In 2010, the Company signed an agreement with a syndicate of financiers led by Bank Hapoalim Ltd. Under the agreement, the syndicate provided up to USD 600 million (without collateral) for partial funding of the project for establishment of the hydrocracker, the Company's other investments and the Company's long-term debt due between 2009 and 2012. As of the reporting date, the Company has withdrawn USD 400 million on account of funding in this agreement.

Additionally, in 2010, the Company finalized and signed a financing agreement with a foreign bank and the Export-Import Bank of the United States (EXIM), together with another export credit agency in Germany, for an additional USD 300 million credit and collateral for acquisition of equipment for the hydrocracker project. As of the reporting date, the Company has withdrawn USD 53 million on account of funding in this agreement.

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Following the acquisition of the shares of Carmel Olefins, the Company merged the headquarters operations of the companies and is taking steps for immediate realization of the advantages of the merger of the companies and optimization of the operational synergy arising from the merger. In the opinion of the Company, the integration and synergy between the various operations contribute to an increase in aggregate margins flowing to the Company from all operating segments and decrease the volatility of Group profits in the long term, since business turnover in the areas of the Company's operations and those of its subsidiaries do not necessarily overlap. In addition, the joint management streamlines operations of the companies and reduces expenses.

In the Reporting Period, the plants of the Company were connected to the national natural gas pipeline and the Group started to consume natural gas in its plants. In addition to the agreement for supply of natural gas from Egypt and in view of repetitive sabotage of Egypt's natural gas pipeline that supplies gas to EMG, which disrupts gas supply by EMG, in the Reporting Period, the Company entered into an agreement with Yam Tethys Group to acquire a total quantity of BCM 1.2 for the Company and its subsidiaries. For further information, see Notes 7(A) and 7(B) to the condensed consolidated interim financial statements as of September 30, 2011.

After conversion of the Group's plants to natural gas, natural gas is used as combustion material, instead of fuel oil. Following the conversion to natural gas, the Company is able and its subsidiaries will be able to comply with requirements to reduce air emissions at their plants according to the personal orders. The conversion to natural gas also improves operational efficiency.

In addition, as part of the potential synergy, the Group is investing USD 45 million to optimize the existing flows at the refinery as raw material for polymer production. The annual return on investment is estimated at USD 30 million (at the approval date of the financial statements, the Company has started the process for its operation). The expected annual return on the USD 60 million investment to increase propylene production capacity is estimated at USD 50 million.

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

As part of the strategic plan, which includes increasing the investment in environmental quality, safety and security and in enhancing operational reliability, up to the end of the Reporting Period, the Company invested USD 129 million in these areas.

The investments include infrastructure and preparations for receiving natural gas in the Company's plants, systems to control air emissions and upgrading of the protection systems in the production plants.

The Company also routinely implements the instructions and requirements applicable under environmental quality laws.

### 1.3 Business environment and Group profitability

#### 1.3.1 Refining

At the beginning of 2011, a wave of political instability and riots erupted in Middle Eastern countries, including Libya, which is one largest oil producers in the world. These riots, together with the earthquake and tsunami in Japan in March (which paralyzed refining capacity of over 1 million barrels per day and significantly impaired production capacity of petrochemical products in this area), led to instability in global markets, and crude oil prices soared to a record of over USD 125 per barrel in April 2011. From May 2011 through to the reporting date, the market was characterized by significant fluctuations with a decrease in prices, due to various events, the most significant of are: the weak macro-economic information published in the United States and Europe in May 2011; the decline in demand in OECD countries; and the strengthening of the dollar. In June, 2011, the United States decided to release 60 million barrels of crude oil and oil products from strategic stockpiles. At the same time, the end of the period was characterized by financial instability of banks and Euro countries.

Brent crude oil traded at USD 105 per barrel at the end of the Reporting Period.

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



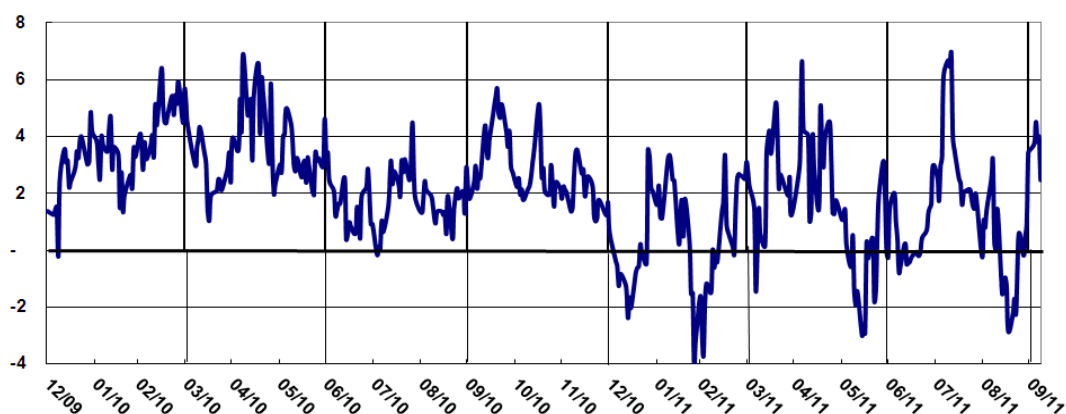
Source: Reuters

The disparity in crude oil prices and the changes in the prices of oil products in the Reporting Period resulted in highly volatile refining margins. The events in Japan paralyzed refining capacity, affecting margins in East Asia and the west coast of the United States but not affecting margins in the Mediterranean, with high oil prices and no recovery in demand for oil products. <sup>1</sup>In the Reporting Period, the benchmark margin was between minus USD 4 and USD 7 per barrel and the average margin for the period was USD 1.1 per barrel. In the corresponding period last year, the average benchmark margin was USD 2.3 per barrel.

<sup>1</sup> The margin publicized by Reuters for an example of a Mediterranean refinery having the capability of cracking Ural-type crude oil. For further information, see section 1.6.2.4 of the Periodic Report as of December 31, 2010.

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



**Refining operations** decreased by 424,000 tons in the Reporting Period compared to the corresponding period last year. In the fourth quarter of 2010, the Company shut down its plants for periodic maintenance, resuming full production in the first quarter of 2011.

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

	<b>1-9.2011</b>	<b>1-9.2010</b>	<b>7-9.2011</b>	<b>7-9.2010</b>
Refining volume	6,379	6,803	2,243	2,314
Utilization of production plants	87.8%	93.6%	91.6%	94.5%

Utilization of the plants in the refining segment depends on many factors, including mechanical availability, availability of raw materials, optimization of production and economic feasibility. In the third quarter of 2010, based on availability and feasibility, utilization reached 95% and 94% in the corresponding period last year. In the Reporting Period, these factors led to utilization of 92% and 88% respectively, representing a lower refining quantity compared to the corresponding period last year.

**Breakdown of the Company's output by the main product groups in the refining segment (thousands of tons)**

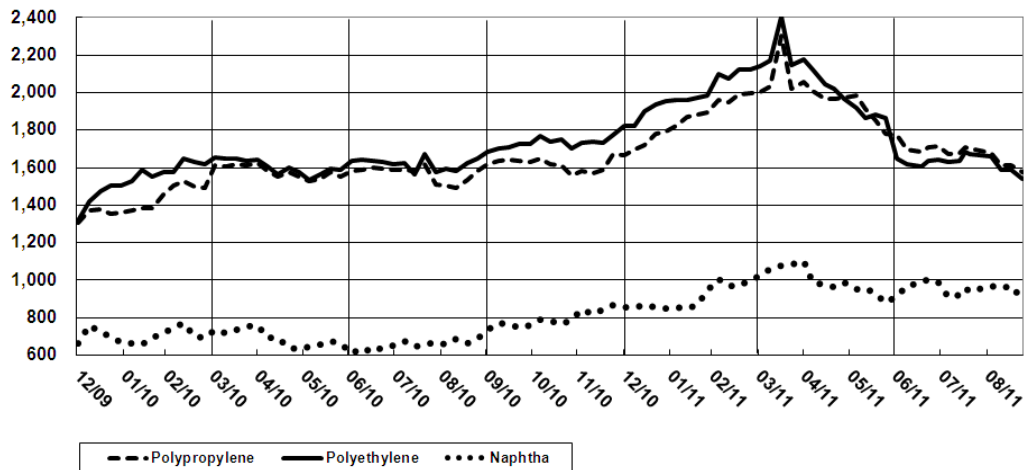
	<b>1-9.2011</b>	<b>1-9.2010</b>	<b>7-9.2011</b>	<b>7-9.2010</b>
Diesel fuel	1,871	2,075	665	708
Gasoline	1,227	1,283	461	425
Kerosene	635	723	226	263
Fuel oil	1,102	851	424	304
HVGO	281	445	89	144
Other	870	897	299	289
<b>Total</b>	<b>5,986</b>	<b>6,274</b>	<b>2,164</b>	<b>2,133</b>

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## Petrochemicals

Polymer prices (polyethylene and polypropylene) increased during the Reporting Period compared to the corresponding period last year. Polypropylene prices rose from USD 1,700 per ton at the beginning of the period to over USD 2,300 per ton at the end of April and fell to USD 1,570 at the end of the period. There was a similar trend regarding polyethylene prices. The change in trend following the price hike in the first quarter is mainly due to a decrease in raw material prices and pressure from customers following the sharp increase in prices. The difference between polymer prices and naphtha prices, which remained stable in the first half of the year, decreased in the third quarter, due to the decrease in prices of the products.

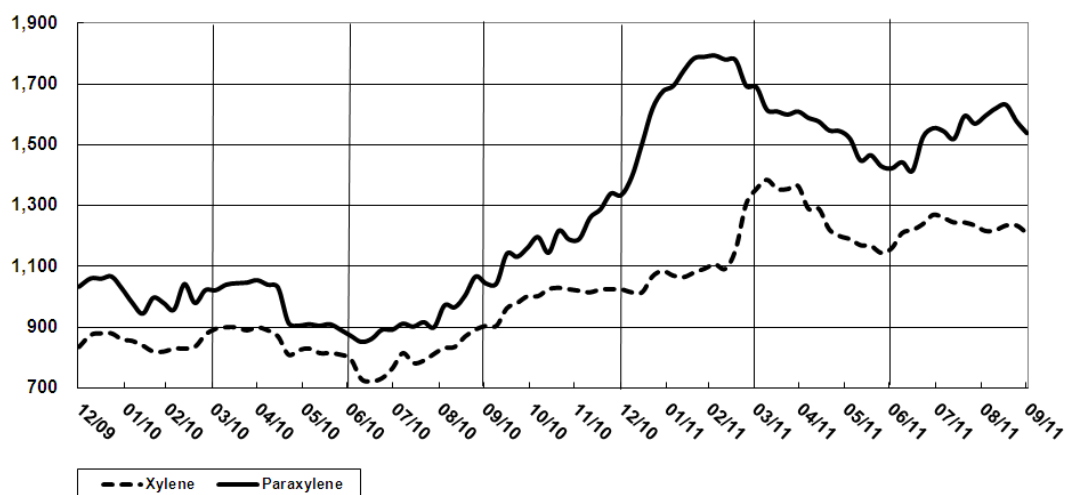
### Polymer and naphtha prices in 2010-2011 (USD/ton)



Source: ICIS

**Aromatics** margins increased significantly in the Reporting Period. The considerable increase in demand for polyester, mainly in Asia following the cotton shortage, resulted in demand in the entire xylene chain, therefore there was a sharp increase in prices of xylene, specifically paraxylene, alongside an increase in the margins of these products. Paraxylene prices increased from USD 1,400 per ton at the beginning of the period to USD 1,800 per ton in February 2011, mainly due to high demand and disruption of production in some countries, followed by a decrease in prices alongside a decrease in raw material prices and demand that was lower than expected. In continuation of the trend, aromatics margins increased (paraxylene prices compared to xylene prices) to a record level of USD 700 per ton in February 2011, but fell subsequently to USD 300 per ton.

**Paraxylene and xylene prices in 2010-2011 (USD/ton)**

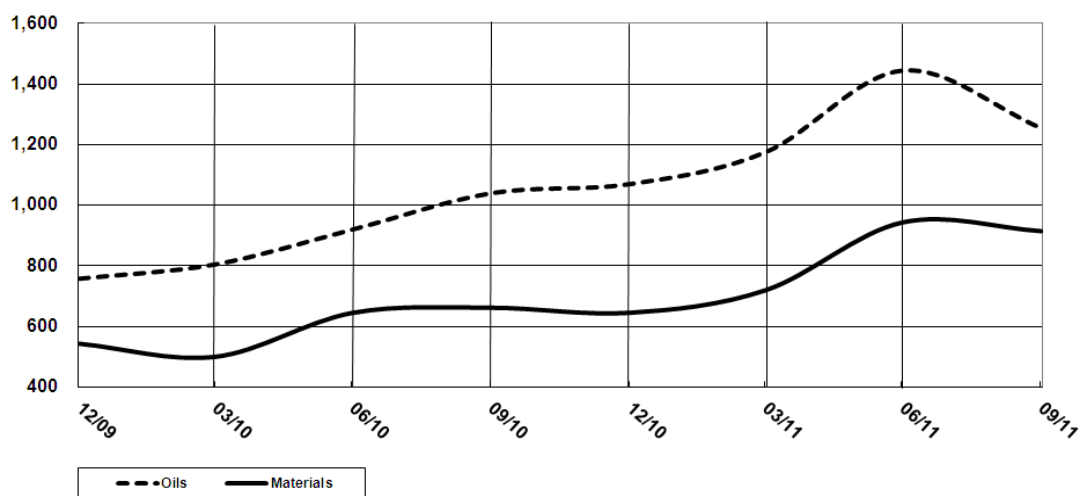


Source: PLATTS

Prices of **oils** reported by ICIS<sup>2</sup> for export cargo from Europe increased during the period from USD 1,090 per ton to USD 1,450 per ton and decreased to USD 1,250 per ton at the end of the period, due to instability of the global economy. Wax prices remained stable in the first six months of 2011 and towards the end of the period, prices started to drop.

The period was characterized by growing customer demand, in both the oils market and the waxes market, including growing demand from Turkey and renewed demand from China. On the other hand, there was a reduction in supply due to maintenance works at the plants in CIS countries, breakdowns in European oils production plants and a further decrease in supply of waxes due to the conversion of plants to production of advanced oils (without production capacity for waxes). Supply of waxes increased towards the end of the period, after production plants resumed operation. In addition, prices were affected by volatile raw material prices.

**Product and raw material prices in 2010-2011 (USD/ton)**



<sup>2</sup> Chemical Industry News and Intelligence

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## Output in the petrochemicals segment (in thousands of tons):

	1-9.2011	1-9.2010	7-9.2011	7-9.2010
Aromatics (Gadiv) (*)	434	384	168	128
Polymers (Carmel Olefins)	543	536	183	177
Oils (Haifa Basic Oils)	52	51	19	16
<b>Total</b>	<b>1,029</b>	<b>971</b>	<b>370</b>	<b>321</b>

(\*) The increase in output of aromatics is mainly due to projects for upgrading facilities that were completed at the end of 2010.

**Consolidated loss** in the Reporting Period amounted to USD 9 million, compared to USD 50 million in the corresponding period last year. Summary of the consolidated financial results for the Reporting Period and the corresponding period last year (in USD millions).

	1-9.2011	1-9.2010	7-9.2011	7-9.2010
Operating profit (not including other expenses)	102	98	11	40
Other expenses (1)	(20)	(29)	(7)	(7)
Financing expenses, net	(69)	(28)	(21)	(20)
Company's share in earnings (losses) of investees	(8)	1	(5)	-
Income tax	(14)	8	(3)	10
<b>Profit (loss) for the period</b>	<b>(9)</b>	<b>50</b>	<b>(25)</b>	<b>23</b>

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

## Operating profit and EBITDA (in USD millions)

	Operating profit				EBITDA			
	1-9.11	1-9.10	7-9.11	7-9.10	1-9.11	1-9.10	7-9.11	7-9.10
Refining – adjusted (1)	(29)	24	(3)	(3)	8	55	9	8
Petrochemicals - polymers	40	57	(9)	27	75	91	3	37
Petrochemicals - aromatics	35	20	23	7	40	24	27	8
Petrochemicals - oils	10	8	3	2	11	9	4	3
Trade	(19)	(13)	(7)	(4)	(19)	(13)	(7)	(4)
Adjustments	(1)	(5)	(1)	(2)	-	(5)	(2)	(2)
<b>Total consolidated (with adjustments)</b>	<b>36</b>	<b>91</b>	<b>6</b>	<b>27</b>	<b>115</b>	<b>161</b>	<b>33</b>	<b>50</b>
<b>Total consolidated (without adjustments)</b>	<b>102</b>	<b>98</b>	<b>11</b>	<b>40</b>	<b>181</b>	<b>168</b>	<b>38</b>	<b>63</b>

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

## **2. Financial position**

### **2.1 Current assets**

At September 30, 2011, current assets amounted to USD 2.141 billion, representing 45% of total assets, compared to USD 1.935 billion, representing 44% of total assets at December 31, 2010. The increase of USD 206 million is mainly due to an increase of USD 261 million in trade receivables, which is mainly due to an increase in prices and increase in trade receivables of Group companies following the return to full production and an increase of USD 50 million in fair value of financial derivatives, offset by a decrease of USD 107 million in deposits, following a decrease in deposits on hedging of inventory and repayment of other deposits.

### **2.2 Non-current assets**

At September 30, 2011, non-current assets amounted to USD 2.566 billion, compared to USD 2.438 billion at December 31, 2010. The difference of USD 128 million is mainly due to a net increase of USD 185 million in property, plant and equipment, due to investments of USD 238 million in the period (mainly investment in the hydrocracker) less depreciation and amortization of USD 99 million in the period offset by a decrease of USD 20 million in financial derivatives, a decrease of USD 10 million in the value of an investee presented at quoted value, a decrease of USD 7 million in investment in investees and a decrease of USD 9 million in deferred expenses for raising loans in the depreciation period.

### **2.3 Current liabilities**

At September 30, 2011, current liabilities amounted to USD 1.892 billion, representing 52% of total liabilities, compared to USD 1.614 billion, representing 50% of total liabilities at December 31, 2010. The increase of USD 278 million is mainly due to an increase of USD 219 million in short-term credit and an increase of USD 115 million in trade payables offset by a decrease of USD 43 million in financial derivatives and USD 12 million in other payables.

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

At September 30, 2011, non-current liabilities amounted to USD 1.724 billion, compared to USD 1.636 billion at December 31, 2010. The increase of USD 88 million is mainly due to an increase in liabilities of USD 160 million to banks resulting from the long-term loan of USD 266 million received, offset by repayments of long-term loans amounting to USD 95 million and an increase of USD 8 million in current maturities and a decrease of USD 90 million in debentures due to repayments in the period and an increase in current maturities.

### **2.5 Capital**

At September 30, 2011, capital amounted to USD 1.089 billion, representing 23% of the statement of financial position, compared to USD 1.124 billion, representing 26% of the statement of financial position at December 31, 2010. The decrease of USD 35 million is mainly due to initial application of IFRS 9 (for further information, see Note 3A2 to the condensed consolidated interim financial statements as of September 30, 2011). The effect of initial application of this standard is reflected in a decrease of USD 47 million in opening balance equity offset by profit of USD 12 million in the period and changes of USD 34 million in capital reserves, and from the loss of USD 21 million in the period without the effect of IFRS 9 and a decrease in capital reserves due to a decrease of USD 10 million in the quoted value of an equity-accounted investee.

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

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

	Petrochemicals													
	Refining		Trade		Polymers		Aromatics		Oils		Adjustments to consolidated		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	<b>Nine months ended September 30</b>													
Revenue	5,739	3,951	166	130	930	772	538	383	83	59	--	--	7,456	5,295
Inter-company operations	1,035	735	--	--	--	--	45	31	--	--	(1,080)	(766)	--	--
<b>Total sales</b>	<b>6,774</b>	<b>4,686</b>	<b>166</b>	<b>130</b>	<b>930</b>	<b>772</b>	<b>583</b>	<b>414</b>	<b>83</b>	<b>59</b>	<b>(1,080)</b>	<b>(766)</b>	<b>7,456</b>	<b>5,295</b>
Cost of sales	6,650	4,576	180	139	373	323	18	28	23	17	--	--	7,244	5,083
Inter-company operations	44	31	1	--	479	351	507	343	47	33	(1,078)	(758)	--	--
<b>Total cost of sales</b>	<b>6,694</b>	<b>4,607</b>	<b>181</b>	<b>139</b>	<b>852</b>	<b>674</b>	<b>525</b>	<b>371</b>	<b>70</b>	<b>50</b>	<b>(1,078)</b>	<b>(758)</b>	<b>7,244</b>	<b>5,083</b>
<b>Gross profit (loss)</b>	<b>80</b>	<b>79</b>	<b>(15)</b>	<b>(9)</b>	<b>78</b>	<b>98</b>	<b>58</b>	<b>43</b>	<b>13</b>	<b>9</b>	<b>(2)</b>	<b>(8)</b>	<b>212</b>	<b>212</b>
Selling, general and administrative expenses	43	48	4	4	38	39	22	22	3	1	--	--	110	114
Inter-company operations	--	--	--	--	--	2	1	1	--	--	(1)	(3)	--	--
	43	48	4	4	38	41	23	23	3	1	(1)	(3)	110	114
<b>Operating profit (loss) for segments</b>	<b>37</b>	<b>31</b>	<b>(19)</b>	<b>(13)</b>	<b>40</b>	<b>57</b>	<b>35</b>	<b>20</b>	<b>10</b>	<b>8</b>	<b>(1)</b>	<b>(5)</b>	<b>102</b>	<b>98</b>
Amortization of excess cost arising on acquisition of investees													(20)	(29)
<b>Operating profit</b>													<b>82</b>	<b>69</b>
Financing expenses, net													(69)	(28)
Company's share in earnings (losses) of equity accounted investees, net of tax													(8)	1
Profit before income tax													5	42
Tax benefits (income tax)													(14)	8
<b>Profit (loss) for the period</b>													<b>(9)</b>	<b>50</b>

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Main reasons for the increase of USD 4 million in segment consolidated operating profit in the period (in USD million):

	<b>1-9.2011 compared to 1-9.2010</b>
Decrease in the adjusted refining margin in the refining segment	(20)
Decrease in margins in the petrochemicals segment	(7)
Changes in adjustments – see details in the table in section 3.1.2 below	59
Decrease in sales quantities	(10)
Increase in other revenue	25
Increase in gross profit from the trade segment	(6)
Increase in production expenses	(41)
Increase in selling and administrative expenses	4
	<b>4</b>

### **3.1.1 Revenue**

Revenue in the **refining segment** amounted to USD 6.774 billion in the Reporting Period, compared to USD 4.686 billion in the corresponding period last year. The increase in revenue was mainly due to the increase in the average price of oil products. The average price per ton of the product index in the Mediterranean area, similar to the Company's product index, amounted to USD 920 in the Reporting Period, compared to USD 661 in the corresponding period last year.

In the Reporting Period, there was an increase of 4% in consumption of distillates in the local market compared to the corresponding period last year, mainly due the IEC's resumption of production using diesel fuel. There was an increase of 1% in consumption of gasoline (fuel oil, diesel and kerosene).

Revenue in the **trade segment** amounted to USD 166 billion in the Reporting Period, compared to USD 130 billion in the corresponding period last year.

#### **Revenue in the petrochemicals segment**

Revenue of **polymers operations** increased by USD 158 million in the Reporting Period compared to the corresponding period last year. The increase is mainly due to an increase of USD 163 million in selling prices offset by a decrease of USD 5 million in sales.

Revenue of **aromatics operations** increased by USD 169 million in the Reporting Period compared to the corresponding period last year. The increase is mainly due to an increase of USD 135 million in prices, an increase of USD 20 million in sales quantities and USD 14 million in other revenue, mainly from insurance claims

Revenue of **oils operations** increased by USD 24 million in the Reporting Period mainly due to an increase in selling prices.

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### 3.1.2 Operating profit

Operating profit in the **refining segment** amounted to USD 37 million in the Reporting Period, compared to USD 31 million in the corresponding period last year.

To present the results of the Company's operations on an economic basis and for comparison with the benchmark margin, the accounting effects are adjusted in the refining segment as follows: (USD millions)

	<b>1-9.2011</b>	<b>1-9.2010</b>
Profit from buying and selling timing differences, for inventory that is not hedged by derivatives (*)	(29)	(10)
Elimination of the provision for impairment of inventory, net	31	3
Profit due to the effect of changes in fair value of derivatives on prices of goods, mainly due to accounting under IFRS	(68)	-
<b>Total effect</b>	<b>(66)</b>	<b>(7)</b>

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

Comparison of the Company's refining margins with the benchmark margin.

	<b>1-9.2011</b>	<b>1-9.2010</b>
<b>Benchmark margin (dollar/barrel)</b>	<b>1.1</b>	<b>2.9</b>
<b>Adjusted margin (dollar/barrel)</b>	<b>2.7</b>	<b>3.1</b>
<b>Adjusted margin (dollar/ton)</b>	<b>20.1</b>	<b>23.1</b>
Net of the effect – buying and selling timing differences	4.6	1.3
Elimination of the provision for impairment of inventory	(4.9)	(0.3)
Accounting method for derivatives according to IFRS	10.7	0.0
<b>Accounting margin (dollar/ton)</b>	<b>30.5</b>	<b>24.1</b>

In the Reporting Period, adjusted refining margins were USD 20.1 per ton (USD 2.7 per barrel), compared to USD 23.1 per ton (USD 3.1 per barrel) in the corresponding period last year. In the Reporting Period, the benchmark margin was USD 8.0 per ton (USD 1.1 per barrel), compared to USD 21.1 per ton (USD 2.9 per barrel) in the corresponding period last year.

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

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Main reasons for the increase in operating profit in the refining segment in the Reporting Period, compared to the corresponding period last year (in USD millions):

	<b>1-9.2011 compared to 1-9.2010</b>
Decrease in adjusted refining margin	(20)
Decrease in sales quantities	(10)
Increase in other revenue	11
Increase in production expenses	(38)
Increase in selling and administrative expenses	4
Changes in adjustments – as described above	59
	<b>6</b>

The operating loss in the **trade segment** amounted to USD 19 million compared to a loss of USD 13 million in the corresponding period last year.

Operating profit in **polymers operations** amounted to USD 40 million in the Reporting Period, compared to USD 57 million in the corresponding period last year.

Main reasons for the decrease in operating profit (in USD millions):

	<b>1-9.2011 compared to 1-9.2010</b>
Decrease in margin from the product index	(14)
Decrease in sales quantities	(1)
Increase in production expenses	(5)
Decrease in selling, administrative and general expenses	3
	<b>(17)</b>

Operating profit in **aromatics operations** amounted to USD 35 million in the Reporting Period, compared to USD 20 million in the corresponding period last year.

Main reasons for the increase in operating profit (in USD millions):

	<b>1-9.2011 compared to 1-9.2010</b>
Increase in margin from the product index	2
Increase in sales quantities	1
Increase in other revenue, mainly an insurance claim	14
Increase in production expenses	(3)
Decrease in marketing, selling, administrative and general expenses	1
	<b>15</b>

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Operating profit of **oils operations** amounted to USD 10 million in the Reporting Period, compared to USD 8 million in the corresponding period last year.

Main reasons for the increase in operating profit (in USD millions):

	<b>1-9.2011 compared to 1-9.2010</b>
Increase in margin from the product index	5
Increase in production expenses	(1)
Increase in selling, administrative and general expenses	(2)
	<b>2</b>

### **3.1.3 Other expenses**

In the Reporting Period, other expenses amounted to USD 20 million, representing amortization of excess acquisition costs of the balance of shares in Carmel Olefins and Haifa Basic Oils compared to USD 29 million in the corresponding period last year.

### **3.1.4 Financing expenses**

Net consolidated financing expenses amounted to USD 69 million in the Reporting Period compared to USD 28 million in the corresponding period last year.

Principal changes in financing expenses (in USD millions):

	<b>1-9.2011 compared to 1-9.2010</b>
Increase in short-term interest mainly due to an increase in the scope of credit	3
Decrease in profits from securities and loan provided	4
Effect of exchange differences on financial items, net	(13)
Increase in interest on loan and debentures	15
Changes in fair value of hedge transactions	45
Changes in fair value of debentures traded on the TASE (*)	(13)
	<b>41</b>

(\*) See Note 3(A)(2) to the condensed consolidated interim financial statements as of September 30, 2011.

### **3.1.5 Income tax**

Tax expenses amounted to USD 14 million in the Reporting Period, compared to tax revenue of USD 8 million in the corresponding period last year. The change is mainly due to the change in pre-tax profit compared to the corresponding period last year.

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

The Company's share in losses of investees amounted to USD 8 million in the Reporting Period, compared to earnings of USD 1 million in the corresponding period last year. For further details see Note 6(C) to the condensed consolidated interim financial statements as of September 30, 2011.

## Oil Refineries Ltd.

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

	Petrochemicals												Consolidated	
	Refining		Trade		Polymers		Aromatics		Oils		Adjustments to consolidated			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Three months ended September 30													
Revenue	2,153	1,306	37	34	315	237	210	116	30	20	--	--	2,745	1,713
Inter-company operations	372	248	--	--	--	--	23	8	--	--	(395)	(256)	--	--
<b>Total sales</b>	<b>2,525</b>	<b>1,554</b>	<b>37</b>	<b>34</b>	<b>315</b>	<b>237</b>	<b>233</b>	<b>124</b>	<b>30</b>	<b>20</b>	<b>(395)</b>	<b>(256)</b>	<b>2,745</b>	<b>1,713</b>
Cost of sales	2,487	1,522	43	38	159	72	12	4	--	5	--	--	2,701	1,641
Inter-company operations	24	8	--	--	153	127	190	106	26	12	(393)	(253)	--	--
<b>Total cost of sales</b>	<b>2,511</b>	<b>1,530</b>	<b>43</b>	<b>38</b>	<b>312</b>	<b>199</b>	<b>202</b>	<b>110</b>	<b>26</b>	<b>17</b>	<b>(393)</b>	<b>(253)</b>	<b>2,701</b>	<b>1,641</b>
<b>Gross profit (loss)</b>	<b>14</b>	<b>24</b>	<b>(6)</b>	<b>(4)</b>	<b>3</b>	<b>38</b>	<b>31</b>	<b>14</b>	<b>4</b>	<b>3</b>	<b>(2)</b>	<b>(3)</b>	<b>44</b>	<b>72</b>
Selling, general and administrative expenses	11	14	1	--	12	10	8	7	1	1	--	--	33	32
Inter-company operations	--	--	--	--	--	1	--	--	--	--	--	(1)	--	--
	11	14	1	--	12	11	8	7	1	1	--	(1)	33	32
<b>Operating profit (loss) for segments</b>	<b>3</b>	<b>10</b>	<b>(7)</b>	<b>(4)</b>	<b>(9)</b>	<b>27</b>	<b>23</b>	<b>7</b>	<b>3</b>	<b>2</b>	<b>(2)</b>	<b>(2)</b>	<b>11</b>	<b>40</b>
Amortization of excess cost arising on acquisition of investees													(7)	(7)
Operating profit													4	33
Financing expenses, net													(21)	(20)
Company's share in earnings (losses) of equity accounted investees, net of tax													(5)	--
Profit (loss) before taxes on income													(22)	13
Tax benefits (income tax)													(3)	10
<b>Profit (loss) for the period</b>													<b>(25)</b>	<b>23</b>

## Oil Refineries Ltd.

Main reasons for the decrease of USD 29 million in segment consolidated operating profit in the third quarter (in USD million):

	<b>7-9.2011 compared to 7-9.2010</b>
Increase in the adjusted refining margin in the refining segment	22
Decrease in margins in the petrochemicals segment	(40)
Changes in adjustments – see details in the table in section 3.2.2 below	(7)
Increase in sales quantities	20
Increase in other revenue	10
Increase in gross profit from the trade segment	(3)
Increase in production expenses	(29)
Increase in selling and administrative expenses	(2)
	<b>(29)</b>

### 3.2.1 Revenue

Revenue in the **refining segment** amounted to USD 2.525 billion in the third quarter, compared to USD 1.554 billion in the corresponding period last year. The increase in revenue was mainly due to the increase in the average price of oil products. The average price per ton of the product index in the Mediterranean area, similar to the Company's product index, amounted to USD 932 in the Reporting Period, compared to USD 657 in the corresponding period last year.

In the third quarter, there was an increase of 3% in consumption of distillates and a similar increase of 3% in the consumption of gasoline in the local market (fuel oil, diesel and kerosene) compared to the corresponding period last year

Revenue in the **trade segment** amounted to USD 37 million in the third quarter, compared to USD 34 million in the corresponding period last year.

#### **Revenue in the petrochemicals segment**

Revenue of **polymers operations** increased by USD 78 million in the third quarter compared to the corresponding period last year. The increase is due to an increase of USD 29 million in selling prices and an increase of USD 49 million in sales.

Revenue of **aromatics operations** increased by USD 109 million in the third quarter compared to the corresponding period last year. The increase is due to an increase of USD 65 million in selling prices, an increase of USD 32 million in sales quantities and USD 12 million in other revenue, mainly from an insurance claim.

Revenue of **oils operations** increased by USD 10 million in the third quarter compared to the corresponding period last year. The increase in revenue is mainly due to an increase in selling prices compared to the corresponding period last year.

## Oil Refineries Ltd.

### 3.2.2 **Operating profit**

Operating profit in the **refining segment** amounted to USD 3 million in the third quarter, compared to USD 10 million in the corresponding period last year.

To present the results of the Company's operations on an economic basis and for comparison with the benchmark margin, the accounting effects are adjusted in the refining segment as follows: (USD millions)

	7-9.2011	7-9.2010
Profit from buying and selling timing differences, for inventory that is not hedged by derivatives (*)	--	(10)
Elimination of the provision for impairment of inventory, net	22	(3)
Profit due to the effect of changes in fair value of derivatives on prices of goods, mainly due to accounting under IFRS	(27)	--
<b>Total effect</b>	<b>(5)</b>	<b>(13)</b>

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

Comparison of the Company's refining margins with the benchmark margin.

	1-9.2011	1-9.2010
<b>Benchmark margin (dollar/barrel)</b>	<b>1.2</b>	<b>1.7</b>
<b>Adjusted margin (dollar/barrel)</b>	<b>3.0</b>	<b>1.7</b>
<b>Adjusted margin (dollar/ton)</b>	<b>22.5</b>	<b>12.3</b>
Net of the effect – buying and selling timing differences	--	4.5
Elimination of the provision for impairment of inventory	(9.5)	1.5
Accounting method for derivatives according to IFRS	11.6	--
<b>Accounting margin (dollar/ton)</b>	<b>24.6</b>	<b>18.3</b>

In the third quarter, the adjusted refining margin was USD 22.5 per ton (USD 3.0 per barrel), compared to USD 12.3 per ton (USD 1.7 per barrel) in the corresponding period last year. In the third quarter, the benchmark margin was USD 8.8 per ton (USD 1.2 per barrel), compared to USD 12.4 per ton (USD 1.7 per barrel) in the corresponding period last year.

For the differences between the Company's refining margin and the benchmark margin, see section 3.1.2 above.

Main reasons for the decrease in operating profit in the refining segment in the third quarter compared to the corresponding period last year (in USD millions):

	7-9.2011 compared to 7-9.2010
Increase in adjusted refining margin	22
Increase in production expenses	(19)
Decrease in other revenue	(2)
Changes in adjustments – as described above	(8)
	<b>(7)</b>

The operating loss in the **trade segment** amounted to USD 7 million in the third quarter compared to a loss of USD 4 million in the corresponding period last year.

## Oil Refineries Ltd.

Operating profit in **polymers operations** amounted to USD 9 million in the third quarter compared to USD 27 million in the corresponding period last year.

Main reasons for the decrease in operating profit (in USD millions):

	<b>7-9.2011 compared to 7-9.2010</b>
Decrease in margin from the product index	(46)
Increase in sales quantities	16
Increase in production expenses	(5)
Increase in selling, administrative and general expenses	(1)
	<b>(36)</b>

Operating profit in **aromatics operations** amounted to USD 23 million in the third quarter compared to USD 7 million in the corresponding period last year.

Main reasons for the increase in operating profit (in USD millions):

	<b>7-9.2011 compared to 7-9.2010</b>
Increase in margin from the product index	6
Increase in sales quantities	2
Increase in production expenses	(3)
Increase in other revenue, mainly an insurance claim	12
Increase in marketing, selling, administrative and general expenses	(1)
	<b>16</b>

Operating profit in **oils operations** amounted to USD 3 million in the third quarter, the same as in the corresponding period last year.

Main reasons for the change in operating profit (in USD millions):

	<b>7-9.2011 compared to 7-9.2010</b>
Increase in sales quantities	2
Increase in production expenses	(2)
	<b>--</b>

### **3.2.3 Other expenses**

In the third quarter, other expenses amounted to USD 7 million, the same as in the corresponding period last year, representing amortization of excess acquisition costs of the balance of shares in Carmel Olefins and Haifa Basic Oils.

### **3.2.4 Financing expenses (income)**

Net consolidated financing expenses amounted to USD 21 million in the third quarter compared to USD 20 million in the corresponding period last year.

Principal changes in financing expenses (in USD millions):

## Oil Refineries Ltd.

	<b>7-9.2011 compared to 7-9.2010</b>
Increase in short-term interest mainly due to an increase in the scope of credit	7
Increase in profits from securities and loan provided	(2)
Effect of exchange differences on financial items, net	(21)
Changes in fair value of hedge transactions	3
Changes in fair value of debentures traded on the TASE (*)	14
	<b>1</b>

(\*) See Note 3(A)(2) to the condensed consolidated interim financial statements as of September 30, 2011.

### **3.2.5 Income tax**

Tax expenses amounted to USD 3 million in the Reporting Period, compared to tax revenue of USD 10 million in the corresponding period last year. The change is mainly due to the change in pre-tax profit compared to the corresponding period last year.

### **3.2.6 Company's share in losses of investees**

The Company's share in losses of investees amounted to USD 5 million in the Reporting Period, compared to zero in the corresponding period last year. For further details see Note 6(C) to the condensed consolidated interim financial statements as of September 30, 2011.

# Oil Refineries Ltd.

## 4. Liquidity

Total current assets less current liabilities at September 30, 2011 amounted to USD 248 million compared to USD 321 million at December 31, 2010. The current ratio at September 30, 2011 is 1.13 compared to 1.20 at December 31, 2010.

Consolidated cash flows used for the Company's operating activities amounted to USD 50 million in the Reporting Period, mainly due to the loss in the period less adjustment of non-cash revenue and expenses amounting to USD 81 million plus a change of USD 131 million in property items and current liabilities.

Cash used for investment activity in the Reporting Period amounted to USD 167 million, used mainly to finance investments of USD 283 million in property, plant and equipment and other assets, offset by a decrease of USD 107 million in deposit.

Cash from financing activity amounted to USD 220 million in the Reporting Period, mainly from an increase of USD 147 million in long-term loans and of USD 266 million in short-term credit received, offset by periodic repayment of debentures and long-term loans of USD 123 million and payment of interest of USD 57 million.

## 5. Sources of financing

Composition of Group financing sources and uses:

	Nine months ended September 30, 2011	Year ended December 31, 2010
	USD millions	
<b>Sources</b>		
Decrease in cash in the period	--	29
Decrease in deposits and marketable securities	--	12
Repayment of the loan from Haifa Early Pensions	6	13
Income tax refund	--	28
Cash from operating activities (prior to changes in working capital)	81	181
Decrease in deposits	107	--
Receipt of short-term credit and deposits from customers	128	171
Long-term credit	266	397
	<b>588</b>	<b>831</b>
<b>Uses</b>		
Increase in cash	3	--
Increase in working capital	130	202
Payment of dividend	--	80
Investments in property, plant and equipment and other assets	283	230
Income tax payment	2	--
Investment in associates	1	33
Investment in deposits	--	66
Interest paid, net	46	53
Receipt of short-term credit and deposits from customers	--	--
Costs of raising capital and repayment of long-term loans and debentures	123	167
	<b>588</b>	<b>831</b>

# Oil Refineries Ltd.

## 6. Long term loans and debentures

The long term loans and debentures at September 30, 2011 (after deduction of current maturities) amounted to USD 1.565 billion, representing 33% of the statement of financial position, compared to USD 1.497 billion, representing 34% at December 31, 2010. The proceeds of the loans are used to finance investments in property, plant and equipment and to repay long-term liabilities. In the Reporting Period, long-term loans of USD 266 million were received.

Financial leverage at September 30, 2011 (long term loans and debentures, to equity plus long term loans and debentures) is 59% and 57% at December 31, 2010.

## 7. Total financial liabilities

Current financial liabilities plus long-term loans and debentures amounted to USD 2.558 billion at September 30, 2011, representing 54% of the statement of financial position, compared to USD 2.27 billion, representing 52% of the statement of financial position at December 31, 2010. Financial leverage of total financial liabilities to banks and other credit providers is 70% compared to 67% at December 31, 2010.

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

	<b>ORL</b>	<b>Subsidiaries</b>	<b>Total</b>
Short-term loan	548	194	742
Loans from banks (*)	675	255	930
Debentures (*) (**)	624	274	898
Liquid financial assets	(106)	(30)	(136)
<b>Total net financial debt</b>	<b>1,741</b>	<b>693</b>	<b>2,434</b>

(\*) Including current maturities

(\*\*) See Note 3(A)(2) to the interim condensed consolidated financial statements as of September 30, 2011.

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

Long term loans and debentures (including current maturities) – USD 1.746 billion; short term credit – USD 668 million; trade payables – USD 677 million; trade receivables – USD 496 million.

# Oil Refineries Ltd.

## 9. Exposure to market risk and risk management methods

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

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

Price change:	Profit (loss)				Fair value September 30, 2011	Profit (loss)			
	Increase					-5%	-10%	-20%	-50%
	+50%	+20%	+10%	+5%					
<b>USD thousands</b>									
Inventory (1)	402,490	160,996	80,498	40,249	804,980	(40,249)	(80,498)	(160,996)	(402,490)
Futures	(189,568)	(75,829)	(37,916)	(18,959)	21,599	18,954	37,910	75,824	189,563
Options	(10,493)	(6,393)	(3,755)	(2,043)	4,075	2,439	5,353	13,007	54,415
Swap contract (2)	(20,691)	(8,267)	(4,138)	(2,069)	(30,690)	2,069	4,138	8,267	20,691
Swap hedging (3)	(27,074)	(10,829)	(5,415)	(2,707)	2,684	2,707	5,415	10,829	27,074
	<u>154,664</u>	<u>59,678</u>	<u>29,274</u>	<u>14,471</u>		<u>(14,080)</u>	<u>(27,682)</u>	<u>(53,069)</u>	<u>(110,747)</u>

(1) Excluding inventory with a fixed price

(2) For the emergency stockpiles of diesel fuel, see Note 2(D)(2) to the condensed consolidated interim financial statements

(3) Assuming product index prices are unchanged

### 9.2 Consolidated linkage-based report

	NIS index linked	Foreign- currency linked (*)	NIS Unlinked	Non- monetary	Total
<b>September 30, 2011</b>					
Total assets	795,790	1,793,983	554,761	2,493,649	5,638,183
Total liabilities	800,880	2,999,287	687,011	61,269	4,548,447
<b>Net balance</b>	<b>(5,090)</b>	<b>(1,205,304)</b>	<b>(132,250)</b>	<b>2,432,380</b>	<b>1,089,736</b>
<b>December 31, 2010</b>					
Total assets	807,245	1,712,226	484,766	2,248,405	5,252,642
Total liabilities	821,885	2,634,301	626,159	46,551	4,128,896
<b>Net balance</b>	<b>(14,640)</b>	<b>(922,075)</b>	<b>(141,393)</b>	<b>2,201,854</b>	<b>1,123,746</b>

(\*) Primarily dollar

## **10. Corporate governance**

The Company's Board of Directors adopted a procedure based on the recommendations of the Goshen Committee and the recommendations regarding their implementation as submitted to the Company by Adv. Dr. Yoram Danziger. The Board of Directors periodically updates its work procedures, as required and according to the law. In the Reporting Period, the Board of Directors received a review of the latest amendments to corporate laws regarding corporate governance. Following a comprehensive discussion of the subject, the Board of Directors instructed the Company's management to adapt the Company's documents and internal compliance plan to the amendments of the legislation. At the publication date of the report, a general meeting of the shareholders was called. The agenda of the meeting includes amendment to the Company's articles of association, as described above. The Board of Directors also adopted changes to the work procedures of the Board of Directors, based on the amendments to the articles.

### **10.1 Internal compliance plan**

In the Reporting Period, the Company introduced a procedure to adopt an internal compliance plan. The Company's management is currently preparing, together with the Company's legal counsel, an outline for adopting a compliance plan in the Company. When preparing the outline, the Company began internal discussions to adapt the outline to the unique structure of the Group and its activities, while reviewing the current individual compliance plans and procedures of each company, updating them and integrating them in the proposed outline, taking into account any future implications that may arise from the event described in Note 2(D)(2) to the Company's financial statements as of September 30, 2011.

### **10.2 Contribution to the community and community activities**

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

### **10.3 Directors with accounting and financial expertise**

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

### **10.4 Independent directors**

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

### **10.5 Salaries of officers and considerations on which the Board of Directors base such salaries**

In the Reporting Period, the Board of Directors approved a long- and medium-term compensation plan. For further information see section 1.14.7 of Part A in the Periodic Report for 2010. Subsequent to the Reporting Period, the general meeting approved the items in the compensation plan that required the approval of the general meeting.

In the Reporting Period, the Board of Directors approved the salary terms for the Company's new CEO. For further information, see the immediate report of April 4, 2011 (ref. 2011-01-10824). The Board of Directors also approved the salary terms for the deputy CEO - the incoming CEO of the industrial segment. Subsequent to the Reporting Period, the Board of Directors approved the salary terms for the incoming VP Human Resources. See section 13(C) for information about changes of position.

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Subsequent to the Reporting Period, the Company's Audit Committee and Board of Directors approved the adjustment to compensation for directors who are not external or independent directors and who comply with the expertise requirements in the definition of an expert external director in the Companies Regulations (Rules for Remuneration and Expenses for an External Director), 2000 ("the Compensation Regulations"), as follows:

- A. A director who is not an external or independent director, who complies with the expertise requirements set out in the definition of an external expert director according to the Compensation Regulations, will be entitled to the maximum amount permitted for payment to an external expert director, as from January 1, 2011, as set out in the Compensation Regulations.
- B. The decision will not apply to a director who has a special compensation arrangement or another agreement with the Company or to directors who are controlling shareholders in the Company or their relatives, or those employed by a controlling shareholder in the Company.

Subsequent to the Reporting Period, the Board of Directors approved a share-based compensation plan for the Company's CEO. For further information, see the immediate report of November 7, 2011 (ref. no. 2011-01-319602).

## **10.6 Procedure for approving the financial statements:**

There were no changes in the identity of the Company's organs that oversee the audit regarding the procedure for approving the financial statements compared to the disclosure in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2009.

On November 13, 2011, the Audit and Balance Sheet Committee discussed the financial statements as of September 30, 2011 and formulated recommendations for the Company's Board of Directors. The committee meeting was divided into two parts: In the first part of the meeting, the Company's management reviewed the information in the financial statements and the accounting policy used when preparing the statements. The second part of the meeting was held in the presence of those members of the Board of Directors serving as committee members only, and they discussed and formulated the committee's recommendations to the Board of Directors. The following committee members attended the meeting: Dafna Schwartz (chair),<sup>3,7</sup> Yachin Cohen,<sup>4,7</sup> Nehama Ronen<sup>5,7</sup> and Arie Ovadia<sup>6,7</sup>. On November 20, 2011, the Board of Directors of the Company approved the financial statements, in a meeting attended by all members of the Board of Directors.

## **10.7 Disclosure regarding the internal auditor in a reporting corporation**

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

## **10.8 Peer review**

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

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<sup>3</sup> External director with accounting expertise

<sup>4</sup> External director without accounting expertise

<sup>5</sup> Independent director without accounting expertise

<sup>6</sup> Director with accounting expertise

<sup>7</sup> For the directors' skills, education and experience, see Part D of the Periodic Report of 2010

## **11. Disclosure of financial reporting**

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

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

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

The contents of Note 6(B) and Note 7 regarding the dependency of the Company on services from infrastructure companies and from natural gas suppliers.

The contents of Note 2(D) to the financial statements regarding reconciliation and restatement of the consolidated financial statements as of September 30, 2011 and the nine and three months then ended, to reflect retrospective adjustment of the accounting treatment in the agreement for maintaining emergency stockpiles of diesel fuel.

### **11.2 Use of estimates and judgments**

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

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

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

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

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

## **13. Significant events in and subsequent to the Reporting Period**

- A.** For information about significant events in the Reporting Period, see Note 7 to the condensed consolidated interim financial statements as of September 30, 2011.
- B.** For information about significant events subsequent to the Reporting Period, see Note 7 to the condensed consolidated interim financial statements as of September 30, 2011.
- C.** Impact of changes in exchange rates and prices of crude oil and oil products subsequent to the Reporting Period

## Oil Refineries Ltd.

- (1) **Changes in exchange rates:** From the end of the Reporting Period and up to the approval date of the financial statements, there was a depreciation of 0.5% in the shekel-dollar exchange rate. The Company uses hedging transactions to partially offset this exposure, as part of its risk management policy. The effect of the depreciation on the corporation's business performance, after the business results of the hedging transactions, is not material.
- (2) **Changes in prices of crude oil and oil products:** Subsequent to the reporting date, the price of oil, which was USD 105 per barrel at the reporting date, rose to USD 108 per barrel shortly before the publication date of the financial statements.

### D. Change in positions

On March 20, 2011, CEO of the Company Yashar Ben Mordechai, announced his resignation as CEO of the Company. On April 3, 2011, the Board of Directors appointed Pinhas Buchris as the new CEO of the Company. On May 1, 2011, Yashar Ben Mordechai terminated his position as CEO of the Company and Pinhas Buchris took office. The Board of Directors thanked Yashar Ben Mordechai for his work during his position as CEO and for the achievements of the Company during this period, and wished Pinhas Buchris success in his position.

The Board of Directors and Audit Committee approved the a consultancy agreement between the Company and a consultancy company wholly owned by Yashar Ben Mordechai, to manage the hydrocracker project (ref. 2011-01-194184).

In the Reporting Period, Hanan Klachouck, General Manager of the Company's industrial sector, announced his resignation. On April 21, 2011, the Board of Directors appointed Ido Rosolio as General Manager of the Company's industrial sector. Mr. Rosolio took office at the beginning of July 2011.

The Board of Directors of the Company thanked Hanan Klachouck, the outgoing General Manager of the industrial sector, for his contribution to the Company over the years and wishes Ido Rosolio success in his position.

In the Reporting Period, Niva Hassid, VP Human Resources, announced her resignation. On September 26, 2011, Hayyim Serour was appointed VP Human Resources and he took office at the beginning of November 2011.

### E. Natural gas

See section 1.2.3 above.

14. The Board of Directors wishes to thank the management of the Company and the subsidiaries and their employees for their efforts and achievements during the Reporting Period. The Board of Directors expresses its appreciation of the activities and achievements in environmental protection, promotion of investments in the companies and implementation of efficiency measures.

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**Yossi Rosen**  
Chairman of the Board of Directors

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**Pinhas Buchris**  
CEO

November 20, 2011

## Oil Refineries Ltd.

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

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

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

- A.** Update to section 1.17.4.4 regarding natural gas. For details see Notes 7A and 7B to the condensed consolidated interim financial statements as of September 30, 2011.
- B.** Update to section 1.6.16.4 regarding the dependency on the Eilat-Ashkelon oil pipeline ("EAPC"). Further to the aforesaid, EAPC's business license was extended to March 13, 2012.



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

Tel: 04 861 4800  
Fax: 04 861 4844  
website: [www.kpmg.co.il](http://www.kpmg.co.il)

## **Auditors Report to the Shareholders of Oil Refineries Limited**

### *Introduction*

We have reviewed the accompanying financial information of Oil Refineries Limited and its subsidiaries ("the Group"), including the condensed consolidated interim statement of financial position as of September 30, 2011 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine and three months then ended. The Board of Directors and the management are responsible for preparation and presentation of the financial information for these interim periods in accordance with IAS 34 – Interim Financial Reporting, and are also responsible for preparation of the interim financial information for these periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express an opinion on the financial information for these interim periods based on our review.

We did not review the condensed interim financial statements of consolidated companies, the consolidated assets of which represent approximately 28% of the total consolidated assets as of September 30, 2011, and the consolidated revenue of which represents approximately 14% and 13% of the total consolidated revenue for the nine and three months then ended, respectively. In addition, we did not review the condensed interim financial statements of equity-accounted investees, the investment in which amounts to USD 11.698 million as of September 30, 2011, and the share of the Group in their losses is USD 5.893 million and USD 2.355 million for the nine and three months then ended, respectively. The condensed interim financial information of those companies were reviewed by other accountants, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reviews of the other accountants.

### *Review scope*

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

### *Conclusion*

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

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



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

Tel: 04 861 4800  
Fax: 04 861 4844  
website: [www.kpmg.co.il](http://www.kpmg.co.il)

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

1. The contents of Note 6(A) to the financial statements regarding the suits filed against the Company and its subsidiaries for legal proceedings, supervision by government authorities, other contingencies, laws and bills relating to the fuel and gas industry and infrastructure facilities. Based on the opinion of the legal counsel of the Company and its subsidiaries, the Company estimates that, at this stage, it is not possible to assess the aforementioned impact on the financial statements, if any exists, and therefore, no provisions regarding this matter were included in the financial statements.
2. The contents of Note 6(B) and Note 7 to the financial statements regarding the dependency of the Group on services from infrastructure companies and from natural gas suppliers.
3. The contents of Note 2(D) to the financial statements regarding reconciliation and restatement of the consolidated financial statements as of September 30, 2010 and the nine and three months then ended, to reflect the accounting treatment in the agreement for maintaining emergency stockpiles of diesel fuel.

Sincerely,

Somekh Chaikin  
Certified Public Accountants

Haifa, November 20, 2011

**Oil Refineries Ltd.**

**Condensed Consolidated Interim Statement of Financial Position**  
**USD thousands**

	<b>September 30, 2011</b>	<b>September 30, 2010</b>	<b>December 31, 2010</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
<b>Current assets</b>			
Cash and cash equivalents	10,528	31,342	6,704
Deposits	20,044	84,846	126,991
Trade receivables	627,340	501,637	366,227
Other receivables	122,780	73,518	98,241
Financial derivatives	77,498	23,316 (**)	27,577
Investments in financial assets at fair value through comprehensive income	104,491	102,957	106,895
Inventory	1,176,343	1,190,655	1,200,922
Current tax assets	1,553	807	1,819
<b>Total current assets</b>	<b>2,140,577</b>	<b>2,009,078</b>	<b>1,935,376</b>
<b>Non-current assets</b>			
Investments in equity-accounted investees	9,188	16,580	16,455
Financial assets at fair value through other comprehensive income (***)	7,300	11,165	17,701
Loan to Haifa Early Pensions Ltd.	70,640	74,142	77,014
Long term loans and debit balances	1,534	3,701	3,501
Financial derivatives	172,768	172,736 (**)	192,990
Employee benefit plan assets	6,297	10,536	7,922
Deferred tax assets	327	--	688
Property, plant and equipment	2,215,777	1,936,241	2,030,414
Deferred costs	12,075	9,154	12,535
Intangible assets	69,924	82,204	78,950
<b>Total non-current assets</b>	<b>2,565,830</b>	<b>2,316,459</b>	<b>2,438,170</b>
<b>Total assets</b>	<b>4,706,407</b>	<b>4,325,537</b>	<b>4,373,546</b>

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

(\*\*\*) See Note 3(A)(2)(c)

**Yossi Rosen**  
**Chairman, Board of Directors**

**Pinhas Buchris**  
**CEO**

**Igal Salhov**  
**CFO**

Date of approval of the financial statements: **November 20, 2011**

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

**Oil Refineries Ltd.**

**Condensed Consolidated Interim Statement of Financial Position**  
**USD thousands**

	<b>September 30, 2011</b>	<b>September 30, 2010</b>	<b>December 31, 2010</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>	
<b>Current liabilities</b>			
Loans and borrowings	993,206	760,178	773,792
Trade payables	734,303	673,699	619,037
Other payables	89,823	118,225	102,099
Current tax liabilities	23,159	23,828	24,278
Financial derivatives	42,009	56,155 <sup>(**)</sup>	85,443
Provisions	9,633	11,507	9,231
<b>Total current liabilities</b>	<b>1,892,133</b>	<b>1,643,592</b>	<b>1,613,880</b>
<b>Non-current liabilities</b>			
Bank loans	784,584	501,807	624,468
Debentures <sup>(***)</sup>	780,632	869,816	872,421
Liabilities for finance lease	9,335	9,187	9,491
Financial derivatives	15,494	12,655 <sup>(**)</sup>	5,195
Employee benefits	70,845	59,201	70,537
Deferred tax liabilities	63,648	127,360 <sup>(*)</sup>	53,808
<b>Total non-current liabilities</b>	<b>1,724,538</b>	<b>1,580,026</b>	<b>1,635,920</b>
<b>Total liabilities</b>	<b>3,616,671</b>	<b>3,223,618</b>	<b>3,249,800</b>
<b>Capital</b>			
Share capital	586,390	586,390	586,390
Share premium	100,242	100,242	100,242
Reserves <sup>(***)</sup>	88,835	41,103	45,516
Retained earnings <sup>(***)</sup>	314,269	374,184 <sup>(*)</sup>	391,598
<b>Total capital</b>	<b>1,089,736</b>	<b>1,101,919</b>	<b>1,123,746</b>
<b>Total liabilities and capital</b>	<b>4,706,407</b>	<b>4,325,537</b>	<b>4,373,546</b>

(\*) Restated, see Note 2(D)

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

(\*\*\*) See Note 3(A)(2)(c)

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

**Oil Refineries Ltd.**

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

	Nine months ended		Three months ended		Year ended
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010	December 31, 2010
	(Unaudited)		(Unaudited)		(Audited)
<b>Revenue</b>	7,456,394	5,295,924	2,745,717	1,713,114	6,791,809
Cost of sales, refining and services	7,226,447	5,102,206 <sup>(**)</sup>	2,625,760	1,609,507 <sup>(**)</sup>	6,561,599
Revaluation of open positions in derivatives on prices of goods and margins, net	30,311	859 <sup>(*)</sup>	79,050	36,627 <sup>(*)</sup>	32,052
<b>Total cost of sales</b>	7,256,758	5,103,065	2,704,810	1,646,134	6,593,651
<b>Gross profit</b>	199,636	192,859	40,907	66,980	198,158
Selling and marketing expenses	77,959	80,073 <sup>(**)</sup>	27,673	24,078 <sup>(**)</sup>	99,282
General and administrative expenses	39,384	43,331 <sup>(**)</sup>	8,489	10,048 <sup>(**)</sup>	57,955
<b>Operating profit</b>	82,293	69,455	4,745	32,854	40,921
Financing income	20,844	87,632	(14,460)	28,355	89,330
Financing expenses	(89,756)	(115,894)	(6,801)	(48,178)	(140,439)
Financing expenses, net	(68,912)	(28,262)	(21,261)	(19,823)	(51,109)
Company's share in earnings (losses) of equity accounted investees, net of tax	(8,404)	600	(4,866)	258	476
<b>Profit (loss) before taxes on income</b>	4,977	41,793	(21,382)	13,289	(9,712)
Tax benefits (income tax)	(14,450)	8,030 <sup>(*)</sup>	(3,262)	9,804 <sup>(*)</sup>	82,781
<b>Profit (loss) for the period</b>	<b>(9,473)</b>	<b>49,823</b>	<b>(24,644)</b>	<b>23,093</b>	<b>73,069</b>
<b>Items of other comprehensive income (loss)</b>					
Actuarial gains (losses) from a defined benefit plan, net of tax	(403)	108	(485)	212	(5,724)
Foreign currency translation differences for foreign operations	336	(176)	(483)	642	(309)
Effective share of the change in fair value of cash flow hedging, net of tax	(2,973)	4,995	(1,992)	4,995	3,529
Change in fair value of financial assets at fair value through other comprehensive income, net of tax <sup>(***)</sup>	(9,153)	210	(4,390)	1,669	6,143
Net change in fair value of debentures designated at fair value through comprehensive income, attributable to change in credit risk, net of tax <sup>(***)</sup>	34,979	--	33,003	--	--
<b>Other comprehensive income for the period, net of tax</b>	<b>22,786</b>	<b>5,137</b>	<b>25,653</b>	<b>7,518</b>	<b>3,639</b>
<b>Comprehensive income for the period</b>	<b>13,313</b>	<b>54,960</b>	<b>1,009</b>	<b>30,611</b>	<b>76,708</b>
<b>Earnings (loss) per share (USD)</b>					
Basic and diluted earnings (loss) per ordinary share	(0.004)	0.020 <sup>(*)</sup>	(0.010)	0.009 <sup>(*)</sup>	0.030

(\*) Restated, see Note 2(D)

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

(\*\*\*) See Note 3(A)(2)(c)

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

Oil Refineries Ltd.

Condensed Consolidated Interim Statement of Changes in Equity  
USD thousands

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial instruments at fair value through other comprehensive income (***)	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value (***)	Retained earnings	Total capital
Nine months ended September 30, 2011										
<b>Balance at January 1, 2011 (audited)</b>	<b>586,390</b>	<b>100,242</b>	<b>6,406</b>	<b>(1,310)</b>	<b>8,413</b>	<b>28,478</b>	<b>3,529</b>	<b>--</b>	<b>391,598</b>	<b>1,123,746</b>
Cumulative effect of initial application of IFRS 9 at January 1, 2011 (***)	--	--	--	--	--	--	--	20,130	(67,453)	(47,323)
<b>Balance at January 1, 2011 subsequent to initial application of IFRS 9</b>	<b>586,390</b>	<b>100,242</b>	<b>6,406</b>	<b>(1,310)</b>	<b>8,413</b>	<b>28,478</b>	<b>3,529</b>	<b>20,130</b>	<b>324,145</b>	<b>1,076,423</b>
<u>Comprehensive loss for the period:</u>										
Loss for the period	--	--	--	--	--	--	--	--	(9,473)	(9,473)
<u>Other comprehensive income (loss):</u>										
Actuarial losses from a defined benefit plan, net of tax	--	--	--	--	--	--	--	--	(403)	(403)
Foreign currency translation differences for foreign operations	--	--	--	336	--	--	--	--	--	336
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	(2,973)	--	--	(2,973)
Change in fair value of financial assets through other comprehensive income, net of tax (***)	--	--	--	--	(9,153)	--	--	--	--	(9,153)
Net change in fair value of debentures designated at fair value through comprehensive income, attributable to change in credit risk, net of tax (***)	--	--	--	--	--	--	--	34,979	--	34,979
Total other comprehensive income (loss) for the period, net of tax	--	--	--	336	(9,153)	--	(2,973)	34,979	(403)	22,786
<b>Total other comprehensive income (loss) for the period</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>336</b>	<b>(9,153)</b>	<b>--</b>	<b>(2,973)</b>	<b>34,979</b>	<b>(9,876)</b>	<b>13,313</b>
<b>Balance at September 30, 2011 (unaudited)</b>	<b>586,390</b>	<b>100,242</b>	<b>6,406</b>	<b>(974)</b>	<b>(740)</b>	<b>28,478</b>	<b>556</b>	<b>55,109</b>	<b>314,269</b>	<b>1,089,736</b>

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

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

Oil Refineries Ltd.

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

USD thousands

	Attributable to owners of the Company										
	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for available-for-sale financial assets	Capital reserve	Hedge fund	Retained earnings	Total owners' equity	Non-controlling interests	Total capital
	Nine months ended September 30, 2010										
<b>Balance at January 1, 2010 (audited)</b>	<b>586,390</b>	<b>100,242</b>	<b>5,824</b>	<b>(1,001)</b>	<b>2,270</b>	<b>28,478</b>	<b>--</b>	<b>399,253</b>	<b>1,121,456</b>	<b>17,183</b>	<b>1,138,639</b>
<u>Comprehensive income for the period:</u>											
Profit for the period	--	--	--	--	--	--	--	49,823 (*)	49,823	--	49,823
<u>Other comprehensive income (loss):</u>											
Actuarial losses from a defined benefit plan, net of tax	--	--	--	--	--	--	--	108	108	--	108
Foreign currency translation differences for foreign operations	--	--	--	(176)	--	--	--	--	(176)	--	(176)
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	4,995	--	4,995	--	4,995
Change in fair value of financial assets through other comprehensive income, net of tax	--	--	--	--	210	--	--	--	210	--	210
Total other comprehensive income (loss) for the period, net of tax	--	--	--	(176)	210	--	4,995	108	5,137	--	5,137
<b>Total other comprehensive income (loss) for the period</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(176)</b>	<b>210</b>	<b>--</b>	<b>4,995</b>	<b>49,931</b>	<b>54,960</b>	<b>--</b>	<b>54,960</b>
<b>Dividend paid</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(75,000)</b>	<b>(75,000)</b>	<b>--</b>	<b>(75,000)</b>
<b>Share-based payment</b>	<b>--</b>	<b>--</b>	<b>503</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>503</b>	<b>--</b>	<b>503</b>
<b>Acquisition of non-controlling interests in a subsidiary</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(17,183)</b>	<b>(17,183)</b>
<b>Balance at September 30, 2010 (unaudited)</b>	<b>586,390</b>	<b>100,242</b>	<b>6,327</b>	<b>(1,177)</b>	<b>2,480</b>	<b>28,478</b>	<b>4,995</b>	<b>374,184</b>	<b>1,101,919</b>	<b>--</b>	<b>1,101,919</b>

(\*) Restated, see Note 2(D)

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

Oil Refineries Ltd.

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

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial instruments at fair value through other comprehensive income (***)	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value (***)	Retained earnings	Total capital
Three months ended September 30, 2011										
(Unaudited)										
<b>Balance at July 1, 2011</b>	<b>586,390</b>	<b>100,242</b>	<b>6,406</b>	<b>(491)</b>	<b>3,650</b>	<b>28,478</b>	<b>2,548</b>	<b>22,106</b>	<b>339,398</b>	<b>1,088,727</b>
<u>Comprehensive loss for the period:</u>										
Loss for the period	--	--	--	--	--	--	--	--	(24,644)	(24,644)
<u>Other comprehensive income (loss):</u>										
Actuarial losses from a defined benefit plan, net of tax	--	--	--	--	--	--	--	--	(485)	(485)
Foreign currency translation differences for foreign operations	--	--	--	(483)	--	--	--	--	--	(483)
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	(1,992)	--	--	(1,992)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax (***)	--	--	--	--	(4,390)	--	--	--	--	(4,390)
Net change in fair value of debentures designated at fair value through comprehensive income, attributable to change in credit risk, net of tax (***)	--	--	--	--	--	--	--	33,003	--	33,003
Total other comprehensive income (loss) for the period, net of tax	--	--	--	(483)	(4,390)	--	(1,992)	33,003	(485)	25,653
<b>Total other comprehensive income (loss) for the period</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(483)</b>	<b>(4,390)</b>	<b>--</b>	<b>(1,992)</b>	<b>33,003</b>	<b>(25,129)</b>	<b>1,009</b>
<b>Balance at September 30, 2011</b>	<b>586,390</b>	<b>100,242</b>	<b>6,406</b>	<b>(974)</b>	<b>(740)</b>	<b>28,478</b>	<b>556</b>	<b>55,109</b>	<b>314,269</b>	<b>1,089,736</b>

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

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

Oil Refineries Ltd.

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

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for available-for-sale financial assets	Capital reserve	Hedge fund	Retained earnings	Total capital
	Three months ended September 30, 2010								
	(Unaudited)								
<b>Balance at July 1, 2010</b>	<b>586,390</b>	<b>100,242</b>	<b>6,166</b>	<b>(1,819)</b>	<b>811</b>	<b>28,478</b>	<b>--</b>	<b>350,879 (*)</b>	<b>1,071,147</b>
Comprehensive income for the period:									
Profit for the period	--	--	--	--	--	--	--	23,093 (*)	23,093
<u>Other comprehensive income:</u>									
Actuarial gains from a defined benefit plan, net of tax	--	--	--	--	--	--	--	212	212
Foreign currency translation differences for foreign operations	--	--	--	642	--	--	--	--	642
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	4,995	--	4,995
Change in fair value of financial assets through other comprehensive income, net of tax	--	--	--	--	1,669	--	--	--	1,669
Other comprehensive income for the period, net of tax	--	--	--	642	1,669	--	4,995	212	7,518
<b>Total comprehensive income for the period</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>642</b>	<b>1,669</b>	<b>--</b>	<b>4,995</b>	<b>23,305</b>	<b>30,611</b>
<b>Share-based payment</b>	<b>--</b>	<b>--</b>	<b>161</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>161</b>
<b>Balance at September 30, 2010</b>	<b>586,390</b>	<b>100,242</b>	<b>6,327</b>	<b>(1,177)</b>	<b>2,480</b>	<b>28,478</b>	<b>4,995</b>	<b>374,184</b>	<b>1,101,919</b>

(\*)Restated, see Note 2(D)

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

Oil Refineries Ltd.

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

	Attributable to owners of the Company							Total owners' equity	Non-controlling interests	Total capital	
	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for available-for-sale financial assets	Capital reserve	Hedge fund				Retained earnings
	Year ended December 31, 2010										
	(Audited)										
<b>Balance at January 1, 2010</b>	<b>586,390</b>	<b>100,242</b>	<b>5,824</b>	<b>(1,001)</b>	<b>2,270</b>	<b>28,478</b>	<b>--</b>	<b>399,253</b>	<b>1,121,456</b>	<b>17,183</b>	<b>1,138,639</b>
Comprehensive income for the period:											
Profit for the period	--	--	--	--	--	--	--	73,069	73,069	--	73,069
<i>Other comprehensive income (loss):</i>											
Actuarial losses from a defined benefit plan, net of tax	--	--	--	--	--	--	--	(5,724)	(5,724)	--	(5,724)
Foreign currency translation differences for foreign operations	--	--	--	(309)	--	--	--	--	(309)	--	(309)
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	3,529	--	3,529	--	3,529
Change in fair value of financial assets through other comprehensive income, net of tax	--	--	--	--	6,143	--	--	--	6,143	--	6,143
Total other comprehensive income (loss) for the period, net of tax	--	--	--	(309)	6,143	--	3,529	(5,724)	3,639	--	3,639
<b>Total comprehensive income for the period</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(309)</b>	<b>6,143</b>	<b>--</b>	<b>3,529</b>	<b>67,345</b>	<b>76,708</b>	<b>--</b>	<b>76,708</b>
<b>Dividend declared</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(75,000)</b>	<b>(75,000)</b>	<b>--</b>	<b>(75,000)</b>
<b>Share-based payment</b>	<b>--</b>	<b>--</b>	<b>582</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>582</b>	<b>--</b>	<b>582</b>
<b>Acquisition of non-controlling interests in a subsidiary</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(17,183)</b>	<b>(17,183)</b>
<b>Balance at December 31, 2010</b>	<b>586,390</b>	<b>100,242</b>	<b>6,406</b>	<b>(1,310)</b>	<b>8,413</b>	<b>28,478</b>	<b>3,529</b>	<b>391,598</b>	<b>1,123,746</b>	<b>--</b>	<b>1,123,746</b>

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

**Oil Refineries Ltd.**

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

	Nine months ended		Three months ended		Year ended
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
<b>Cash flow from operating activities</b>					
Profit (loss) for the period	(9,473)	49,823 (*)	(24,644)	23,093 (*)	73,069
<b>Adjustments to cash flows from operating activities</b>					
Revenue and expenses not involving cash flows (Appendix A – section A)	90,939	97,373 (*)	24,271	81,379 (*)	107,575
	81,466	147,196	(373)	104,472	180,644
Changes in assets and liabilities (Appendix A - section B)	(129,501)	(224,241)	(285,850)	(115,471)	(202,592)
Net income tax received (paid)	(1,946)	29,523	(1,269)	30,124	28,375
<b>Net cash from (used in) operating activities</b>	<b>(49,981)</b>	<b>(47,522)</b>	<b>(287,492)</b>	<b>19,125</b>	<b>6,427</b>
<b>Cash flow for investment activities</b>					
Interest received	3,377	7,677	557	2,680	7,153
Decrease (increase) in deposit, net	106,989	(6,648)	25,808	(19,225)	(65,646)
Dividend received from investees	122	67	--	--	67
Investment in associates	(1,259)	(2,373)	--	--	(2,373)
Disposal of investments in financial assets, net	--	12,304	--	54	12,253
Repayment of long-term loans from others, net	274	468	280	203	507
Repayment of loan from Haifa Early Pensions Ltd.	5,916	12,627	--	--	12,627
Purchase of property, plant and equipment	(282,571)	(133,926)	(104,172)	(54,640)	(228,224)
Purchase of intangible assets and deferred expenses	(212)	(457)	(13)	1,253	(1,305)
<b>Net cash used in investing activities</b>	<b>(167,364)</b>	<b>(110,261)</b>	<b>(77,540)</b>	<b>(69,675)</b>	<b>(264,941)</b>

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

**Oil Refineries Ltd.**

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

	Nine months ended		Three months ended		Year ended
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
<b>Cash flow from financing activities</b>					
Short-term borrowing, net	146,802	157,655	409,718	(107,713)	145,023
Receipt (return) of deposits from customers, net	(18,614)	26,140	2,489	274	26,215
Interest paid	(57,054)	(43,554)	(11,374)	(11,918)	(70,146)
Transactions in derivatives, net	5,547	4,331	(456)	(1,494)	9,618
Long-term bank loans	266,467	240,000	--	240,000	396,724
Repayment of long-term bank loans	(94,708)	(93,429)	(31,807)	(31,229)	(124,687)
Repayment of debentures	(22,963)	(20,901)	(7,353)	(7,206)	(28,381)
Costs of raising credit	(5,535)	(10,611)	(179)	(3,538)	(13,874)
Acquisition of non-controlling interests	--	(17,183)	--	--	(17,183)
Payment for acquisition of the balance of subsidiary shares	--	(13,615)	--	(13,615)	(13,615)
Dividend paid	--	(75,000)	--	--	(79,931)
<b>Net cash from financing activities</b>	219,942	153,833	361,038	63,561	229,763
Net increase (decrease) in cash and cash equivalents	2,597	(3,950)	(3,994)	13,011	(28,751)
Effect of exchange rate fluctuations on cash and cash equivalents	1,227	331	103	(941)	494
Cash and cash equivalents at beginning of the period	6,704	34,961	14,419	19,272	34,961
<b>Cash and cash equivalents at the end of the period</b>	10,528	31,342	10,528	31,342	6,704

(\*) Restated, see Note 2(D)

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

**Oil Refineries Ltd.**

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

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

	Nine months ended		Three months ended		Year ended
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010	December 31, 2010
	(Unaudited)		(Unaudited)		(Audited)
<b>A. Income and expenses not included in the cash flow</b>					
Depreciation and amortization	98,819	99,244	33,219	30,476	119,271
Financing expenses, net	57,230	14,796	16,821	31,099	40,039
Net changes in fair value of derivatives	(91,833)	5,860 (*)	(45,629)	41,633 (*)	35,274
Changes in fair value of the loan to Haifa Early Pensions Ltd.	1,507	(5,612)	4,478	(4,888)	(8,512)
Share in the losses (profits) of equity-accounted investees	8,404	(600)	4,866	(258)	(476)
Loss (profit) from deposits and investments in financial assets, net	2,362	(8,788)	7,254	(7,040)	4,178
Share-based payments	--	503	--	161	582
Income tax (tax benefit)	14,450	(8,030) (*)	3,262	(9,804) (*)	(82,781)
	90,939	97,373	24,271	81,379	107,575
<b>B. Changes in assets and liabilities</b>					
Decrease (increase) in trade receivables	(268,038)	(140,849)	45,425	(27,834)	(5,716)
Increase in other receivables	(26,911)	(21,756)	(18,896)	(7,288)	(46,913)
Decrease (increase) in inventory	24,570	(182,932)	6,382	(184,486)	(185,552)
Increase (decrease) in trade payables	121,100	140,149	(319,381)	113,898	58,326
Increase (decrease) in other payables and provisions	18,915	(14,214)	1,385	(6,388)	(25,132)
Increase (decrease) in employee benefits, net	863	(4,639)	(765)	(3,373)	2,395
	(129,501)	(224,241)	(285,850)	(115,471)	(202,592)

(\*) Restated, see Note 2(D)

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

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

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**NOTE 1 – GENERAL**

**A. Reporting entity**

- 1) Oil Refineries Ltd. (“the Company” or “ORL”) is a company domiciled and incorporated in Israel. The Company is located in Haifa Bay and its official address is POB 4, Haifa 31000. The Company’s shares are traded on the Tel Aviv Stock Exchange (“TASE”). The Company and its subsidiaries are industrial companies which operate in Israel and are engaged primarily in the production of oil products, feedstock for the petrochemical industry, materials for the plastics industry, oils, waxes and byproducts. The facilities of the subsidiaries are integrated with those of the Company. The Company also provides water treatment and power generation services (primarily electricity and steam) to a number of industries adjacent to the Haifa refinery.
- 2) The Group’s condensed consolidated interim financial statements as of September 30, 2011 include the Company’s statements as well as those of its subsidiaries (jointly: “the Group”) and the Group’s interests in associates.

**NOTE 2 - BASIS OF PREPARATION**

**A. Statement of compliance**

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and do not include all of the information required for full annual financial statements. These statements should be read together with the financial statements as of December 31, 2010 and the year then ended (“the Annual Statements”), as republished on November 20, 2011. Additionally, these statements were prepared in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed consolidated interim financial statements were approved by the Company’s Board of Directors on November 20, 2011.

**B. Use of estimates and judgments**

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

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

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

The policy of the Board of Directors and management is consistent with the policy applied in the Annual Statements. The Company and its subsidiaries are subject to compliance with financial covenants (see Note 14(C) to the Annual Statements).

For the compliance of the Company and its subsidiaries with the financial covenants, see Note 9.

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

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

**D. Reclassification and restatement**

**1) Reclassification**

- A) Current maturities of financial derivatives at September 30, 2010 that were previously presented as non-current assets and non-current liabilities were reclassified to current assets and current liabilities.
- B) Some of the comparative figures in the statement of comprehensive income for the nine and three months ended September 30, 2010 were reclassified in order to adjust their presentation method to the presentation in the statement of comprehensive income for the nine and three months ended September 30, 2011.

**2) Restatement**

During the management's review of inventory levels, the Company discovered that in 2002, while it was still a government-owned company, an agreement was signed with the State of Israel to maintain emergency stockpiles of diesel fuel ("Emergency Stockpiles"), which currently amounts to 44,000 tons. The agreement was amended in 2004 and 2005 and has been extended or amended from time to time since then, with certain adjustments. As of the reporting date, the agreement is valid until the end of 2011 ("the Agreement"). The Agreement is not reflected in the Company's financial statements, including those in the Company's privatization prospectus of February 2007.

According to the Agreement, ORL undertook to hold the amount of Emergency Stockpiles defined in the Agreement for immediate use by the State or to any other entity so instructed, during an emergency (as defined in the Agreement), and in this case, the State will pay ORL the dollar value of the stockpiles at the ORL gate price in November 2002 with certain adjustments ("the Fixed Price"). As of the reporting date, the Fixed Price is USD 241 per ton. In return for storing the Emergency Stockpiles, the State pays ORL its expenses as set out in the Agreement. In addition, at the end of the term of the Agreement, accounts will be settled between the parties. If the ORL gate price of the Emergency Stockpiles at the end of the term of the Agreement is higher than the Fixed Price, ORL will pay the difference to the State. If the ORL gate price of the Emergency Stockpiles is lower than the Fixed Price at the end of the term of the Agreement, the State will pay the difference to ORL.

The Company assessed the accounting implications of the Agreement and determined that the Agreement is within the scope of IFRS 9 (2010), *Financial Instruments* and it fulfills the definition of a derivative, since according to the Agreement, the Company is required to sell diesel fuel to the State at the Fixed Price, and if this sale is not made, at the end of the term of the Agreement, the Company will receive from or pay the State, in cash, the difference between the ORL gate price of the Emergency Stockpiles at the end of the term of the Agreement and the Fixed Price. Accordingly, the Company restated its financial statements as of September 30, 2010 to reflect the measuring of the right or liability of the Company by virtue of the Agreement at fair value through profit or loss in each reporting period.

**Oil Refineries Ltd.**

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

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

**D Reclassification and restatement (contd.)**

**3) Effect of restatement and reclassification on the relevant items**

**Effect on the statement of financial position**

	September 30, 2010			As reported in these financial statements
	As previously reported	Effect of reclassification	Effect of restatement	
<b>Current assets</b>				
Financial derivatives	--	23,316	--	23,316
<b>Non-current assets</b>				
Financial derivatives	196,052	(23,316)	--	172,736
<b>Current liabilities</b>				
Financial derivatives	(27,585)	(7,217)	(21,353)	(56,155)
<b>Non-current liabilities</b>				
Financial derivatives	(19,872)	7,217	--	(12,655)
Deferred tax liabilities	(132,058)	--	4,698	(127,360)
<b>Capital</b>				
Retained earnings	(390,839)	--	16,655	(374,184)

**Oil Refineries Ltd.**

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

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

**D Reclassification and restatement (contd.)**

**3) Effect of restatement and reclassification on the relevant items (contd.)**

**Effect on the statement of comprehensive income**

	<b>Nine months ended September 30, 2010</b>			
	<b>Unaudited</b>			<b>As reported in these financial statements</b>
	<b>As previously reported</b>	<b>Effect of reclassification</b>	<b>Effect of restatement</b>	
Cost of sales, refining and services	(5,099,596)	(2,610)	--	(5,102,206)
Income (expenses) for revaluation of open positions in derivatives on prices of goods and margins, net	3,216	--	(4,075)	(859)
Selling and marketing expenses	(80,117)	44	--	(80,073)
General and administrative expenses	(45,897)	2,566	--	(43,331)
Tax benefit	7,322	--	708	8,030
Profit for the period	53,190	--	(3,367)	49,823
Basic and diluted earnings per ordinary share (USD)	0.022	--	(0.002)	0.020
	<b>Three months ended September 30, 2010</b>			
	<b>Unaudited</b>			<b>As reported in these financial statements</b>
	<b>As previously reported</b>	<b>Effect of reclassification</b>	<b>Effect of restatement</b>	
Cost of sales, refining and services	(1,609,393)	(114)	--	(1,609,507)
Expenses for revaluation of open positions in derivatives on prices of goods and margins, net	(34,816)	--	(1,811)	(36,627)
Selling and marketing expenses	(24,243)	165	--	(24,078)
General and administrative expenses	(9,997)	(51)	--	(10,048)
Tax benefit	9,406	--	398	9,804
Profit for the period	24,506	--	(1,413)	23,093
Basic and diluted earnings per ordinary share (USD)	0.010	--	(0.001)	0.009

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

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**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES**

The Group's accounting policy in these condensed consolidated interim statements is the same policy applied in the Annual Statements, other than those set out in section A below.

**A. Initial application of new standards**

**1) Interim financial reporting**

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

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

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

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

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

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

**A) Non-derivative financial instruments**

Initial recognition of financial assets

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

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

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

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

**A. Initial application of new standards (contd.)**

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

**A) Non-derivative financial instruments (contd.)**

Financial assets measured at amortized cost

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

Financial assets measured at fair value

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

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

**B) Non-derivative financial liabilities**

The Group initially recognizes debt instruments as they are incurred. All other financial liabilities are initially recognized at the trade date when the Company becomes party to the contractual provisions of the instrument.

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is settled or annulled.

Financial liabilities (other than financial liabilities designated at fair value through profit or loss as detailed below) are initially recognized at fair value plus all attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

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

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

A. Initial application of new standards (contd.)

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

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

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

	Original classification according to IAS 39	Reclassified according to IFRS 9	Original carrying amount according to IAS 39	New carrying amount according to IAS 9
USD thousands				
<b>Financial assets</b>				
Cash and cash equivalents, deposits, trade and other receivables	Loans and receivables	Financial assets at amortized cost		Unchanged
Investments in financial assets through other comprehensive income (**)	Available-for-sale financial assets	Fair value through other comprehensive income		Unchanged
<b>Financial liabilities</b>				
Debentures designated at fair value through comprehensive income (***)	Amortized cost	Financial liabilities designated at fair value through comprehensive income	826,184	884,391

(2) Effect on capital at January 1, 2011

	Retained earnings	Capital reserve for financial liabilities designated at fair value	Total
USD thousands			
<b>Balance prior to the effect of change in accounting policy</b>	391,598	--	391,598
Effect of change in accounting policy Financial liabilities measured at amortized cost and designated at fair value through comprehensive income, net of tax (*) (***)	(67,453)	20,130	(47,323)
<b>Balance after the effect of change in accounting policy</b>	324,145	20,130	344,275

(\*) The effect of initial application of IFRS 9 (2010) on the opening balance of deferred taxes as of January 1, 2011 is reflected in a tax asset of USD 7.642 million. Of this amount, a tax asset of USD 10.883 million was attributed to retained earnings and a tax reserve of USD 3.241 million was attributed to capital reserve for financial liabilities designated at fair value.

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

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

**A. Initial application of new standards (contd.)**

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

**C) Effect of initial application of the Standard, at the date of initial application:  
(contd.)**

(\*\*) The Group intends to maintain this capital investment in the long term. Accordingly, upon initial application of the Standard, the Group elected to designate these assets at fair value through other comprehensive income.

(\*\*\*) Upon first-time application, the Group elected to designate part of its marketable CPI-linked NIS debentures against which the Group holds futures contracts for converting the contractual cash flows from the debentures to USD-based cash flows at variable interest, at fair value through profit or loss

The objective of this designation is to significantly reduce accounting mismatch from measurement of related currency- and interest-swap contracts at fair value through profit or loss, while up to December 31, 2010, these debentures were measured at amortized cost.

Upon initial application, the Group assessed whether recognizing the change in fair value attributable to the Company's credit risk in other comprehensive income, according to the default model prescribed by the Standard, would create or aggravate accounting mismatch in profit or loss. The Group found that the change in fair value should be recognized in other comprehensive income, since a change in fair value of the futures contracts, which was determined using the applicable projected risk-free interest rate ("the Benchmark Interest Rate"), significantly offset changes to the fair value of debentures arising from changes in the Benchmark Interest Rate. Other fair value changes of debentures arising mainly from changes in the Group's credit risk, do not have the same effect on the fair value of the futures contracts. Accordingly, recognizing changes to fair value attributable to credit risk changes in other comprehensive income does not create or aggravate accounting mismatch in profit or loss. Therefore, changes in the fair value of the debentures, attributable to changes in credit risk, are recognized in other comprehensive income as from January 1, 2011.

The Group has elected to measure changes in the fair value of these debentures, attributable to changes in credit risk, as the amount of the change in fair value that is not attributable to changes in market conditions arising from identifiable market risks (attributable mainly to the Benchmark Interest Rate, the CPI and the exchange rate), as follows:

- (1) The Group calculated the internal rate of return of the debentures at the issue date, at their fair value (based on the quoted price of the debentures on the TASE), and their cash flows at that date. The Group deducted the Benchmark Interest Rate at the issue date from this internal rate of return, to achieve the specific component attributable to the credit risk of the debentures at that date.
- (2) Upon initial application and in each subsequent reporting period, the Group calculates the present value of the debentures by discounting their cash flows at the relevant date, using the Benchmark Interest Rate for that date plus the component attributable to the credit risk as calculated in section (1) above.

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

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****A. Initial application of new standards (contd.)****2) Early application of IFRS 9 (2010), *Financial Instruments* (contd.)****C) Effect of initial application of the Standard, at the date of initial application: (contd.)**

- (3) The difference between the fair value of the liabilities at the date of initial application and in each subsequent reporting period, based as aforesaid on the quoted price of the debentures on the TASE, and the amount calculated in section (2) above, is the amount attributable to credit risk and recognized in other comprehensive income, as aforesaid. The Group believes that this method for determining the change in fair value attributable to the credit risk is appropriate, since the only significant change in market conditions attributable to the debentures is due to changes in the Benchmark Interest Rate.

**D) Difference between the carrying amount of the financial liabilities designated at fair value and the amount to be paid upon maturity:**

	Carrying amount	Amount to be paid upon maturity	Difference
	USD thousands		
<b>Balance at January 1, 2011</b>	884,391	828,443	55,948
<b>Balance at September 30, 2011</b>	822,469	817,089	5,380

**B. New standards and interpretations not yet adopted****1) IFRS 10, *Consolidated Financial Statements* ("the Standard")**

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

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

Main changes:

- The Standard presents a model requiring judgment and analysis of all relevant facts and circumstances when assessing control and the need to determine who controls an investee.
- The Standard presents a single model of control that will be applied for all investees, whether in the scope of IAS 27 or SIC 12.
- De facto circumstances will be taken into account in assessing control, meaning consolidation of statements is required if there is effective control.
- When assessing control, all the substantive potential voting rights are taken into account. Reference should be made to the structure, reasons for the rights and terms of the potential voting rights.
- The Standard provides guidance for application and a list of indicators for assessing whether a decision maker is acting as a principal or as an agent when determining whether an investor controls the investee.

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

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

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

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

- The Standard provides guidance for those cases where an investor will assess control through silos so that the assessment will be for specific assets.
- The Standard defines protective rights, which is not defined in existing standards.
- Exposure to risks and benefits through an investee does not in itself determine that an investor controls an investee, but is one of the factors to be examined when assessing control

The Standard is effective retrospectively for annual periods commencing on or after January 1, 2013 (other than for certain exemptions). Early application is permitted, subject to disclosure and early adoption of the entire set of new standards, including the two other standards that were published at the same time: IFRS 11, *Joint Arrangements* and IFRS 12, *Disclosure of Involvement with Other Entities*. The Group has yet to assess the expected implications of adoption of the Standard on the Group's financial statements.

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

The Standard supersedes the guidelines for fair value measurement in other IFRSs and will serve as a single source for fair value measurement under IFRS. For this purpose, the Standard defines fair value, provides guidelines for fair value measurement and determines disclosure requirements for fair value measurement. The Standard does not prescribe new requirements for fair value measurement of assets or liabilities.

The Standard applies to assets, liabilities and equity instruments of an entity which are required or permitted to be measured at fair value or for which fair value disclosure has been made according to relevant IFRSs. However, the Standard does not apply to share-based payments within the scope of IFRS 2, *Share-based Payment* or to leasing transactions within the scope of IAS 17, *Leases*. Furthermore, the Standard does not apply to measurements that are similar to fair value but are not fair value (such as net realizable value of inventory).

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

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

**3) Amendment to IAS 1, *Presentation of Financial Statements* regarding presentation of items of other comprehensive income ("the Amendment")**

The Amendment changes the presentation of items of other comprehensive in financial statements, so that items of other comprehensive income which after initial recognition as comprehensive income are to be transferred to profit or loss, will be presented separately from items of other comprehensive income which are never transferred to profit or loss. The Amendment also renames the statement from "statement of comprehensive income" to "statement of income and other comprehensive income". However, companies may use other names. The Amendment is effective retrospectively for annual periods commencing on or after July 1, 2012. Early adoption is permitted, with disclosure.

Application of the Amendment is not expected to have a material effect on the Group's financial statements.

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

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

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

**4) Amendment to IAS 19, *Employee Benefits* ("the Amendment")**

The Amendment includes a number of revisions to accounting guidelines for employee benefits.

**Main points of the revisions:**

- The Amendment eliminates the option to defer recognition of actuarial gains or losses (the corridor method), and eliminates the option to recognize actuarial gains or losses directly in profit or loss. Consequently, all actuarial gains or losses are recognized immediately in equity through other comprehensive income.
- The Amendment requires immediate recognition of past service costs regardless of whether or not the benefits have vested
- Net financing income (expenses) are calculated by multiplying the net defined benefit liability (asset) by the discount rate used to measure the defined benefit liability. Accordingly, the calculation of actuarial gains or losses has also changed.
- The Amendment changes the definition for short term employee benefits and other long term employee benefits so that instead of classifying benefits as long term or short term according to the entitlement period, classification will be based on the entity's expectations regarding the time of the benefit's full utilization.
- Disclosure requirements were added for defined benefit plans, to provide more comprehensive information about the characteristics of defined benefit plans and the risks associated with these plans.
- According to the Amendment, termination benefits will be recognized at the earlier of the following dates: when the entity recognizes costs for restructuring within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, including payment of termination benefits; and when the entity can no longer withdraw the offer of those benefits.

The Amendment is effective retrospectively for annual periods commencing on or after January 1, 2013 (other than certain exemptions set out in the Amendment). Early adoption is permitted, with disclosure.

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

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

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

**C. Exchange rates and linkage:**

Dollar and euro exchange rates and the CPI:

As of	Representative exchange rate of USD 1	EUR-USD exchange rate	CPI in points (*)
September 30, 2011	3.712	1.359	120.37
September 30, 2010	3.665	1.361	116.95
December 31, 2010	3.549	1.335	117.82

(\*) CPI on average basis 100 = 2002

<u>Rate of change in the period ended</u>	<u>%</u>	<u>%</u>	<u>%</u>
September 30, 2011 (9 months)	4.59	1.77	2.17
September 30, 2011 (3 months)	8.70	(6.15)	--
September 30, 2010 (9 months)	(2.91)	(5.60)	1.90
September 30, 2010 (3 months)	(5.42)	10.85	1.23
December 31, 2010 (12 months)	(5.99)	(7.39)	2.66

**NOTE 4 – SEGMENT REPORTING**

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

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

Oil Refineries Ltd.

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Petrochemicals												Consolidated	
	Refining		Trade		Polymers		Aromatics		Oils		Adjustments to consolidated (**)			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Nine months ended September 30 (unaudited)													
Revenue from external sources	5,740,015	3,950,820	166,097	130,203	930,450	772,453	537,292	383,208	82,540	59,240	--	--	7,456,394	5,295,924
Revenue from inter-segment sales	1,034,583	735,412	--	--	--	--	45,273	30,685	--	--	(1,079,856)	(766,097)	--	--
Segment revenue	<u>6,774,598</u>	<u>4,686,232</u>	<u>166,097</u>	<u>130,203</u>	<u>930,450</u>	<u>772,453</u>	<u>582,565</u>	<u>413,893</u>	<u>82,540</u>	<u>59,240</u>	<u>(1,079,856)</u>	<u>(766,097)</u>	<u>7,456,394</u>	<u>5,295,924</u>
EBITDA	<u>73,862</u>	<u>61,967(*)</u>	<u>(18,678)</u>	<u>(12,631)</u>	<u>74,605</u>	<u>91,419</u>	<u>40,471</u>	<u>24,251</u>	<u>11,068</u>	<u>8,634</u>	<u>(216)</u>	<u>(4,941)</u>	<u>181,112</u>	<u>168,699</u>
Operating profit (loss) for segments	<u>36,684</u>	<u>31,019(*)</u>	<u>(18,678)</u>	<u>(12,631)</u>	<u>40,039</u>	<u>56,989</u>	<u>34,774</u>	<u>20,051</u>	<u>10,092</u>	<u>7,735</u>	<u>(216)</u>	<u>(4,941)</u>	<u>102,695</u>	<u>98,222</u>
Amortization of excess cost arising on acquisition of subsidiaries													<u>(20,402)</u>	<u>(28,767)</u>
Operating profit													82,293	69,455
Financing expenses, net													(68,912)	(28,262)
Company's share in earnings (losses) of equity-accounted investees, net of tax													<u>(8,404)</u>	<u>600</u>
Profit before income tax													<u>4,977</u>	<u>41,793</u>

(\*) Restated, see Note 2(D)

(\*\*) The adjustments include elimination of revenue and profit for inter-segment transactions.

Oil Refineries Ltd.

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Petrochemicals												Consolidated	
	Refining		Trade		Polymers		Aromatics		Oils		Adjustments to consolidated (**)			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Three months ended September 30 (unaudited)													
Revenue from external sources	2,153,276	1,305,687	37,365	34,404	315,440	237,458	209,934	115,415	29,702	20,150	--	--	2,745,717	1,713,114
Revenue from inter-segment sales	371,746	247,977	--	--	--	--	22,873	8,406	--	--	(394,619)	(256,383)	--	--
Segment revenue	<u>2,525,022</u>	<u>1,553,664</u>	<u>37,365</u>	<u>34,404</u>	<u>315,440</u>	<u>237,458</u>	<u>232,807</u>	<u>123,821</u>	<u>29,702</u>	<u>20,150</u>	<u>(394,619)</u>	<u>(256,383)</u>	<u>2,745,717</u>	<u>1,713,114</u>
EBITDA	14,901	21,414 (*)	(7,164)	(4,223)	2,815	37,069	25,178	8,065	3,268	3,232	(1,034)	(2,227)	37,964	63,330
Operating profit (loss) for segments	2,305	9,738 (*)	(7,164)	(4,223)	(8,674)	26,784	23,206	6,744	2,907	2,931	(1,034)	(2,227)	11,546	39,747
Amortization of excess cost arising on acquisition of subsidiaries													(6,801)	(6,893)
Operating profit													4,745	32,854
Financing expenses, net													(21,261)	(19,823)
Company's share in earnings (losses) of equity accounted investees, net of tax													(4,866)	258
Profit (loss) before income tax													(21,382)	13,289

(\*) Restated, see Note 2(D)

(\*\*) The adjustments include elimination of revenue and profit for inter-segment transactions.

**Oil Refineries Ltd.**

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

**NOTE 4 – SEGMENT REPORTING (CONTD.)**

	Refining	Trade	Petrochemicals			Adjustments to consolidated (**)	Consolidated
			Polymers	Aromatics	Oils		
Year ended December 31, 2010							
(Audited)							
Revenue from external sources	5,032,975	214,642	1,012,478	451,351	80,363	--	6,791,809
Revenue from inter-segment sales	836,334	--	--	33,146	--	(869,480)	--
Segment revenue	5,869,309	214,642	1,012,478	484,497	80,363	(869,480)	6,791,809
Depreciation and amortization	41,213	--	44,303	4,831	1,212	--	91,559
EBITDA	43,969 (*)	(17,833)	109,125	27,335	8,817	(3,273)	168,140
Operating profit (loss) for segments	2,756 (*)	(17,833)	64,822	22,504	7,605	(3,273)	76,581
Amortization of excess cost arising on acquisition of subsidiaries							(35,660)
Operating profit							40,921
Financing expenses, net							(51,109)
Group's share in earnings of equity accounted investees, net of tax							476
Loss before income tax							(9,712)

(\*) Reclassified and restated, see Note 2(D)

(\*\*) The adjustments include elimination of revenue and profit for inter-segment transactions.

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

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**NOTE 5 – PROPERTY, PLANT AND EQUIPMENT**

At the reporting date, the balance of agreements for approved establishment works amounts to USD 193 million. For additional details of the establishment works, see Note 12(E) and (H) to the financial statements as of December 31, 2010.

At September 30, 2011, property, plant and equipment include advance payments made by the Group on account of the acquisition of property, plant and equipment in the amount of USD 71 million.

**NOTE 6 – CONTINGENT LIABILITIES, AGREEMENTS AND INVESTEEES**

**A. Lawsuits**

- 1) Further to Note 21(B) (subsections 1(a), 1(b), 4(a), 4(b), 4(c), 4(e), 4(g), 4(h) and 4(j) to the financial statements as of December 31, 2010, suits have been filed against the Group for physical injury and damage to property allegedly caused to the plaintiffs as a result of pollution of the Kishon River. There are legal proceedings against the Group, laws have been enacted and orders have been issued regarding the fuel and gas sector and the infrastructure facilities pertaining to the Group. Based on the opinion of the legal counsel of the Company and its subsidiaries, the Company estimates that, at this stage, it is not possible to assess the aforementioned impact on the financial statements as of September 30, 2011, if any, therefore, no provision regarding this matter was included in the financial statements.
- 2) Further to Note 21(B) to the financial statements as at December 31, 2010, there were no significant changes in the lawsuits and contingent liabilities of the Group during the reporting period.

**B. Agreements**

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

**C. Investees**

Further to Note 21(A)(8) to the financial statements as at December 31, 2010, in the reporting period, the Company acquired additional rights amounting to USD 1.2 million in Gadot, an equity-accounted associate. This acquisition is part of the funding sources that the Company provided to Gadot on November 19, 2009. At the reporting date, the Company's share in Gadot amounts to 23.6%. In September 2011, Delek Investments and Properties Ltd. ("Delek") acquired the listed shares of Gadot in a tender offer for NIS 4 per share and Gadot became a private company. The Company did not participate in the tender offer and did not exercise the option offered by Delek to acquire from Delek its relative share in the shares acquired from the public under the tender offer. Accordingly, the Company recognized an impairment loss of USD 2.5 million for the investment in Gadot based on the share value in the tender offer.

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

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**NOTE 7 – MATERIAL EVENTS IN THE REPORTING PERIOD**

- A.** Further to Note 33(B) to the financial statements as of December 31, 2010 and the Company's reports regarding the natural gas pipeline to Haifa Bay and the gas supply agreement with East Mediterranean Gas SAE, ("EMG") ("the Gas Supply Agreement"), in the reporting period, the plants of the Company and its subsidiaries (ORL Group) were connected to the national natural gas pipeline and accordingly, ORL Group companies started to consume natural gas in their plants. Following recurring sabotage to the Egyptian gas pipeline, in the reporting period, the Company signed the agreement described in section B below.
- B.** On May 20, 2011, the Company signed an agreement with the Yam Tethys group for the purchase of a total quantity of 1.2 BCM ("the Contractual Quantity") for the Company and its subsidiaries, over a 27-month supply period starting from June 1, 2011 ("the Basic Agreement Period"). The consideration for the entire Contractual Quantity will be paid in installments during the basic agreement period or over a shorter period of time should ORL Group consume the full Contractual Quantity sooner than planned. The agreement does not obligate ORL Group to any volume or consumption rate during the Basic Agreement Period. If ORL Group does not consume the entire Contractual Quantity over the Basic Agreement Period, the supply period set out in the agreement will be extended for an additional period, to allow the ORL Group to consume the Contractual Quantity. The agreed consideration consists of a fixed component and a variable component which is determined according to a pricing formula based on the price of crude oil, with a minimum price but not a maximum price. The total value of the agreement is estimated at USD 350 million (based on calculation of the formula when the agreement was signed).

In the Reporting Period, the Group completed the conversion to use of natural gas and at the publication date of the financial statements, the Company consumes natural gas according to the two agreements described above.

- C.** On June 30, 2011, Gadiv declared the distribution of a dividend of USD 50 million to the Company, which was paid on July 1, 2011. Since the dividend was paid from income that is not derived from profits of an approved enterprise, Gadiv or the Company will not be taxed for distribution of the dividend.
- D.** In the financial statements as of September 30, 2011, the Group recognized a provision of USD 34.050 million for impairment of inventory (the Company recognized a provision of USD 30.783 million for impairment of inventory), following the decrease in prices of some of the Group's products.
- E.** In the Reporting Period, an agreement was signed for the acquisition of electricity from OPC Rotem Ltd. ("OPC"), a company indirectly controlled by Israel Corporation Ltd. The agreement is under market conditions.
- F.** In the Reporting Period, an agreement was signed with ZIM Ltd. ("ZIM"), a company controlled by Israel Corporation Ltd., for the sale of fuel oil for refueling ZIM vessels anchored at Haifa Port. The agreement is under market conditions.
- G.** In the Reporting Period, Gadiv reached an agreement with its insurers, as part of arbitration in the claim it filed, that for incidents in Gadiv's plants in 2003-2004, Gadiv will receive indemnification of USD 13.5 million from its insurers and the claim filed by Gadiv will be struck out. Accordingly, in the Reporting Period, revenue for this settlement agreement was included in deduction of expenses that were incurred to achieve this settlement.

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

**NOTE 8 – SUBSEQUENT EVENTS**

- A. Subsequent to the Reporting Period, the Company received notice from the Ministry of Environmental Protection that it intends to impose a financial sanction of NIS 845,000 (approximately USD 230,000) for breach of the Company's poisons permit regarding the hazardous materials incident on its premises on July 23, 2011, which was not reported within the period determined in the poisons permit (15 minutes). The Company is taking steps to cancel or reduce the financial sanction.
- B. Subsequent to the Reporting Period, the Company approved an options plan for the Company's CEO. According to the plan, 12,318,000 options will be allotted, exercisable for 12,318,000 ordinary shares of the Company.

The options will vest in a three-year period from the record date, in three equal installments, at the end of each year for three years. The options that vest in each of these lots will be exercisable for one year from the vesting date, except for the first lot, which will be exercisable for 18 months from the vesting date.

**NOTE 9 – FINANCIAL COVENANTS**

- A. Further to Note 14(C)(2) to the financial statements as of December 31, 2010, the following financial covenants are required for construction of the hydrocracker:

	<u>Required ratio</u>	<u>Actual ratio</u>
	<u>USD millions</u>	
Consolidated capital	> 700	1,124
Consolidated capital to total consolidated balance sheet ratio	> 17%	26%
Accumulated adjusted cash flow from operating activities less accumulated dividends distributed (1)	> 135	257
Minimum adjusted EBITDA (2)(5)	> 25	29
Net debt less operating capital (3)(4)	> 1,000	599
Cumulative investment in equipment and facilities as from January 1, 2009	> 971	285
Cash and cash equivalents (including financial assets at fair value)	> 50	215

- (1) Cash flow from adjusted operating activities = cash flow from operating activities less changes in operating capital plus the following sources:
- Adjustments to EBITDA as explained in the three points in comment (2) below
  - Dividends from investees/subsidiaries
  - Proceeds from disposal of non-current assets
  - Proceeds from the sale of oil and oil products inventory between 1.2 million tons up to 1 million tons
- (2) Adjusted EBIDTA = gross earnings less selling, administrative and general expenses, plus depreciation and amortization and net of the following effects:
- Presentation method for derivatives according to IFRS
  - Buying and selling timing differences of the value of unhedged inventory
  - Provision for impairment of inventory
- (3) Net debt = the debt to financial institutions less cash
- (4) Operating capital = trade receivables + inventory - trade payables
- (5) The required threshold of this covenant increases gradually in each quarter up to USD 50 million

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

NOTE 9 – FINANCIAL COVENANTS (CONTD.)

B. In September 2011, the Company received the consent of the financiers for the following issues:

- 1) Measurement of the debt for calculation of the net debt was changed, to include the debentures and the hedging transactions at fair value, provided the fair value of the debentures and hedging transactions do not diminish the value of their liabilities.
- 2) As from the third quarter of 2011 and through to the fourth quarter of 2012 (inclusive):
  - New values were determined for measuring criteria for the Company's minimum adjusted EBITDA.
  - If the Company fails to meet the Company's original minimum adjusted EBITDA, the Company will be required to meet the original values of the criteria when the net profit of subsidiaries, including Carmel Olefins, Gadiv and Haifa Basic Oils) is added to the Company's minimum adjusted EBITDA.
  - For each quarter that the Company uses the exempting financial ratios, the Company will pay additional interest at an annual rate of 0.35%.
- 3) The Company will not be allowed to distribute a dividend without the consent of the financiers in the period in which the Company uses the revised covenants.
- 4) Details of the exempting financial ratios for long-term loans as of September 30, 2011

	<b>Required ratio</b>	<b>Actual ratio</b>
	<b>USD millions</b>	
Consolidated capital	> 700	1,090
Consolidated capital to total consolidated balance sheet ratio	> 17%	23%
Accumulated adjusted cash flow from operating activities less accumulated dividends distributed (1)	> 213.75	295
Minimum adjusted EBITDA (2)	> 0	18
Minimum adjusted EBITDA plus net earnings of subsidiaries (5)	> 43.75	95
Net debt less operating capital (3)(4)	> 1,030	822
Cumulative investment as from January 1, 2009	> 971	488
Cash and cash equivalents (including financial assets at fair value)	> 50	106

- (1) Cash flow from adjusted operating activities = cash flow from operating activities less changes in operating capital plus the following sources:
  - Adjustments to EBITDA as described in the three points in comment (2) below:
  - Dividends from investees/subsidiaries
  - Proceeds from disposal of non-current assets
  - Proceeds from the sale of oil and oil products inventory between 1.2 million tons up to 1 million tons
- (2) Adjusted EBITDA = gross earnings less selling, administrative and general expenses, plus depreciation and amortization and net of the following effects:
  - Presentation method for derivatives according to IFRS
  - Buying and selling timing differences of the value of unhedged inventory
  - Provision for impairment of inventory
- (3) Net debt = the debt to financial institutions less cash and less debenture swap transactions
- (4) Operating capital = trade receivables + inventory - trade payables
- (5) The required threshold of this covenant increases gradually in each quarter up to USD 50 million

As of September 30, 2011, the Company is in compliance with the financial covenants.

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

NOTE 9 – FINANCIAL COVENANTS (CONTD.)

- C. Further to Note 14(C)(1) to the financial statements as of December 31, 2010, the covenants required for the loan agreements raised by 2007 are as follows:

	<b>September 30, 2011</b>	
	<b>Required ratio</b>	<b>Actual ratio</b>
	<b>USD millions</b>	
Equity (*)	> 458	1,090
Total liabilities less current inventory only - to equity net of deferred tax liabilities	> 2	1.64
Total current assets to current liabilities	> 1	1.11
	<b>December 31, 2010</b>	
	<b>Required ratio</b>	<b>Actual ratio</b>
	<b>USD millions</b>	
Equity (*)	> 479	1,124
Total liabilities less current inventory only - to equity net of deferred tax liabilities	> 2	1.23
Total current assets to current liabilities	> 1	1.15

(\*) Required equity NIS 1.700 billion, translated according to convenience translation as of September 30, 2011 and December 31, 2010, respectively.

- D. According to the series of agreements between the Company and the banks, the financial covenants are assessed according to the data at the end of each quarter.
- E. Additional commitments towards the banks

In addition to the above financial covenants, the Company has additional undertakings towards the banks, the main ones being as follows:

- 1) If the Company fails to repay the loans to any of the banks, in an amount exceeding the amounts set out in the agreements, the other banks may call for immediate repayment of the loan (cross default mechanism).
- 2) The banks may call for immediate repayment if the Company's operations are suspended or there is a material adverse change in the Company's ability to meet its commitments under the agreement.
- 3) Any change to the controlling shareholders in the Company requires the consent of the financiers.
- 4) The Company will not create liens (negative pledge) on the Company's property and assets, including assets acquired and established for the hydrocracker project, other than assignment and endorsement of documents for export or import of goods to a bank providing credit to finance the export or import, except for a lien on inventory exceeding 1.2 million tons to finance purchase of the inventory.
- 5) The Company's holdings in the subsidiaries Carmel Olefins and Gadiv will not fall below 51%.

Notes to the Consolidated Condensed Interim Financial Statements  
USD thousands

**NOTE 9 – FINANCIAL COVENANTS (CONTD.)**

**E. Additional commitments towards the banks (contd.)**

- 6) The banks may call for immediate payment if the controller appointed by the financiers determines that the project will start operating after September 30, 2012 or the project cost will exceed USD 632.5 million.
- 7) The Company will comply with the terms of the agreements with all the financiers of the financing for the loans, including use of the credit facilities, in amounts that do not fall below the minimum amounts determined in the agreements.
- 8) The Company, Carmel Olefins and Gadiv have restrictions for providing loans and guarantees.
- 9) The Company will have an agreement for the supply of natural gas to its plants, for the quantities required for its operations, as from December 31, 2013.
- 10) Liquidation proceedings have been initiated against the Company, Carmel Olefins or Gadiv and/or the ruling against the companies has not been paid, in an aggregate amount of USD 25 million and/or a lien or a similar proceeding was placed at an aggregate value exceeding USD 50 million and this was not canceled within the time set out in the agreements.

**F. Financial covenants for Carmel Olefins**

- 1) Further to Note 14(B)(3)(14)(c) to the financial statements as of December 31, 2010, at September 30, 2011, Carmel Olefins is in compliance with the exempting financial covenants.

Details of the financial covenants for Carmel Olefin:

	<b>Required ratio</b>	<b>Actual ratio</b>
	<b>USD millions</b>	
Tangible equity (USD millions)	> 138	374
Tangible equity to balance sheet ratio	≤ 22%	30%
Current assets to current liabilities	≤ 0.8	1.1
Financial debt to tangible equity (1)	> 2.4	1.5
Debt coverage ratio (average for 8 quarters) (2)	≤ 1.1	2.4

(1) The ratio between all the liabilities to banks and financial institutions net of moneys receivable for short- and long-term currency swap transactions and net of deposits pledged to banks, and tangible equity on the last day of each quarter

(2) Average debt coverage ratio for the last eight quarters (the ratio between operating profit for the relevant period, plus depreciation and amortization, and the total principal payments for the period, plus interest payments on long-term loans, interest payments on short-term credit and current taxes for the period).

- 2) At September 30, 2011, total long-term credit from banks with which Carmel Olefins has a series of agreements amounts to USD 253 million (of which USD 195 million is credit from local banks). At December 31, 2010, total long-term bank credit amounted to USD 258 million (of which USD 188 million is credit from local banks).
- 3) Carmel Olefins has committed to the banks with which it signed the series of agreements, that if any bank becomes entitled to call for immediate repayment of the amounts due to them by Carmel Olefins, the other banks will also have grounds to call for immediate repayment (cross default clause).

- G.** At September 30, 2011, all subsidiaries whose details are not presented in this Note are also in compliance with the financial covenants.

**Oil Refineries Ltd.**

**Condensed Separate Interim Financial  
Information**

**as of September 30, 2011**

**(Unaudited)**



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

Tel 4800 861 04  
Fax 4844 861 04  
website: [www.kpmg.co.il](http://www.kpmg.co.il)

Att:

**To the Shareholders of Oil Refineries Limited.**

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

#### *Introduction*

We have audited the separate financial statements presented pursuant to Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of Oil Refineries Ltd. ("the Company") as at September 30, 2011 and for the nine and three month periods then ended. The separate financial information is the responsibility of the Company's management and Board of Directors. Our responsibility is to express an opinion on the separate interim financial information based on our review.

We did not review the separate interim financial statements of investees in which the amount of USD 452,070 million was invested as at September 30, 2011, and whose profits amounted to USD 13,956 and losses amounted to USD 21,056 million, respectively for the nine and six month periods then ended. The financial statements of those companies were reviewed by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the financial statements for those companies, is based on the reports of the other auditors.

#### *Review scope*

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

#### *Conclusion*

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

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

- 1) The contents of Notes 4, 5 and 6 to the separate interim financial statements, regarding suits filed against the Company for legal proceedings, supervision by government authorities, other contingencies, laws and bills relating to the fuel and gas industry and infrastructure facilities. Based on the opinion of the Company's legal counsel, the Company estimates that, at this stage, it is not possible to assess the impact, if any, of the aforementioned on the separate interim financial statements, and therefore no provision was included in the financial statements in this respect.
- 2) The contents of Notes 4 and 6 to the separate interim financial information concerning the Company's dependence on services received from infrastructure companies and the supply of natural gas.



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

Tel 4800 861 04  
Fax 4844 861 04  
website: [www.kpmg.co.il](http://www.kpmg.co.il)

- 3) The contents of Note 2B to the separate interim financial information with regard to an adjustment by way of restatement of the separate interim financial information as of September 30, 2010 and for the nine and three month periods then ended, in order to reflect the accounting treatment of an agreement to hold emergency stockpiles of diesel fuel.

Somekh Chaikin  
Certified Public Accountants

Haifa, November 20, 2011

**Oil Refineries Ltd.**

**Condensed Separate Interim Statement of Financial Position  
In USD thousands**

	As of		
	September 30, 2011	September 30, 2010	December 31, 2010
	(Unaudited)		(Audited)
<b>Current assets</b>			
Cash and cash equivalents	412	582	461
Deposits	625	65,451	107,698
Trade receivables	495,458	421,116	183,743
Other receivables	94,564	59,242	87,693
Financial derivatives	64,578	18,403 (**)	19,962
Investments in financial assets at fair value through comprehensive income	104,491	102,957	106,895
Inventories	957,198	1,004,688	1,086,864
<b>Total current assets</b>	<b>1,717,326</b>	<b>1,672,439</b>	<b>1,593,316</b>
<b>Non-current assets</b>			
Investment in investees	847,576	839,275	877,717
Financial assets at fair value through other comprehensive income (***)	7,300	11,165	17,701
Loan to Haifa Early Pensions Ltd.	70,640	74,142	77,014
Long term loans and debit balances	1,377	1,399	1,443
Financial derivatives	107,956	110,526 (**)	120,333
Employee benefit plan assets	3,575	3,550	3,739
Deferred tax assets	3,759	--	6,288
Property, plant and equipment	1,038,422	784,195	859,734
Deferred costs	11,302	9,041	11,829
Intangible assets	3,225	3,092	3,163
<b>Total non-current assets</b>	<b>2,095,132</b>	<b>1,836,385</b>	<b>1,978,961</b>
<b>Total assets</b>	<b>3,812,458</b>	<b>3,508,824</b>	<b>3,572,277</b>

(\*\*) Reclassification and restatement - see Note 2.

(\*\*\*) See Note 3.

**Yossi Rosen**  
Chairman, Board of Directors

**Pinhas Buchris**  
CEO

**Igal Salhov**  
CFO

Date of approval of the separate financial information: November 20, 2011

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

**Oil Refineries Ltd.**

**Condensed Separate Interim Statement of Financial Position  
in USD thousands**

	As of		
	September 30, 2011	September 30, 2010	December 31, 2010
	(Unaudited)		(Audited)
<b>Current liabilities</b>			
Loans and borrowings	739,970	650,170	623,713
Trade payables	669,740	620,416	562,379
Other payables and credit balances	71,542	83,364	82,391
Current tax liability	23,028	21,944	22,761
Financial derivatives	40,049	55,536 (*)(**)	84,659
Provisions	8,722	8,995	8,131
<b>Total current liabilities</b>	<b>1,553,051</b>	<b>1,440,425</b>	<b>1,384,034</b>
<b>Non-current liabilities</b>			
Bank loans	573,324	268,954	402,281
Debentures (**)	525,493	606,212	598,393
Liabilities for finance lease	9,335	9,187	9,491
Financial derivatives	12,410	12,655 (**)	5,195
Employee benefits	49,109	36,149	49,137
Deferred tax liabilities	--	33,323 (*)	--
<b>Total non-current liabilities</b>	<b>1,169,671</b>	<b>966,480</b>	<b>1,064,497</b>
<b>Total liabilities</b>	<b>2,722,722</b>	<b>2,406,905</b>	<b>2,448,531</b>
<b>Equity</b>			
Share capital	586,390	586,390	586,390
Share premium	100,242	100,242	100,242
Reserves (**)(***)	88,835	41,103	45,516
Retained earnings (***)	314,269	374,184 (*)	391,598
<b>Total capital</b>	<b>1,089,736</b>	<b>1,101,919</b>	<b>1,123,746</b>
<b>Total liabilities and capital</b>	<b>3,812,458</b>	<b>3,508,824</b>	<b>3,572,277</b>

(\*) Restatement – see Note 2

(\*\*) Reclassification and restatement - see Note 2.

(\*\*\*) See Note 3.

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

**Oil Refineries Ltd.**

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

	For the nine months ended		For the three months ended		Year ended
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
<b>Revenue</b>	6,940,082	4,816,435	2,562,195	1,588,068	6,083,695
Cost of sales, refinery and services	6,838,752	4,744,986 (**)	2,472,542	1,531,834 (**)	6,000,744
Revaluation of open positions in derivatives on prices of goods and margins, net	35,498	859 (**)	81,379	36,627 (**)	31,794
<b>Total cost of sales</b>	6,874,250	4,745,845	2,553,921	1,568,461	6,032,538
<b>Gross profit</b>	65,832	70,590	8,274	19,607	51,157
Selling and marketing expenses	21,921	27,474	7,712	8,584 (**)	31,666
Administrative and general expenses	25,073	24,728 (**)	4,807	5,508 (**)	34,057
<b>Operating profit (loss)</b>	18,838	18,388	(4,245)	5,515	(14,566)
Finance revenues	15,287	66,484	(16,254)	34,501	88,803
Financing expenses	(63,615)	(92,506)	9,280	(53,090)	(131,611)
Financing expenses, net	(48,328)	(26,022)	(6,974)	(18,589)	(42,808)
Company's share in profits (losses) of investees, net of tax	20,576	51,818	(14,033)	33,582	90,905
<b>Profit (loss) before income tax</b>	(8,914)	44,184	(25,252)	20,508	33,531
Tax benefits (taxes on income)	(559)	5,639 (*)	608	2,585 (*)	39,538
<b>Profit (loss) for the period</b>	(9,473)	49,823	(24,644)	23,093	73,069
<b>Items of other comprehensive income (loss)</b>					
Actuarial gains (losses) from a defined benefit plan, net	(403)	108	(485)	212	(5,724)
Foreign currency translation differences for foreign operations	336	(176)	(483)	642	(309)
Effective share of the change in fair value of cash flow hedging, net of tax	(2,973)	4,995	(1,992)	4,995	3,529
Change in fair value of available-for-sale financial assets at fair value through other comprehensive profit, net of tax (***)	(9,153)	210	(4,390)	1,669	6,143
Net change in fair value of debentures designated at fair value through other comprehensive income, attributed to the Company's credit risk changes, net of tax (***)	34,979	--	33,003	--	--
<b>Other comprehensive income, net of tax</b>	22,786	5,137	25,653	7,518	3,639
<b>Comprehensive income for the period</b>	13,313	54,960	1,009	30,611	76,708
<b>Earnings (loss) per share (dollar)</b>					
<b>Basic and diluted earnings per ordinary share</b>	(0.004)	0.020 (*)	(0.010)	0.009 (*)	0.030

(\*) Restatement – see Note 2

(\*\*) Reclassification and restatement - see Note 2.

(\*\*\*) See Note 3B.

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

**Oil Refineries Ltd.**

**Condensed Separate Interim Statements of Cash Flows  
in USD thousands**

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010	December 31, 2010
	(Unaudited)		(Unaudited)		(Audited)
<b>Cash flows from operating activities</b>					
Profit (loss) for the period	(9,473)	49,823 (*)	(24,644)	23,093 (*)	73,069
<b>Adjustments required for presenting cash flows</b>					
<b>Ongoing operations</b>					
Revenue and expenses not involving cash flows (Appendix A – section A)	(25,582)	(14,867) (*)	5,101	22,362 (*)	(16,530)
	(35,055)	34,956	(18,543)	45,455	56,539
Changes in assets and liabilities (Appendix A – section B)	(64,601)	(68,803)	(297,997)	(92,302)	(22,206)
Income tax received (paid), net	(121)	29,132	(232)	29,251	28,915
<b>Net cash flows (used for operations) from operating activities</b>	<b>(99,777)</b>	<b>(4,715)</b>	<b>(316,772)</b>	<b>(17,596)</b>	<b>63,248</b>
<b>Cash flow used in investing activities</b>					
Interest received	3,359	7,553	552	2,559	7,024
Decrease (increase) in deposit, net	107,115	(6,957)	25,487	(18,687)	(66,057)
Dividend received from investees	50,122	75,067	50,000	75,000	79,703
Acquisition of subsidiaries	--	(17,183)	--	--	(17,183)
Investments in investees	(1,259)	(2,373)	--	--	(2,373)
Realization of investment in financial assets, net	--	12,304	--	54	12,253
Repayment of long-term loans from others, net	274	382	148	302	408
Repayment of loan from Haifa Early Pensions Ltd.	5,916	12,627	--	--	12,627
Purchase of property, plant and equipment	(221,824)	(103,352)	(78,662)	(40,254)	(165,624)
Purchase of intangible assets and deferred expenses	(113)	(187)	(8)	1,273	(436)
<b>Net cash provided by (used in) investment activities</b>	<b>(56,410)</b>	<b>(22,119)</b>	<b>(2,483)</b>	<b>20,247</b>	<b>(139,658)</b>
<b>Cash flow from finance activities</b>					
Short-term borrowing, net	161,498	10,274	398,024	(169,550)	(61,600)
Receipt (repayment) of deposits from customers, net	(18,614)	26,140	2,489	274	26,215
Interest paid	(49,716)	(30,764)	(12,428)	(6,380)	(53,545)
Derivative transactions, net	5,547	4,331	(456)	(1,494)	9,618
Receipt (repayment) of a loan from an investee	(91,981)	(8,369)	(41,543)	5,630	7,249
Receipt of long-term loans from banks	246,467	200,000	--	200,000	356,724
Repayment of long-term loans from banks	(68,563)	(68,408)	(22,855)	(22,854)	(91,262)
Repayment of debentures	(22,963)	(20,901)	(7,353)	(7,206)	(28,381)
Borrowing costs	(5,535)	(10,530)	(179)	(3,538)	(13,793)
Dividend paid	--	(75,000)	--	--	(75,000)
<b>Net cash from (used for) financing activities</b>	<b>156,140</b>	<b>26,773</b>	<b>315,699</b>	<b>(5,118)</b>	<b>76,225</b>
Net decrease in cash and cash equivalents	(47)	(61)	(3,556)	(2,467)	(185)
Effect of exchange rate fluctuations on cash and cash equivalents	(2)	2	(6)	29	5
Cash and cash equivalents at the beginning of the year	461	641	3,974	3,020	641
<b>Cash and cash equivalents at the end of the period</b>	<b>412</b>	<b>582</b>	<b>412</b>	<b>582</b>	<b>461</b>

(\*) Restatement - see Note 2.

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

**Oil Refineries Ltd.**

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

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

	<u>For the nine months ended</u>		<u>For the three months ended</u>		<u>For the year ended</u>
	<u>September 30, 2011</u>	<u>September 30, 2010</u>	<u>September 30, 2011</u>	<u>September 30, 2010</u>	<u>December 31, 2010</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>		<u>(Audited)</u>
<b>A. Income and expenses not included in the cash flow:</b>					
Depreciation and amortization	37,178	30,948	12,596	11,676	41,213
Financing expenses, net	45,240	19,707	13,989	16,996	41,185
Net changes in fair value of derivatives	(91,852)	(*) 5,860	(45,641)	41,633 (*)	35,299
Net changes in fair value of the loan to Haifa Early Pensions Ltd.	1,507	(5,612)	4,478	(4,888)	(8,512)
Share in losses (profits) of investees	(20,576)	(51,818)	14,033	(33,582)	(90,905)
Loss (profit) from deposits and investments in financial assets, net	2,362	(8,788)	7,254	(7,040)	4,178
Share-based payment transactions	--	475	--	152	550
Taxes on income (tax benefit)	559	(*) (5,639)	(608)	(*) (2,585)	(39,538)
	<u>(25,582)</u>	<u>(14,867)</u>	<u>6,101</u>	<u>22,362</u>	<u>(16,530)</u>
<b>B. Changes in assets and liabilities</b>					
Decrease (increase) in trade receivables	(311,715)	(27,958)	26,547	(52,902)	209,415
Decrease (increase) in other receivables and debt balances	(4,541)	(17,736)	(6,413)	1,659	(49,857)
Decrease (increase) in inventory	129,666	(136,684)	10,348	(139,292)	(218,860)
Increase (decrease) in trade payables	113,498	138,940	(331,495)	105,796	57,616
Increase (decrease) in other payables and provisions	9,021	(19,762)	3,336	(3,471)	(21,164)
Increase (decrease) in employee benefits, net	(530)	(5,603)	(320)	(4,092)	644
	<u>(64,601)</u>	<u>(68,803)</u>	<u>(297,997)</u>	<u>(92,302)</u>	<u>(22,206)</u>

(\*) Restatement - see Note 2.

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

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

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**NOTE 1 – GENERAL**

A. The separate interim financial information is presented in accordance with the provisions of Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 1970. They should be read in conjunction with the separate financial statements as of December 31, 2010 and for the year then ended as reissued on November 20, 2011 and in conjunction with the condensed interim consolidated financial statements as of September 30, 2011 ("the Consolidated Financial Statements").

**B. Definitions:**

The Company: Oil Refineries Ltd.

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

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

**NOTE 2 – BASIS OF PREPARATION**

**Reclassification and restatement**

**A. Reclassification**

- 1) Current maturities of financial derivatives as of September 30, 2010, previously presented as part of non-current assets and non-current liabilities were reclassified as current assets and current liabilities.
- 2) Certain comparative figures in the statement of comprehensive income for the nine and three months ended September 30, 2010 were reclassified to adjust them to the manner of representation in the statement of comprehensive income for the nine and three months ended September 30, 2011.

**B. Restatement**

During the management's review of inventory levels, the Company discovered that in 2002, while it was still a government-owned company, an agreement was signed with the State of Israel to maintain emergency stockpiles of diesel fuel ("Emergency Stockpiles"), which currently amounts to 44,000 tons. The agreement was amended in 2004 and 2005 and has been extended or amended from time to time since then, with certain modifications. As of the reporting date the agreement is valid until the end of 2011 ("the Agreement"). This Agreement is not reflected in ORL's financial statements, including those in the privatization prospectus of the Company dated February 2007.

Under the Agreement, ORL undertook to hold the amount of Emergency Stockpiles of diesel fuel defined in the Agreement for immediate use by the State, or to any other entity as instruction, during an emergency (as defined in the Agreement), and in such case the State will pay ORL the dollar value of these stockpiles at ORL gate price in November 2002 with certain adjustments ("the Fixed Price"). The Fixed Price is currently USD 241 per ton. In return for holding the Emergency Stockpiles, the State pays ORL periodic installments as set out in the Agreement. In addition, at the end of the term of the Agreement, accounts will be settled between the parties. If the ORL gate price for the Emergency Stockpiles at the end of the term of the Agreement is higher than the Fixed Price, ORL will pay the difference to the State, and if the ORL gate price for the Emergency Stockpiles at the end of the term of the Agreement is lower than the Fixed Price, the State will pay the difference to ORL.

Additional Information to the Separate Interim Financial Statements  
USD thousands

NOTE 2 – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTD.)

Reclassification and restatement (contd.)

B. Restatement (contd.)

The Company assessed the accounting implications of the Agreement and determined that the Agreement is within the scope of IFRS 9 (2010), Financial Instruments and it fulfills the definition of a derivative, since according to the Agreement, the Company is required to sell diesel fuel to the State at the Fixed Price, and if this sale is not made, at the end of the term of the Agreement, the Company will receive from or pay the State, in cash, the difference between the ORL gate price of the Emergency Stockpiles at the end of the term of the Agreement and the Fixed Price. Accordingly, the Company restated its financial statements as of September 30, 2010 to reflect the measuring of the right or liability of the Company by virtue of the Agreement at fair value through profit or loss in each reporting period.

C. Breakdown of the effect of restatement and reclassification on the relevant items:

The effect on the Statement of Financial Position

	As of 30 September 2010 (Unaudited)			
	As reported in the past	Effect of reclassification	Effect of restatement	As reported in these financial statements
<b>Current assets:</b>				
Financial derivatives	--	18,403	--	18,403
<b>Non-current assets:</b>				
Financial derivatives	128,929	(18,403)	--	110,526
<b>Current liabilities:</b>				
Financial derivatives	(26,966)	(7,217)	(21,353)	(55,536)
<b>Non-current liabilities:</b>				
Financial derivatives	(19,872)	7,217	--	(12,655)
Deferred tax liabilities	(38,021)	--	4,698	(33,323)
<b>Equity:</b>				
Retained earnings	(390,839)	--	16,655	(374,184)

**Oil Refineries Ltd.**

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

**NOTE 2 – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTD.)**

**Reclassification and restatement (contd.)**

**C. Breakdown of the effect of restatement and reclassification on the relevant items (contd.)**

**The effect on the Statement of Comprehensive Income**

	<b>For the nine months ended September 30, 2010</b>			<b>As reported in these financial statements</b>
	<b>(Unaudited)</b>			
	<b>As reported in the past</b>	<b>Effect of reclassificat ion</b>	<b>Effect of restatement</b>	
Cost of sales, refinery and services	(4,744,589)	(397)	--	(4,744,986)
Income (expenses) for revaluation of open positions in derivatives on prices of goods and margins, net	3,216	--	(4,075)	(859)
Administrative and general expenses	(25,125)	397	--	(24,728)
Tax benefit	4,931	--	708	5,639
Profit for the period	53,190	--	(3,367)	49,823
Basic and diluted earnings per ordinary share (in USD)	0.022	--	(0.002)	0.020
	<b>For the three months ended September 30, 2010</b>			
	<b>As reported in the past</b>	<b>Effect of reclassificat ion</b>	<b>Effect of restatement</b>	<b>As reported in these financial statements</b>
Cost of sales, refinery and services	(1,531,434)	(400)	--	(1,531,834)
Revaluation of open positions in derivatives on prices of goods and margins, net	(34,816)	--	(1,811)	(36,627)
Selling and marketing expenses	(8,667)	83	--	(8,584)
Administrative and general expenses	(5,825)	317	--	(5,508)
Tax benefit	2,187	--	398	2,585
Profit for the period	24,506	--	(1,413)	23,093
Basic and diluted earnings per ordinary share (in USD)	0.010	--	(0.001)	0.009

**Oil Refineries Ltd.**

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

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES**

For information pertaining to the Company's accounting policies, see Note 3 to the condensed consolidated interim financial statements as of September 30, 2011.

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

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

	<u>Original classification according to IAS 39</u>	<u>Reclassification according to IFRS 9</u>	<u>Original carrying amount according to IAS 39</u>	<u>New carrying amount according to IFRS 9</u>
<b>in USD thousands</b>				
<b>Financial assets</b>				
Cash and cash equivalents, deposits, trade payables and accounts receivable	Loans and receivables	Financial assets at amortized cost:	Unchanged	
Investments in financial assets through other comprehensive income (**)	Available-for-sale financial assets	Fair value through other comprehensive income	Unchanged	
<b>Financial liabilities</b>				
Debentures designated at fair value through comprehensive income (**)	Amortized costs	Financial liabilities measured at fair value through comprehensive income	552,156	586,641

(\*) The effect of first time application of IFRS 9 (2010) on the balance of deferred taxes as of January 1, 2011 is a tax asset in the amount of USD 5,524,000, of which a tax asset in the amount of USD 7,798,000 was charged to retained earnings and a tax reserve in the amount of USD 2,274,000 was charged to a capital reserve for financial liabilities designated at fair value.

(\*\*) For further information see Note 3 A 2(c) (1) of the condensed interim consolidated financial statements as of September 30, 2011.

**B. With respect to the effect of the change in accounting policy on the equity as of January 1, 2011, see Note 3 A(2)(c) (2) to the condensed consolidated interim financial statements as of September 30, 2011.**

**C Below is a breakdown of the difference between the carrying amount of the financial liabilities designated at fair value and the amount payable on maturity:**

	<u>Carrying amount</u>	<u>Amount payable on maturity</u>	<u>Difference</u>
<b>in USD thousands</b>			
Balance as of January 1, 2011	586,641	554,026	32,615
Balance as of September 30, 2011	548,805	5408,550	18,255

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

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**NOTE 4 – SUBSTANTIAL GUARANTEES AND AGREEMENTS WITH INVESTEES**

For further information see Note 6(B) and Note 8 to the condensed interim consolidated financial statements as at September 30, 2011.

**NOTE 5 – CONTINGENT LIABILITIES**

For further information see Note 6(A) to the condensed interim consolidated financial statements as of September 30, 2011.

**NOTE 6 – MATERIAL EVENTS IN THE REPORTING PERIOD AND THEREAFTER**

For further information see Notes 7 and 8 to the condensed interim consolidated financial statements as of September 30, 2011.