



OIL REFINERIES LTD.

Consolidated Financial Statements

As of March 31, 2007

(Unaudited)

OIL REFINERIES LTD.

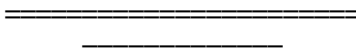
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Report of the Board of Directors on the State of the Corporation's Affairs **for the period ended March 31, 2007**

The report was prepared under the assumption that the reader has at his/her disposal the description of the business affairs of the Company and the report of the board of directors for the year ended December 31, 2006.

Until February 21, 2007, the State of Israel held 100% of the share capital of the Company. On that date, the government sold all of the shares of the Company and the Company ceased being a government company. Its shares were listed for trade on the Tel Aviv Stock Exchange (see Note 1).

Commencing on January 1, 2007, the supervision over the ex-refinery prices of most of the oil products was removed. In respect of oil products for which maximum prices were not set, the supervisory regime takes the form of reporting only.

Beyond the aforementioned, no changes occurred in the areas of activity of the Company and its subsidiaries. Moreover, no significant changes occurred with regard to taxation, and dependency on customers, suppliers, and sources of raw materials.

1. Areas of activity of the Company

As of the date of this report, the Company is engaged in three areas of activity which are reported as business segments in the Company's financial statements, as follows:

Refining segment: This is the major area of Company activity, comprising 83% of the revenues of the Company during the reporting period. In conducting its activity in this area of operations, the Company purchases crude oil and interim products, refines and separates them into various distillates, some final products and some raw materials for the production of other products. This activity is conducted directly by the Company. As part of the activity in the refining segment, the Company also provides power and heating services (electricity and steam) to industrial customers in the Haifa Bay area and infrastructure services (storage, flowing, and issuance of fuel products).

Polymer segment: This area of activity comprises 6% of the revenues of the Company during the reporting period. This activity is conducted through Carmel Olefins Ltd. (hereinafter – "Carmel"), a private proportionately consolidated company which is engaged in the manufacturing of ethylene, polyethylene, and polypropylene – the major raw materials of the plastics industry.

Aromatics segment: This area of activity is carried out through Gadiv Petrochemical Industries Ltd. (hereinafter – "Gadiv"), a wholly-owned private subsidiary of the Company, which manufactures aromatic materials, mainly benzene, paraxylene, orthoxylene and toluene which are used as raw materials in the manufacture of other products. This area comprises 11% of the revenues of the Company during the reporting period.

In addition, the Company has other investee companies engaged in other activities which are immaterial to the Company.

The plants of the subsidiaries constitute downstream plants to those of the Company which receive the feedstocks they require on a regular basis entirely or for the most part from the Company through a piping system and which channel back to the Company the products they produce or the unused feedstocks. The activity of the Company in the area of refining is integrated with its activity in the areas of polymers and aromatic materials.

In the opinion of the Company, utilization of the integration and synergy between the various areas of activity, results in an increase in aggregate margins deriving to the Company in all areas of activity and a decrease in the volatility of Company profits since the business turnover of the areas of activity of the Company and its subsidiaries do not necessary overlap. In addition, the joint management of Gadiv streamlines the activity of the companies and reduces expenses.

2. Financial position

2.1 Current assets

As of March 31, 2007, consolidated current assets amounted to approximately NIS 5,287 million, compared with NIS 5,892 million as of December 31, 2006. The major source of the decrease in current assets was the decrease in cash and customer debt in the Company, due to the cessation of commercial activity on behalf of Paz Ashdod Oil Refinery Ltd. ("ORA"), which offset the increases in these items in Carmel and Gadiv.

2.2 Fixed assets

As of March 31, 2007, consolidated fixed assets (property, plant and equipment) net of depreciation amounted to approximately NIS 3,712 million, compared with approximately NIS 3,702 million as of December 31, 2006. The increase of NIS 10 million derived from additional investments of NIS 94 million (the Company – NIS 35 million, Carmel – NIS 59 million), set off by depreciation for the period in an amount of NIS 84 million (the Company – NIS 58 million, Gadiv – NIS 11 million and Carmel – NIS 15 million). Upon adoption of International Financial Reporting Standards, the Company intends on implementing the fair value as deemed cost model in respect of fixed asset items.

2.3 Current liabilities

Consolidated current liabilities as of March 31, 2007 amounted to approximately NIS 3,231 million, constituting approximately 45% of total liabilities, compared with approximately NIS 3,919 million which constituted 50% of total liabilities as of December 31, 2006. The NIS 688 million decrease in current liabilities derived mainly from the debt to crude oil suppliers as a result of the cessation of purchasing on behalf of ORA upon the termination of the commercial agreement between the parties at the end of the previous year, and from reduction in the debt of the Company to the tax authorities. Short-term liabilities of the Company to banks increased, mainly as a result of the current maturities of long-term loans, and were offset by the reduction in Carmel's short-term bank credit which was converted into the issuance of long-term debentures.

2.4 Long-term financial liabilities

Consolidated long-term financial liabilities amounted to NIS 3,185 million as of March 31, 2007, compared with NIS 3,061 million as of December 31, 2006. The NIS 124 million increase derived mainly from the issuance of debentures by Carmel, and was offset by a reduction in the amount of debentures of ORL.

2.5 Deferred taxes

Deferred taxes amounted to NIS 512 million as of March 31, 2007, compared with NIS 498 million as of December 31, 2006. The NIS 14 million increase was the result of the accelerated depreciation claimed for income tax purposes.

2.6 Shareholders' equity

Shareholders' equity amounted to approximately NIS 2,979 million, and constituted approximately 29% of the balance sheet, compared with NIS 2,715 million, which constituted approximately 26% of the balance sheet as of December 31, 2006. The NIS 264 million increase in the shareholders' equity of the Company derived from the net income of NIS 150 million during the period, and from the payment of the government in respect of the expense of privatizing the Company in an amount of NIS 118 million. These were offset by payment of the issuance costs on behalf of a controlling shareholder, in an amount of NIS 4 million. The return on capital (net income to weighted shareholders' equity), during the reporting period was 5.5% (on an annual basis - 22%). In 2006, it was 53% (net of the profit impact of the sale of ORA – 24%) and in the same period last year, it was 8%.

3. Results of operations

- 3.1 The consolidated results of operations during the reporting period were compared with the results of operations of the Company on the basis of the pro forma report.

As explained in Note 7 of the financial statements, the pro forma data, including the consolidated statements of income, are presented under the assumption that the sale of the shares of the Company and the State of Israel in ORA took place on January 1, 2006. Accordingly, revenues and expenses attributed to ORA were deducted from the consolidated statements of income. From a practical standpoint, the changes were solely in the refining segment of the Company.

In the share of the Company in the income of investees, there was no change when compared with the Company's statement of income prior to the sale of ORA, as detailed above.

The following table presents selected consolidated data from the Company's results for the reporting period and the same period last year:

	March 31, 2007	March 31, 2006
	In millions of NIS Unaudited	
Revenues		
Refining	4,320	4,507
Polymers	311	289
Aromatics	481	431
Cancellation of intercompany transactions	(316)	(196)
Total	<u>4,796</u>	<u>5,031</u>
Cost of sales, refining and services		
Refining	3,943	4,162
Polymers	265	246
Aromatics	444	393
Cancellation of intercompany transactions	(316)	(196)
Total	<u>4,336</u>	<u>4,605</u>
Gross profit		
Refining	377	345
Polymers	46	43
Aromatics	37	38
Total	<u>460</u>	<u>426</u>
Sales, general and administrative expenses		
Refining	76	50
Polymers	12	10
Aromatics	25	20
Total	<u>113</u>	<u>80</u>
Profit from operations		
Refining	301	295
Polymers	34	33
Aromatics	12	18
Total	<u>347</u>	<u>346</u>
Financing income (expenses), net	2	(28)
	349	318
Privatization grant (see paragraph 3.7 below)	(119)	-
Income before taxes on income	230	318
Income tax	90	93
	140	225
Company's share in earnings of investee companies	10	11
Net income for the period	<u>150</u>	<u>236</u>

3.2 Sales turnover

The sales turnover of the refining segment (carried out through the Company) decreased during the reporting period. The average price per ton of the basket of principal products in the Mediterranean area similar to the basket of products produced by the Company (the Company's basket of products) amounted, in the reporting period, to approximately NIS 2,100 compared with approximately NIS 2,400 in the same period last year.

During the reporting period, there was an increase in fuel consumption in the local market of approximately 1% versus the same period last year. There was a 3% increase in the consumption of distillates in the relevant periods, offset by a decrease of 7% in fuel oil, due to the continued conversion to natural gas.

Sales turnover for the polymer segment (carried out via Carmel Olefins Ltd.) increased by 7.6% compared with the turnover in the same period last year. The increase in sales turnover derived mainly from the increase in the quantities of products sold and the increase in sales prices.

Sales turnover in the aromatics segment (carried out via Gadiv) increased in the reporting period by approximately 12.1% compared with the turnover in the same period last year. The increase derived mainly from an increase in sales prices due to the demand for downstream products in the petrochemicals industry and due to the shortage of global manufacturing capacity and from an increase in sales quantities.

3.3 Gross profit

The following table presents details of the principal factors involved in the increase in gross profit in the refining segment, compared with the same period last year – pro forma (in NIS millions):

	March 31, 2007 compared with March 31, 2006
Increase in margin from refining operations	129
Increase in volume of refining and sales	12
Decrease as a result of the upward revaluation of the shekel versus the dollar	(82)
Decrease in other revenues	(13)
Increase in production expenses	(14)
	<u>32</u>

The margin from refining operations is the difference between revenues from sales of the basket of products that the Company sells, and the cost of raw materials that it purchases, ex-refinery (dollars per ton). The cost of raw materials includes also the hedging activity in respect of the inventory of crude oil and distillates, as described below in the chapter dealing with risk management:

	First quarter	Second quarter	Third quarter	Fourth quarter	Annual average
2007	67.5	-	-	-	-
2006	53.1	61.7	52.9	30.9	51.1

The size of the refining margin is a derivative of market forces acting on two different planes – one, the supply and demand of crude oil and the other – supply and demand of end products.

For a more in-depth review, see the annual financial statements (paragraph 1.6.2 of the description of the business affairs of the company).

The decrease in crude oil prices and refining margins that occurred in the fourth quarter of the previous year turned out to be temporary. During the reporting period, the refining margins increased to \$67.5 per ton, from an average level of \$30.9 per ton in the fourth quarter of the previous year. The refining margins are higher than the average refining margins of Mediterranean Sea oil refineries having cracking capabilities in respect of Ural-type crude oil. The refining margins for the first quarter of 2007 amounted to \$41.6 per ton.

During the reporting period, as in the same period last year, there were no changes in the basic economic conditions that existing in the relevant periods. Demand for oil and its distillates continued, against rigid supplies of production and refining. Threats of cutbacks of oil production on the part of the oil producing cartel production and supply difficulties in Iraq and Nigeria, diplomatic problems with Iran, limited supply on the one hand, while on the other hand, demand for oil products continued to grow in the U.S., China, and India. These forces caused a decrease in the gap between supply and demand.

In the refining segment described above, there was a \$14 per ton increase in the average refining margin when compared with the same period last year. However, as a result of the continued upward revaluation of the exchange rate of the NIS against the dollar, the shekel margin was eroded by more than half.

The decrease in other income during the reporting period when compared with the same period last year was caused mainly by the decrease in infrastructure income and due to the erosion in revenues from power and water services which are linked to the price of fuel oil and the rate of the dollar.

The increase in production expenses in the refining segment during the reporting period, in an amount of NIS 14 million, when compared with the same period last year, derived mainly from an increase in the amortization of periodic maintenance of facilities, from the volume of expenses in respect of power and water services, and from insurance costs as a result of an increase in rates.

Gross profit for the reporting period in the polymers segment amounted to approximately NIS 46 million, compared with NIS 43 million in the same period last year, an increase of approximately NIS 3 million. The increase in profit in this segment in the reporting period when compared with the same period last year derived mainly from a decrease in the prices of inputs which was offset by an increase in fixed expenses and from the activation of the ethylene facility.

In the reporting period, gross profit for the aromatics segment amounted to NIS 37 million, similar to the same period last year. The decrease in the margin (the price of the raw materials basket in excess of the price of the product basket) and in processing fees was fully offset by the increase in the sales volume and the decrease in production costs.

3.4 Selling, general and administrative expenses

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

In the reporting period, selling, general and administrative expenses amounted to approximately NIS 113 million, compared with approximately NIS 80 million in the same period last year. The NIS 33 million increase during the reporting period derived mainly from the provision in respect of demands for payment of various levies and municipal taxes in respect of property.

3.5 Operating income and EBITDA (earnings before interest, taxes, depreciation and amortization)

The operating income of the refining segment amounted to NIS 301 million during the reporting period, compared with NIS 295 million during the same period last year, an increase of 2%. The NIS 6 million increase in operating income derived from the NIS 32 million increase in gross profit as explained above, offset by the NIS 26 million increase in selling, general and administrative expenses. The EBITDA of the refining segment amounted to NIS 361 million during the reporting period, compared with NIS 355 million in the same period last year, an increase of 2%.

The operating income of the polymer segment amounted to NIS 43 million during the reporting period, compared with NIS 33 million during the same period last year, an increase of 6%. The EBITDA of the polymer segment amounted to NIS 50 million during the reporting period, compared with NIS 43 million in the same period last year, an increase of 16%.

The operating income of the aromatics segment amounted to NIS 12 million during the reporting period, compared with NIS 18 million during the same period last year, a decrease of 33%. The EBITDA of the aromatics segment amounted to NIS 24 million during the reporting period, compared with NIS 30 million in the same period last year, a decrease of 20%.

3.6 Financing expenses

During the reporting period, the Company's financing income amounted to approximately NIS 2 million, compared with an expense of approximately NIS 28 million in the same period last year.

The following table presents an explanation of the changes in financing expenses compared with the same period last year (in NIS millions):

	1-3/2007 compared with 1-3/2006
Decrease in expenses, mainly due to the effect of the appreciation of the exchange rate of the dollar during the reporting period, compared with a devaluation during the corresponding period, on long-term dollar credit	47
Increase in the cost of long-term dollar credit due to the increase in volume	(31)
Decrease in expenses, mainly due to the decrease in the volume of credit and the decrease in the ICPI and interest, on long-term shekel credit	7
Decrease in credit fees from customers of the Company due to the effect of appreciation and decrease in the volume of credit and the increase in interest in respect thereof	(9)
Decrease in the volume of short-term shekel credit	14
Decrease in other expenses, offset by current hedging transactions and including income on the securities portfolio	2
	<u>30</u>

3.7 Privatization grant

During the first quarter of 2007, the State of Israel completed the process of privatizing the Company. As part of the privatization process and as part of agreements with employees as defined in the agreement (including employees of Gadiv), the employees are entitled to a privatization grant from the State. The Government Companies Authority applied the entitlement to the privatization grant also to employees of Carmel Olefins and Haifa Basic Oils, proportionate to the percentage held by ORL (directly and indirectly) in each of those companies. The privatization grant, in an amount of NIS 118 million, was received from the State of Israel and recorded as an expense against a capital reserve (a net amount of NIS 106 million after the tax effect).

3.8 Income tax

In the reporting period, the Group recorded tax expenses of approximately NIS 90 million, compared with approximately NIS 93 million in the same period last year.

The NIS 3 million decrease in tax expenses between the periods derived for the most part from the decrease in pre-tax profit, offset by the excess tax on the privatization grant and partially by tax differentials in respect of prior years.

3.9 Company's share in earnings of investee companies

The Company's share in the earnings of investee companies in the reporting period amounted to approximately NIS 10 million compared with approximately NIS 11 million in the same period last year.

4. Exposure to and methods of market risk management

4.1 There were no changes in the risk management policy of the companies and in the parties responsible for market risk management as reported in the report of the board of directors on the affairs of the Company for the period ended December 31, 2006 and in the notes to the financial statements for the same year.

4.2 Sensitivity testing regarding the exposure to market risks

General

Long-term dollar loans and debentures

The Company's dollar loans bear interest at variable rates, set once a quarter on the basis of the LIBOR rate for three months (as of the date of the report – 5.35%), plus a margin that reflects the Company's risk premium on the date of recruitment of the loan.

The loans of the Company are presented at fair value, reflecting the future cash flows discounted at the appropriate risk-free interest rate, plus the Company's risk premium as of the balance sheet date.

The sensitivity analysis was made for the following risk factors: changes in exchange rates, changes in the variable dollar interest rate, and changes in the Company's risk premium.

ICPI-linked debentures

ICPI-linked debentures floated by the Company, bearing fixed interest.

The debentures are presented at fair value which reflects the future cash flows discounted at a real interest rate, based on government bonds for the appropriate term, plus a margin as of the balance sheet date.

The sensitivity analysis was made for the following risk factors: changes in real interest rates, and changes in the Company's risk premium.

Interest SWAP transactions

The Company entered into interest SWAP transactions in which it undertook to pay fixed interest against a receipt of variable interest.

The swapping transactions are presented at fair value which reflects the future cash flows discounted at a risk-free interest rate, plus a margin.

The sensitivity analysis was made for the following risk factors: changes in exchange rates, changes in the risk-free dollar interest rate, and changes in the Company's risk premium.

Forward transactions

The Company executing hedging transactions, using forward transactions on the dollar-shekel exchange rate for the short term.

The forward transactions were presented at fair value as of the balance sheet date.

The sensitivity analysis was made for the following risk factors: changes in exchange rates, changes in risk-free dollar interest rates, and changes in the risk-free shekel interest rate.

Future contracts

In order to neutralize the exposure created from the date of the setting of the price of crude oil and which lasts until the date the sales prices of the distillates are set, the Company sold negotiable contracts for the future sale of crude oil at fixed prices. Concurrent with the setting of the sales price of products produced from the hedged inventory, the Company purchases contracts on the futures market, thereby fixing the price of the inventory and reducing the risk of changes in market prices. Purchases of "long" positions as part of the fixing of the value of the inventory are made in some instances to neutralize the base risk of a discrepancy between the price of the physical load and the futures contract. The results of the hedging are carried to the results of operations concurrent with the realization of the inventory.

The contracts are presented at their fair value which is based on market price quotes as of the balance sheet date.

The sensitivity analysis was made for the following risk factors: changes in exchange rates, and changes in the price of the inventory.

SWAP hedging

In order to hedge its future cash flows, the Company fixed refining margins for specific refining quantities for periods following the reporting period. The Company fixes the refining margins by use of SWAP transactions which are not traded over the counter and adapts the hedging activity to the production mix the Company intends on producing, to the extent possible. The results of the hedging are carried to the income statement concurrent with the recording of the results of the transactions they were intended to hedge.

The SWAP transactions are presented at their fair value which reflects the future cash flows discounted at a risk-free interest rate that is appropriate to the period of time.

The sensitivity analysis was made for the following risk factors: changes in exchange rates, changes in the risk-free dollar interest rate for the appropriate periods, and changes in the future prices of products included in the SWAP transactions.

Crude oil and distillates inventory

The inventory is presented at its fair value, on the basis of the balances on the balance sheet date, net of the sales in the local market, the price of which was set.

The sensitivity analysis was made for the following risk factors: changes in exchange rates, and changes in the price of the inventory.

Accounts receivable and accounts payable

The balances of accounts receivable and accounts payable include only dollar balances.

The fair value is the market value at the balance sheet date.

The sensitivity analysis was made for changes in the exchange rate.

Securities portfolio

The securities portfolio is broken up into various investment channels, on the basis of the average life span of the investment in each channel.

The fair value is the market value at the balance sheet date.

The sensitivity analysis was made for the risk factors that characterize the composition of the portfolio: changes in exchange rates, changes in the risk-free dollar interest rate, changes in the risk-free shekel interest rate, and changes in the real interest rate.

4.2.1 Table summarizing differences in fair value in view of the sensitivity testing on the dollar/shekel exchange rate:

	Profit (loss)		Fair value 31.3.2007	Profit (loss)	
	+10%	+5%		-5%	-10%
Exchange rates	4.5705	4.36275	4.155	3.94725	3.7395
	In thousands of NIS				
Long-term dollar loans	(211,752)	(105,876)	(2,117,519)	105,876	211,752
Long-term dollar debentures	(2,660)	(1,330)	(26,598)	1,330	2,660
Interest SWAP transactions	924	462	9,236	(462)	(924)
Future contracts	(7,345)	(3,672)	(73,449)	3,672	7,345
SWAP hedging	3,218	1,609	32,177	(1,609)	(3,218)
Inventory	170,110	85,055	1,701,104	(85,055)	(170,110)
Trade accounts receivable	130,999	65,500	1,309,993	(65,500)	(130,999)
Trade accounts payable	(94,971)	(47,486)	(949,713)	47,486	94,971
Dollar-linked securities portfolio	4,150	2,075	41,497	(2,075)	(4,150)
Forward contracts	(2,067)	(1,033)	13	1,033	2,067
	<u>(9,394)</u>	<u>(4,696)</u>	<u>(73,259)</u>	<u>4,696</u>	<u>9,394</u>

4.2.2 Table summarizing differences in fair value in view of the sensitivity testing on the dollar interest rate:

Interest in dollar loans	Profit (loss)		Fair value 31.3.2007	Profit (loss)	
	+10%	+5%		-5%	-10%
	In thousands of NIS				
Long-term dollar loans	(43)	(22)	(2,117,519)	22	44
Long-term dollar debentures	5	2	(26,598)	(2)	(5)
Interest SWAP transactions	2,064	1,034	9,236	(1,039)	(2,082)
SWAP hedging	(95)	(48)	32,117	48	96
Dollar-linked securities portfolio	(68)	(304)	41,497	304	608
Forward contracts	9	4	13	(4)	(9)
	<u>1,872</u>	<u>666</u>	<u>(2,061,254)</u>	<u>(671)</u>	<u>(1,348)</u>

4.2.3 Table summarizing differences in fair value in view of the sensitivity testing on the price of crude oil and distillates:

	Profit (loss)		Fair value 31.3.2007	Profit (loss)	
	+10%	+5%		-5%	-10%
	In thousands of NIS				
Future contracts	(95,629)	(47,814)	(73,449)	47,814	95,629
SWAP hedging	(23,979)	(11,990)	32,177	11,990	23,979
Inventory	170,110	85,055	1,701,104	(85,055)	(170,110)
	<u>50,502</u>	<u>25,251</u>	<u>1,659,832</u>	<u>(25,251)</u>	<u>(50,502)</u>

4.2.4 Table summarizing differences in fair value in view of the sensitivity testing on shekel interest in real terms:

	Profit (loss)		Fair value 31.3.2007	Profit (loss)	
	+10%	+5%		-5%	-10%
	In thousands of NIS				
ICPI-linked securities portfolio	(3,478)	(1,739)	212,462	1,739	3,478
ICPI-linked long-term shekel debentures	8,151	4,092	(917,413)	(4,126)	(8,285)
	<u>4,673</u>	<u>2,353</u>	<u>(704,951)</u>	<u>(2,387)</u>	<u>(4,807)</u>

4.2.5 Table summarizing differences in fair value in view of the sensitivity testing on risk-free shekel interest:

	Profit (loss)		Fair value 31.3.2007	Profit (loss)	
	+10%	+5%		-5%	-10%
	In thousands of NIS				
Shekel securities portfolio	(1,745)	(872)	167,951	872	1,745
Forward contracts	(7)	(3)	13	3	7
	<u>(1,752)</u>	<u>(875)</u>	<u>167,964</u>	<u>875</u>	<u>1,752</u>

4.2.6 Table summarizing differences in fair value in view of the sensitivity testing on the risk premium:

	Profit (loss)		Fair value 31.3.2007	Profit (loss)	
	+10%	+5%		-5%	-10%
	In thousands of NIS				
Long-term dollar loans	5,983	2,995	(2,117,519)	(3,001)	(6,008)
Long-term dollar debentures	90	45	(26,598)	(45)	(90)
Long-term shekel debentures	3,248	1,627	(917,413)	(1,632)	(3,269)
Interest SWAP transactions	(9)	(4)	9,236	4	9
	<u>9,312</u>	<u>4,663</u>	<u>(3,052,294)</u>	<u>(4,674)</u>	<u>(9,358)</u>

- The Company's risk premium which is inherent in the calculations is fixed for all periods of time due to immateriality.
- The sensitivity tests described above tested the items and derivatives included in the Company's balance sheet as of March 31, 2007 that are exposed to changes in fair value as a result of changes in market risks.
- The sensitivity tests do not take into consideration the coefficients between the various risk factors.

The following tables present the sensitivity analysis from the report on market risks of Carmel Olefins:

1. Table summarizing differences in fair value in view of the sensitivity testing on the exchange rates:

Change in exchange rate	Profit (loss)		Profit (loss)	
	+10%	+5%	-5%	-10%
	In thousands of NIS			
Trade accounts receivable - dollar	38,527	19,264	(19,264)	(38,527)
Trade accounts receivable – euro	9,901	4,951	(4,951)	(9,901)
Trade accounts receivable – sterling	4,331	2,165	(2,165)	(4,331)
Trade accounts payable – dollar	(13,865)	(6,932)	6,932	13,865
Trade accounts payable – euro	(1,223)	(611)	611	1,223
Long-term loans – dollar	(93,157)	(46,578)	46,578	93,157
Long-term loans – euro	(29,484)	(14,742)	14,742	29,484
Hedging transactions – dollar	35,485	17,743	(17,743)	(35,485)
Hedging transactions – euro	9,574	4,787	(4,787)	(9,574)
Hedging transactions – sterling	3,697	1,849	(1,849)	(3,697)

2. Table summarizing differences in fair value in view of the sensitivity testing on interest rates:

Change in interest rate	Profit (loss)		Fair value	Profit (loss)	
	+10%	+5%		-5%	-10%
	In thousands of NIS				
Long-term dollar loans	5,517	2,184	(933,626)	(2,931)	(5,982)
Long-term euro loans	2,191	1,468	(295,432)	(14,851)	(2,987)

3. Table summarizing differences in fair value in view of the sensitivity testing on shekel interest in real terms:

Change in interest	Profit (loss)		Fair value	Profit (loss)	
	+10%	+5%		-5%	-10%
	In thousands of NIS				
ICPI-linked long-term shekel debentures	30,191	15,275	(850,000)	(15,643)	(31,664)

4.3 Maximum holding of derivatives, consolidated

Maximum holding of derivatives for crude oil and distillates inventory in the reporting period of sale position amounted to NIS 1.7 billion.

The maximum holding of derivatives for currency in the reporting period, of the total purchase positions was NIS 835 million and of the total sale positions was NIS 829 million.

4.4 Consolidated Linkage Bases

As of March 31, 2007 (in thousands of reported NIS)

	Index-linked	Foreign currency- linked (*)	Unlinked	Non- monetary	Total
<u>Assets</u>					
Cash	-	44,189	153,204	-	197,393
Trade and other accounts receivable and debit balances	-	1,743,224	501,553	51,448	2,296,225
Futures purchases	-	20,775	-	-	20,775
Inventory of fuel products	-	1,811,350	875,059	85,102	2,771,511
Affiliated companies	-	-	-	179,841	179,841
Deposits and loans(**)	-	-	9,869	-	9,869
Loan to Haifa Early Pensions Ltd.	299,592	-	-	-	299,592
Severance pay fund, net	-	-	-	39,641	39,641
Fixed assets	-	-	-	3,922,314	3,922,314
Quoted securities	212,462	41,497	167,951	-	421,910
Other assets	-	-	-	47,175	47,175
Total assets	<u>512,054</u>	<u>3,661,035</u>	<u>1,707,636</u>	<u>4,325,521</u>	<u>10,206,246</u>
<u>Liabilities</u>					
Short-term credit and loans	-	(170,528)	(312,941)	-	(483,469)
Trade and other accounts payable and credit balances	(60,108)	(1,138,317)	(660,025)	-	(1,858,450)
Futures sales	-	-	(20,675)	-	(20,675)
Deferred taxes	-	-	-	(491,242)	(491,242)
Authorization fees	(29,247)	-	-	-	(29,247)
Liability for employee severance pay	-	-	-	(271,189)	(271,189)
Long-term loans (**)	(1,310,300)	(2,776,410)	-	15,737	(4,070,973)
Total liabilities	<u>(1,399,655)</u>	<u>(4,085,255)</u>	<u>(993,641)</u>	<u>(746,694)</u>	<u>(7,225,245)</u>
Net balance	<u>(887,601)</u>	<u>(424,220)</u>	<u>713,995</u>	<u>3,578,827</u>	<u>2,981,001</u>

(*) Mainly linked to the dollar

(**) Including current maturities

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

5. Liquidity

Working capital as of March 31, 2007 amounted to approximately NIS 2,056 million compared with NIS 1,973 million as of December 31, 2006. The current ratio as of March 31, 2007 was approximately 1.6 compared with approximately 1.5 as of December 31, 2006.

Cash flows used in current operations in the reporting period amounted to approximately NIS 542 million, compared with cash flows of NIS 183 million provided by current operations in the same period last year and NIS 671 million in all of the previous year. The transition to use of cash flows for current operations in the current period as opposed to the increase in cash from current operations in the same period last year derived from the decrease in the fixed cash flows generated by the Company as a result of the decrease in its earnings, as well as an increase in working capital during the reporting period.

Cash flows used in investment activity amounted to NIS 414 million, compared with cash flows of NIS 321 million in the same period last year and cash flows of NIS 2,251 million received in the entire previous year from the sale of the Ashdod oil refinery, offset by the investment in fixed assets. In addition to investments in facilities mainly by the Company and by Carmel Olefins, the Company granted a loan to Haifa Early Pensions Ltd., see Note 3.

Cash flows provided by financing activity during the reporting period amounted to NIS 630 million, compared with cash flows of NIS 130 million provided by financing activity during the same period last year and a negative cash flow of NIS 2,427 million during the entire previous year. The source of the increase in cash from financing activity is the issuance of debentures by Carmel Olefins and the raising of short-term credit by the Company, in excess of the repayment of short-term credit by Carmel Olefins. In the compared periods, the major activity derived from the payment of a dividend, offset by loans received.

6. Sources of financing

The following is the composition of the corporation's sources of financing:

	Three month period ended		Year ended
	March 31,		December 31,
	2007	2006	2006
	(unaudited)		(audited)
	In million of NIS		
Sources			
Proceeds from sale of Ashdod - Oil Refineries Ltd.	-	-	3,251
Cash from current operations (prior to changes in working capital)	207	441	552
Long-term loans and debentures	586	145	2,141
Receipt of short-term credit and deposits from customers	220	769	6
	<u>1,013</u>	<u>1,355</u>	<u>5,950</u>
Uses			
Investments in fixed and other assets	115	321	1,001
Loan to Haifa Early Pensions Ltd.	300	-	-
Repayment of long term loans and debentures	154	82	266
Payment of dividend	20	702	3,382
Repayment of short term credit and deposits from customers	-	-	924
Increase in working capital	424	250	377
	<u>1,013</u>	<u>1,355</u>	<u>5,950</u>

Long term loans and debentures

The long term loans and debentures (after deduction of current maturities) amounted to approximately NIS 3,185 million, and constitute approximately 31% of the balance sheet compared with approximately NIS 3,061 million which constituted approximately 29% as of December 31, 2006. The proceeds of the loans are used to finance investments in fixed assets and to finance working capital. Financial leverage (long term loans and debentures to shareholders' equity plus long term loans and debentures) is approximately 52% and was approximately 53% in the balance sheet of December 31, 2006.

Total financial liabilities

Financial liabilities – current financial liabilities plus long term loans and debentures amounted to approximately NIS 4,554 million and constitute approximately 45% of the balance sheet compared with approximately NIS 3,960 million which constituted approximately 38% as of December 31, 2006. Financial leverage of total financial liabilities to banks and other credit providers is approximately 60% compared with approximately 59% as of December 31, 2006.

Average volume of sources of finance in the reporting period (NIS millions).

Long term loans (including current maturities) – 3,200, short term credit - 200, suppliers – 1,800, customers - 2,000.

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

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

1. the contents of Note 16B(1) to the financial statements as of December 31, 2006 regarding the civil suit filed by the Movement for Quality Government against the State of Israel, the Company, and the Israel Corporation Ltd. requesting declaratory relief, whereby on October 18, 2003, the Company was required to transfer ownership to the State of Israel, without consideration, all of the assets the Company owned at that time. This suit is a recycling of an appeal submitted to the High Court of Justice against a compromise arrangement reached between the State of Israel, the Company and the Israel Corporation, which appeal was rejected by the High Court of Justice. The State of Israel, the Company, and the Israel Corporation petitioned to have the claim summarily dismissed and the Company filed a defense brief. In the opinion of the Company, based on its legal counsel, it is unreasonable that the court will intervene in the compromise reached by the parties to a dispute to which the Movement for Quality Government is not party and which was approved by the High Court of Justice.
2. the contents of Note 16B(2) to the financial statements as of December 31, 2006 regarding the suits filed against the Company and certain investee companies, claiming that the bodily injury and property damage caused to the plaintiffs were the result of the pollution of the Kishon River in which the plaintiffs allege the Company and the stipulated investees have a share, and regarding the demand of the Ministry for Environmental Protection that the Company bear the costs of removing polluted sludge from the Kishon River. Based on the opinion of the legal counsels of the Company and its investee companies, Company Management is unable to assess the amount of the exposure, if any exists, and therefore, no provision regarding this matter was included in their financial statements.
3. the contents of Note 16B(3) of the financial statements as of December 31, 2006 regarding a petition that was filed with the district court to have a suit against the Company and against an investee of the Company recognized as a class action. The plaintiffs claimed that events involving emission of smoke from the Company's plants, which occurred on two different dates, provided the plaintiffs with the basis for the claim under the Torts Ordinance, especially the claim of negligence. Subsequent to the balance sheet date, the class action against the investee company was erased by mutual consent. The Company notes that the suit is covered by an insurance policy and the Company has been acting in coordination with its insurers.
4. the contents of Note 6(5) to the financial statements as of March 31, 2007 regarding the suit in an amount of NIS 147 million filed by two fuel companies which, together with the Company, hold the shares of Haifa Basic Oils Ltd. The major claim of the suit is that the Company did not supply feedstocks to Haifa Basic Oils in an appropriate quantity and of an appropriate quality and, as a result, the plaintiffs suffered damages. Due to the early stages of the suit, the Company, based on the opinion of its legal counsel, does not possess sufficient information to assess the chances of the suit.
5. to the contents of Note 20D to the financial statements as of December 31, 2006 regarding the dependency of the Company on receipt of services from infrastructure companies.

8. Meetings of the board of directors

During the reporting period, 8 meetings of the board of directors were held, and 4 meetings were held of committees of the board of directors.

9. Adoption of International Financial Reporting Standards (IFRS)

In July 2006, the Israeli Accounting Standards Board issued Accounting Standard No. 29 – "Adoption of International Financial Reporting Standards (IFRS)" (hereinafter – the "Standard"). The Standard prescribes that companies that are subject to the Securities Law and that are required to file reports under the provisions of this law shall present their financial statements in accordance with International Financial Reporting Standards (hereinafter – "IFRS Standards"). This stipulation applies to periods commencing on or after January 1, 2008.

According to Accounting Standard No. 29, the Company must include in a note to the financial statements as of December 31, 2007, balance sheet data as of December 31, 2007 and statement of income data for the year then ended after such data were subjected to the recognition, measurement and presentation guidelines of IFRS standards.

A. The following phases were set out by Company Management for the IFRS process:

1. A review of IFRS standards.

2. Mapping of the IFRS standards that are relevant to the Company and the impact of which on the financial statements require an in-depth analysis.
 3. Setting out an accounting policy for the Company.
 4. Identification of consultants (appraisers and actuaries) that can assist the Company in the implementation of IFRS.
- B. The steps to be taken until the issuance of the financial statements for the second quarter of 2007 are as follows:
1. Preparation of an opening trial balance in dollars.
 2. Conducting appraisals of the property and equipment of the Company (done during the quarter for purposes of implementing Accounting Standard No. 27).
 3. Conducting actuarial appraisals of the liabilities for employee severance pay as of the transition date.
 4. Obtaining the assessments of legal counsel and insurance companies regarding the value of contingent liabilities.
- C. The steps to be taken until the issuance of the financial statements of the year ended December 31, 2007 are as follows:
1. Completion from a qualitative and quantitative standpoint of the expected additional ramification of adoption of IFRS Standards.
 2. Preparation of a balance sheet as of December 31, 2007 in accordance with IFRS standards.
 3. Preparation of a statement of income for the year ended December 31, 2007 in accordance with IFRS standards.
- D. From an initial assessment of the ramifications of the transition to IFRS standards, the Company estimates that the major changes relevant to the Company and which are expected to impact on its financial statements are as follows:
1. The functional currency – the functional currency of the Company will change from the shekel to the dollar.
 2. Upon adoption of International Financial Reporting Standards, the Company intends on implementing the fair value as deemed cost model regarding fixed asset items.
 3. Benefits to employees – the Company expects changes in the allowances for employee severance pay as a result of the measurement made by the actuary.
 4. Provisions and contingent liabilities – according to common practice in Israel, a provision is recorded to settle a liability if it is reasonable that economic resources will be expended to settle the liability. According to IFRS, the provision should be recorded if it is more probable than not that economic resources will be expended to settle the liability. The Company has been assessing the possible impact of the change in standard.

The information regarding the ramifications of the transition to IFRS standards, as above, is forward looking information. It is possible that such assessments will not be realized or will be realized in a different fashion as a result of circumstances that are not under the control of the company, among other things, in view of the need to rely on experts.

Ohad Marani
Chairman of the Board

Yashar Ben Mordechai
General Manager

May 28, 2007

Certified Public Accountants (Isr)
Member firm of Grant Thornton

The Board of Directors
Oil Refineries Ltd.
HAIFA

Dear Sirs:

**Re: Review of the Unaudited Condensed Interim Consolidated Financial
Statements for the Three-Month Period ended March 31, 2007**

At your request, we have reviewed the condensed consolidated interim balance sheet of "Oil Refineries Limited" (hereinafter - the "Company") and subsidiaries as of March 31, 2007, and the related condensed consolidated statement of income, condensed statement of changes in shareholders' equity and condensed consolidated statement cash flows for the three-month period then ended.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel and included, inter alia, reading the said condensed financial statements, reading the minutes of the shareholders' meetings and of the meetings of the Board of Directors and its committees, as well as making inquiries of persons responsible for financial and accounting matters.

We were furnished with reports of other auditors regarding the review of the condensed interim financial statements of a subsidiary whose assets included in the condensed consolidated balance sheet as of March 31, 2007 constitute approximately 13% of total consolidated assets and whose revenues included in the condensed consolidated statement of income for the three month period ended March 31, 2007 constitute approximately 10% of total consolidated revenues. In addition, the data presented in the consolidated financial statements, which relate to the equity of affiliated companies and to the share of the Company in the results of operations of those companies are based on financial statements that were reviewed by other auditors.

Since the review performed is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the condensed financial statements.

During the performance of our review, including reading review reports of other auditors as stated above, nothing came to our attention that would necessitate any material modifications to the condensed financial statements referred to above in order for them to be in conformity with generally accepted accounting principles and in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Moreover, at your request, we reviewed the pro forma condensed consolidated interim balance sheet of the Company and its subsidiaries as of March 31, 2007 and the pro forma condensed consolidated statement of income for the three-month period ended March 31, 2007. We were furnished with the reports of other auditors regarding the review of the condensed interim financial statements of a subsidiary whose assets included in the pro forma condensed consolidated balance sheet as of March 31, 2007 constitute approximately 13% of total consolidated assets and whose revenues included in the pro forma condensed consolidated statement of income for the three month period ended March 31, 2007 constitute approximately 10% of total consolidated revenues. In addition, the data presented in the consolidated financial statements, which relate to the equity of affiliated companies and to the share of the Company in the results of operations of those companies are based on financial statements that were reviewed by other auditors.

Since the review performed is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the pro forma condensed consolidated financial statements.

During the performance of our review, including reading review reports of other auditors as stated above, nothing came to our attention that would necessitate any material modifications to the pro forma condensed financial statements referred to above in order for them to be in conformity with generally accepted accounting principles, on the basis of the assumptions set out in Note 7.

Head Office:
Levinstein Tower
23 Menachem Begin Rd.
Tel-Aviv 66184
PO Box 36172, Tel-Aviv 61361
Israel

Without qualifying our opinion, we draw attention to:

1. the contents of Note 16B(1) to the financial statements as of December 31, 2006 regarding the civil suit filed by the Movement for Quality Government against the State of Israel, the Company, and the Israel Corporation Ltd. requesting declaratory relief, whereby on October 18, 2003, the Company was required to transfer ownership to the State of Israel, without consideration, all of the assets the Company owned at that time. This suit is a recycling of an appeal submitted to the High Court of Justice against a compromise arrangement reached between the State of Israel, the Company and the Israel Corporation, which appeal was rejected by the High Court of Justice. The State of Israel, the Company, and the Israel Corporation petitioned to have the claim summarily dismissed and the Company filed a defense brief. In the opinion of the Company, based on its legal counsel, it is unreasonable that the court will intervene in the compromise reached by the parties to a dispute to which the Movement for Quality Government is not party and which was approved by the High Court of Justice.
2. the contents of Note 16B(2) to the financial statements as of December 31, 2006 regarding the suits filed against the Company and certain investee companies, claiming that the bodily injury and property damage caused to the plaintiffs were the result of the pollution of the Kishon River in which the plaintiffs allege the Company and the stipulated investees have a share, and regarding the demand of the Ministry for Environmental Protection that the Company bear the costs of removing polluted sludge from the Kishon River. Based on the opinion of the legal counsels of the Company and its investee companies, Company Management is unable to assess the amount of the exposure, if any exists, and therefore, no provision regarding this matter was included in their financial statements.
3. the contents of Note 16B(3) of the financial statements as of December 31, 2006 regarding a petition that was filed with the district court to have a suit against the Company and against an investee of the Company recognized as a class action. The plaintiffs claimed that events involving emission of smoke from the Company's plants, which occurred on two different dates, provided the plaintiffs with the basis for the claim under the Torts Ordinance, especially the claim of negligence. Subsequent to the balance sheet date, the class action against the investee company was erased by mutual consent. The Company notes that the suit is covered by an insurance policy and the Company has been acting in coordination with its insurers.
4. the contents of Note 6(5) to the financial statements as of March 31, 2007 regarding the suit in an amount of NIS 147 million filed by two fuel companies which, together with the Company, hold the shares of Haifa Basic Oils Ltd. The major claim of the suit is that the Company did not supply feedstocks to Haifa Basic Oils in an appropriate quantity and of an appropriate quality and, as a result, the plaintiffs suffered damages. Due to the early stages of the suit, the Company, based on the opinion of its legal counsel, does not possess sufficient information to assess the chances of the suit.
5. to the contents of Note 20D to the financial statements as of December 31, 2006 regarding the dependency of the Company on receipt of services from infrastructure companies.

Fahn Kanne & Co.
Certified Public Accountants (Isr.)

Tel Aviv, May 28, 2007

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OIL REFINERIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

In thousands of reported NIS

	Note	March 31, 2007 Unaudited	March 31, 2006 ^(**)	December 31, 2006 Audited
Current assets				
Cash and cash equivalents		197,393	20,733	523,570
Trade accounts receivable		1,821,455	2,207,575	2,175,459
Receivables and debit balances		498,071	459,260	454,701
Inventory		<u>2,770,426</u>	<u>4,658,441</u>	<u>2,738,321</u>
		<u>5,287,345</u>	<u>7,346,009</u>	<u>5,892,051</u>
Long-term investments and loans				
Investee companies		179,841	170,555	191,002
Loan to Haifa Early Pensions Ltd.	3	299,592	-	-
Long-term loans and debit balances		7,343	27,936	7,409
Excess of funded amounts over the liability for severance pay, net		<u>39,641</u>	<u>46,550</u>	<u>45,458</u>
		<u>526,417</u>	<u>245,041</u>	<u>243,869</u>
Fixed assets				
Property, plant and equipment	2D(3)	3,711,566	4,130,847 ^(*)	3,701,744
Materials and spare parts		210,748	206,825	200,372
Fund for investment in fixed assets		<u>421,910</u>	<u>400,962</u>	<u>414,749</u>
		<u>4,344,224</u>	<u>4,738,634</u>	<u>4,316,865</u>
Other assets and deferred expenses		<u>47,175</u>	<u>53,701^(*)</u>	<u>48,100</u>
		<u>10,205,161</u>	<u>12,383,385</u>	<u>10,500,885</u>

(*) Reclassified.

(**) Restated – see Note 2C.

Ohad Marani
Chairman of the Board

Uzi Netanel
Director

Y. Ben-Mordechai
General Manager

J. Hirsh
Deputy General
Manager – Finance

Date of approval: May 28, 2007

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

OIL REFINERIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

In thousands of reported NIS

	March 31, 2007	2006^(**)	December 31, 2006
	Unaudited		Audited
Current liabilities			
Credit from banking institutions and other credit providers	1,369,470	2,280,471	899,142
Suppliers and service providers	1,320,640	2,493,289	2,214,883
Payables and credit balances	541,340	657,167	785,309
Declared dividend	-	16,535	20,000
	<u>3,231,450</u>	<u>5,447,462</u>	<u>3,919,334</u>
Long-term liabilities			
Debentures	987,312	1,333,446	854,799
Bank loans	2,197,660	925,962	2,205,647
Deferred taxes	511,917	666,716	498,352
Liability in respect of financing lease	29,247	39,279	29,275
Liability for severance pay, net	268,659	225,103	278,801
	<u>3,994,795</u>	<u>3,190,506</u>	<u>3,866,874</u>
Total liabilities	<u>7,226,245</u>	<u>8,637,968</u>	<u>7,786,208</u>
Shareholders' equity	<u>2,978,916</u>	<u>3,745,417</u>	<u>2,714,677</u>
	<u>10,205,161</u>	<u>12,383,385</u>	<u>10,500,885</u>

(**) Restated – see Note 2C.

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

OIL REFINERIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

In thousands of reported NIS

		Three month period ended March 31,		Year ended December 31,
		2007	2006^(**)	2006
	Note	Unaudited		Audited
Revenues		4,796,034	7,253,644	28,497,803
Cost of sales, refining and services		<u>4,335,820</u>	<u>6,637,938</u>	<u>26,764,492</u>
Gross profit		460,214	615,706	1,733,311
Selling expenses		30,579	24,331	94,702
General and administrative expenses		<u>82,901</u>	<u>67,507</u>	<u>247,345</u>
Operating income		346,734	523,868	1,391,264
Financing income (expenses), net		<u>2,208</u>	<u>(45,732)</u>	<u>166,843</u>
		348,942	478,136	1,224,421
Gain on sale of Ashdod Oil Refinery Ltd. (*)		-	-	1,655,593
Privatization grant	4	(118,529)	-	-
Expenses in respect of early retirement		<u>-</u>	<u>-</u>	<u>(81,000)</u>
Income before taxes on income		230,413	478,136	2,799,014
Taxes on income		<u>90,044</u>	<u>141,292</u>	<u>828,551</u>
Income after taxes on income		140,369	336,844	1,970,463
Company's share in income of investee companies		<u>9,156</u>	<u>10,598</u>	<u>32,570</u>
Net income for the period		<u><u>149,525</u></u>	<u><u>347,442</u></u>	<u><u>2,003,033</u></u>
Earnings per 1 ordinary share (in NIS)		<u><u>0.075</u></u>	<u><u>0.174</u></u>	<u><u>1.001</u></u>

(*) See Statements of Cash Flows.

(**) Restated – see Note 2C.

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

OIL REFINERIES LTD. AND ITS SUBSIDIARIES
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
In thousands of reported NIS

Three month period ended March 31, 2007
Unaudited

	Share capital	Adjustments deriving from the translation of financial statements of autonomous unit	Capital reserve	Retained earnings	Dividend declared after balance sheet date	Total
Balance as of January 1, 2007	919,650	(435)	-	1,795,462	-	2,714,677
Net income for the period	-	-	-	149,525	-	149,525
Share of Company in capital reserve of affiliated company	-	(317)	-	-	-	(317)
Payment of issuance costs on behalf of controlling shareholder	-	-	-	(3,498)	-	(3,498)
Increase of share capital	1,080,350	-	-	(1,080,350)	-	-
Privatization grant paid by the State of Israel to employees of the Group	-	-	118,529	-	-	118,529
Balance as of March 31, 2007	<u>2,000,000</u>	<u>(752)</u>	<u>118,529</u>	<u>861,139</u>	<u>-</u>	<u>2,978,916</u>

Three month period ended March 31, 2006
Unaudited

Balance as of January 1, 2006	919,650	-	-	2,489,690 ^(**)	702,442	4,111,782
Net income for the period	-	-	-	347,442 ^(**)	-	347,442
Share of company in capital reserve of affiliated company	-	340	-	(11,705)	-	(11,365)
Dividend paid	-	-	-	-	(702,442)	(702,442)
Balance as of March 31, 2006	<u>919,650</u>	<u>340</u>	<u>-</u>	<u>2,825,427</u>	<u>-</u>	<u>3,745,417</u>

(**) Restated – see Note 2C.

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

OIL REFINERIES LTD. AND ITS SUBSIDIARIES
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (cont.)
In thousands of reported NIS

Year ended December 31, 2006					
Audited					
	Share capital	Adjustments deriving from the translation of financial statements of autonomous unit	Retained earnings	Dividend declared after balance sheet date	Total
Balance as of January 1, 2006	919,650	-	2,489,690 ^(**)	702,442	4,111,782
Net income for the year	-	-	2,003,033	-	2,003,033
Share of Company in capital reserve of investee company	-	(435)	(11,293)	-	(11,728)
Payment of issuance costs on behalf of controlling shareholder	-	-	(2,503)	-	(2,503)
Dividend declared and paid	-	-	(2,680,000)	(702,442)	(3,382,442)
Cancellation of dividend declared and not paid	-	-	16,535	-	16,535
Dividend paid subsequent to balance sheet date	-	-	(20,000)	-	(20,000)
Balance as of December 31, 2006	<u>919,650</u>	<u>(435)</u>	<u>1,795,462</u>	<u>-</u>	<u>2,714,677</u>

(**) Restated – see Note 2C.

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

OIL REFINERIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of reported NIS

	Three month period ended March 31, 2007	2006	Year ended December 31, 2006
	Unaudited		Audited
Cash flows from operating activities			
Net income for the period	149,525	347,442	2,003,033
Income and expense items not constituting a flow of funds (Appendix A)	<u>57,160</u>	<u>93,292</u>	<u>(1,450,645)</u>
	206,685	440,734	552,388
Changes in the current assets and liabilities (Appendix B)	<u>(748,896)</u>	<u>(257,802)</u>	<u>119,014</u>
Cash provided by (used in) operating activities	<u>(542,211)</u>	<u>182,932</u>	<u>671,402</u>
Cash flows from investment activities			
Net proceeds from sale of Ashdod Oil Refineries Ltd. (Appendix D)	-	-	3,251,409
Repayment of long-term loans to others, net	199	37	1,235
Loan to Haifa Early Pensions Ltd.	(299,592)	-	-
Purchase of fixed assets	(114,750)	(320,104)	(995,620)
Proceeds from realization of fixed assets	-	-	36
Investments in other assets and deferred expenses	<u>-</u>	<u>(761)</u>	<u>(6,112)</u>
Cash provided by (used in) investment activities	<u>(414,143)</u>	<u>(320,828)</u>	<u>2,250,948</u>
Cash flows from financing activities			
Receipt (repayment) of short-term credit	213,919	763,460	(923,911)
Receipt of deposits from customers	6,227	6,100	6,097
Dividend paid	(20,000)	(702,442)	(3,382,442)
Issuance expenses paid on behalf of a controlling shareholder	(1,771)	-	(1,126)
Issuance of debentures	425,000	-	-
Redemption of debentures	(17,040)	-	(34,442)
Receipt of long-term loans	(137,354)	(82,093)	2,140,733
Redemption of long-term loans	<u>161,196</u>	<u>144,967</u>	<u>(232,326)</u>
Cash provided by (used in) financing activities	<u>630,177</u>	<u>129,992</u>	<u>(2,427,417)</u>
Total increase (decrease) in cash and cash equivalents	(326,177)	(7,904)	494,933
Balance of cash and cash equivalents at beginning of the period	<u>523,570</u>	<u>28,637</u>	<u>28,637</u>
Balance of cash and cash equivalents at end of the period	<u>197,393</u>	<u>20,733</u>	<u>523,570</u>

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

OIL REFINERIES LTD. AND ITS SUBSIDIARIES
APPENDICES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS
In thousands of reported NIS

Appendix A – Adjustments to reconcile net income to net cash from operating activities:

	Three month period ended March 31,		Year ended December 31,
	2007	2006^(*)	2006
	Unaudited		Audited
Income and expense items not constituting a flow of funds			
Gain on sale of Ashdod Oil Refineries Ltd.	-	-	(1,655,593)
Depreciation and amortization	86,833	101,920	407,771
Gain on realization of fixed assets	-	-	336
Increase in the value of marketable securities and deposits	(7,160)	(4,457)	(18,242)
Company's share in profit of investee companies	(9,156)	(10,598)	(32,570)
Dividend received from investee companies	20,000	4,630	5,793
Increase (decrease) in liability for severance pay, net	(4,895)	427	74,180
Increase (decrease) in deferred taxes, net	15,787	(6,493)	(164,412)
Inflationary erosion and exchange rate variances of liabilities	(44,249)	7,863	(67,908)
	<u>57,160</u>	<u>93,292</u>	<u>(1,450,645)</u>

Appendix B – Changes in current assets and current liabilities

Decrease (increase) in trade and other receivables and debit balances	411,949	(315,527)	(434,059)
Increase (decrease) in trade and other payables and credit balances	(1,128,740)	643,302	504,761
Increase (decrease) in inventory	(32,105)	(585,577)	48,312
	<u>(748,896)</u>	<u>(257,802)</u>	<u>119,014</u>

Appendix C – Material non-cash activities

Purchase of fixed assets on supplier credit	<u>13,953</u>	<u>26,031</u>	<u>14,198</u>
Credit costs capitalized to fixed assets	<u>7,893</u>	<u>7,018</u>	<u>(40,968)</u>
Expenses in respect of sale of Ashdod Oil Refineries Ltd.	<u>-</u>	<u>-</u>	<u>118,126</u>
Privatization grant paid by the State of Israel to employees of the Group	<u>118,529</u>	<u>-</u>	<u>-</u>
Payment of issuance costs on behalf of controlling shareholder	<u>1,727</u>	<u>-</u>	<u>1,377</u>

(*) Restated – see Note 2C.

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

OIL REFINERIES LTD. AND ITS SUBSIDIARIES
APPENDICES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (cont.)
In thousands of reported NIS

Appendix D – Proceeds from sale of Ashdod Oil Refineries Ltd. (“ORA”)

	Three month period ended March 31,		Year ended December 31,
	2007	2006	2006
	Unaudited		Audited
Assets and liabilities of ORA as of the date of sale (net of selling costs):			
Fixed assets	-	-	689,400
Other assets	-	-	19,693
Spare parts inventory	-	-	34,303
Crude oil and distillates inventory	-	-	1,286,231
Loan to Ashdod Early Pensions Ltd.	-	-	100,000
Long-term loans	-	-	(169,395)
Long-term debentures	-	-	(433,345)
Deferred taxes in respect of real estate	-	-	(5,348)
Other financial liabilities, net	-	-	(43,849)
Expenses in respect of sale of Ashdod Oil Refineries Ltd.	-	-	118,126
Total net assets	-	-	<u>1,595,816</u>
Gain on sale of Ashdod Oil Refineries Ltd.	-	-	<u>1,655,593</u>
Total proceeds from sale	<u>-</u>	<u>-</u>	<u><u>3,251,409</u></u>

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

OIL REFINERIES LTD. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL

- A.** Oil Refineries Ltd. (hereinafter – the "Company" or "ORL") is engaged in crude oil refining and the production of various petroleum products and feedstock for the petrochemical industry. Until 28 September 2006 (date of sale of the Ashdod oil refinery (see Note 7, below)), the Company had two operational sites, one in the Haifa Bay area and the other in Ashdod. In addition, the Company provides water treatment and power generation services (primarily electricity and steam) to a number of industries adjacent to the Haifa refinery.

The Company and its subsidiaries are industrial companies which operate in Israel and are engaged primarily in the production of oil products, feedstocks for the petrochemical industry and aromatic materials for the chemical and plastics industry. The facilities of the subsidiaries are integrated with those of the Company.

- B.** On February 21, 2007, as part of the implementation of the privatization resolution passed by the Israeli government on December 26, 2004, two million shares of the Company that were previously held by the Israeli government were sold, some through a private placement and some through a sales offer to the public. Within this framework, the Israel Corporation Ltd. purchased 36.8% of the shares of the Company and Petroleum Capital Holdings Ltd. purchased 9.2% of the shares of the Company. The Israel Corporation Ltd. and Petroleum Capital Holdings Ltd. notified the Company that they purchased the shares of the Company as part of a binding memorandum agreement between the two companies. Since then, the Israel Corporation Ltd. and Petroleum Capital Holdings Ltd. purchased additional shares and as of the date of the release of the financial statements, they hold 44.23% and 13.39% respectively. On March 26, 2007, the merger between the Company, the Israel Corporation and Petroleum Capital Holdings was approved as required by the Anti-Trust Law – 1988. On May 10, 2007, the Israel Corporation Ltd. notified the Company that it had issued an immediate filing to the Israel Securities Authority and to the Tel Aviv Stock Exchange regarding the cancellation of the memorandum agreement between it and Petroleum Capital Holdings Ltd. and the signing of an agreement between the Israel Corporation Ltd. and Petroleum Capital Holdings Ltd., as detailed in the filings made with the Israel Securities Authority and the Tel Aviv Stock Exchange. As of the date of the issuance of the financial statements, a ministerial permit for control in the Company had not yet been issued as required in accordance with the Government Companies Order (Declaration of Crucial State Interests in the Oil Refineries Ltd.) to either the Israel Corporation or Capital Holdings.

C. The Company's concession and the agreement following the termination of the concession period

1. General

The Company operated under a concession it received to build, operate, and maintain facilities and ancillary plants for the purpose of refining mineral oils. The concession attained the force of law, pursuant to the 1938 Anglo-Iranian Oil Convention Ordinance. The original concession period expired in October 2003.

2. Agreement covering the period after the termination of the concession period

On December 2, 2002, an arrangement was signed by the Company, the Israeli Government and the Israel Corporation, concerning the period following the termination of the concession (the "Original Arrangement"), regulating the relationship among the parties for the period set out therein (the 25-year period commencing on 18 October 2003 and an option granted to the Company extending the period for another 25 years).

On January 24, 2007, the State of Israel and the Company entered into a new asset agreement which resolves the dispute between the parties regarding the rights to the assets of the Company. According to the agreement, the company undertook to pay the State annual payments.

OIL REFINERIES LTD. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 2 – GENERAL REPORTING PRINCIPLES AND ACCOUNTING POLICIES

The financial statements were prepared in accordance with the Securities Regulations (Presentation of Annual Financial Statements) – 1993.

A. Definitions

Reported amount	- An adjusted amount as of December 31, 2003, plus amounts in nominal values added subsequent to December 31, 2003, less amounts deducted subsequent to December 31, 2003.
The Company	- Oil Refineries Ltd.
Subsidiary	- A company over which the Company exerts direct or indirect control (through the holding of a majority of the voting rights and the rights to appoint directors) and, accordingly, the financial statements of which are consolidated with those of the Company.
Proportionately consolidated subsidiary	- A company held by a number of parties under a joint control agreement with no single shareholder exerting sole control and the financial statements of which are proportionately consolidated with those of the Company.
Group	- The Company, the subsidiary and the proportionately consolidated subsidiary.
Affiliated companies	- Companies in which the Company exerts "material influence" pursuant to Opinion No. 68 of the Institute, other than subsidiaries and proportionately consolidated subsidiaries, where the Company's investment therein is included in the financial statements on the equity basis.
Investee companies	- Subsidiary, proportionately consolidated subsidiary, and affiliated companies.
Interested parties	- As defined in the Securities Regulations (Presentation of Annual Financial Statements), 1993.
Index, ICPI	- The Israeli Consumer Price Index as publicized by the Israeli Central Bureau of Statistics.
Dollar	- The U.S. dollar.
Standards Board	- The Israel Accounting Standards Board.

B. Reporting Principles and Accounting Policies

1. These financial statements are presented in condensed format as of March 31, 2007 and for the three month period then ended (hereinafter – the "Interim Financial Statements"), in accordance with Accounting Standard No. 14 of the Israel Accounting Standards Board. These financial statements should be read in conjunction with the audited annual financial statements of the Company as of December 31, 2006 and for the year then ended, together with their accompanying notes. In addition, the interim financial statements are presented in accordance with the provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970.
2. The accounting principles applied in the presentation of the interim financial statements are consistent with those applied in the presentation of the annual financial statements.
3. Measurement basis of the financial statements
 - A. The financial statements are prepared in reported New Israel Shekels. On January 1, 2004, Accounting Standard No. 12, "Discontinuance of Adjustment of Financial Statements for Inflation" went into effect. According to the Standard, financial statements are no longer adjusted for inflation commencing on the date the Standard went into effect. The adjusted amounts in the financial statements as of December 31, 2003 served as the point of departure for nominal financial reporting commencing on January 1, 2004.

OIL REFINERIES LTD. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)
In thousands of reported NIS

NOTE 2 – GENERAL REPORTING PRINCIPLES AND ACCOUNTING POLICIES (cont.)

B. Reporting Principles and Accounting Policies (cont.)

3. Measurement basis of the financial statements (cont.)

B. Linked assets and liabilities or denominated in foreign currency

1. Data on the ICPI and U.S. dollar exchange rate are presented below:

	March 31,	March 31,	December 31,
	2007	2006	2006
Representative exchange rate US\$ 1= NIS	4.155	4.665	4.225
Israeli Consumer Price Index (base index 2000)	109.64	110.64	109.90

2. Data pertaining to the change in the ICPI and U.S. dollar exchange rate for the reported periods (in percents):

	Three month period ended		Year ended
	March 31,		December 31,
	2007	2006	2006
	%	%	%
Representative exchange rate of US\$ 1	(1.66)	1.35	(8.21)
Israeli Consumer Price Index	(0.23)	0.58	(0.1)

C. Restatement

The interim financial statements as of March 31, 2006 and for the three-month period then ended were retroactively adjusted by way of restatement to reflect the following revisions: the recording of benefits granted by the Group to employees following retirement and payment of severance pay. These corrections included the recording of a liability, based on actuarial calculations, for the fringe benefits to which the Group's retirees are entitled, the major ones of which are holiday gifts, money to purchase Company products, and weekends, and the reduction of the liability for termination benefits which Carmel recorded in the past; the change in accounting treatment of the presentation of the investment in Haifa Basic Oils Ltd., from the proportionate consolidation method to the equity method, due to the absence of a written agreement between all of the shareholders in Haifa Basic Oils Ltd. regarding joint control; to retroactively reflect the agreement between the Company and the State of Israel pertaining to the leasing of real estate assets (see Note 1C).

The following tables summarize the effects of the aforementioned corrections on the consolidated financial statements:

1. Increase (decrease) in balance sheet items:

	March 31,
	2006
	Unaudited
Current assets	(59,643)
Long-term investments	70,571
Other fixed assets	(38,384)
Total changes in assets	(27,456)
Current liabilities	(17,746)
Liability in respect of employee termination benefits	134,401
Other long-term liabilities	(4,801)
Total changes in liabilities	111,851
Shareholders' equity	(139,307)

OIL REFINERIES LTD. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)
In thousands of reported NIS

NOTE 2 – GENERAL REPORTING PRINCIPLES AND ACCOUNTING POLICIES (cont.)

C. Restatement (cont.)

2. Decrease in net income:

	March 31, 2006 Unaudited
Decrease in net income in respect of benefits to employees after retirement and severance payments	(1,120)
Increase in net income deriving from a change in the liability in respect of a financing lease	<u>32</u> (1,088)

D. Initial implementation of accounting standards

1. Accounting Standard No. 23 – "Accounting treatment of transactions between an entity and its controlling shareholder"

Since January 1, 2007, the Company has been implementing Accounting Standard No. 23 – "Accounting treatment of transactions between an entity and its controlling shareholder" (hereinafter - "Standard No. 23") issued in December 2006 by the Israel Accounting Standards Board.

Standard No. 23 does not apply to an entity that is not subject to the Israeli Securities Law – 1968. The Standard applies to all transactions between an entity and its controlling shareholder, except for a business combination transaction involving entities under common control. The Standard sets out the accounting treatment for common types of transactions. The provisions of Standard No. 23 will apply to all transactions (with the necessary changes) between an entity and its controlling shareholder, but, under certain circumstances, it will also apply to transactions with shareholders who are not controlling shareholders.

Assets and liabilities which were involved in a transaction between the entity and its controlling shareholder shall be measured at fair value. The difference between the fair value of the asset and its book value at the date of transfer shall be carried to the statement of income as income or a loss, and the difference between the fair value and the consideration stipulated in the transaction shall be carried to shareholders' equity. Any difference with a debit balance is in effect a dividend which reduces retained earnings. Any difference with a credit balance constitutes an investment by the owners and shall be presented separately as part of shareholders' equity under the title "Capital Reserve deriving from a transaction between the entity and its controlling shareholder".

An intangible asset having no active market, that was transferred to an entity from its controlling shareholder shall be presented in the entity's financial statements at the value in the financial statements of the controlling shareholder as of the date of transfer. Any difference between the consideration stipulated for such intangible asset and its value in the financial statements of the controlling shareholder shall be carried to shareholders' equity.

Upon initial recognition, a loan granted to or received from a controlling shareholder shall be presented in the financial statements of the entity at the fair value of the relevant asset or liability. The difference between the amount of the loan granted or received and its fair value on the date of initial recognition represents either an investment or a withdrawal of the owners and shall be carried to shareholders' equity. During the reporting period following the initial recognition, the loan shall be presented in the financial statements of the entity at its amortized value, after implementation of the effective interest rate method, except for cases in which according to generally accepted accounting principles it is presented at fair value. Standard No. 23 also sets out rules pertaining to the possibility of early repayment or a change in the terms of the loan.

OIL REFINERIES LTD. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)
In thousands of reported NIS

NOTE 2 – GENERAL REPORTING PRINCIPLES AND ACCOUNTING POLICIES (cont.)

D. Initial implementation of accounting standards (cont.)

1. Accounting Standard No. 23 – "Accounting treatment of transactions between an entity and its controlling shareholder" (cont.)

Amounts debited to retained earnings or credited to a capital reserve in the financial statements of the entity as a result of a transaction with a controlling shareholder constitute, from the point of view of the controlling shareholder, an investment or withdrawal of the owners and shall be reported in the financial statements accordingly.

Standard No. 23 applies to transactions between an entity and its controlling shareholder conducted subsequent to January 1, 2007. In respect of a loan granted to or received from a controlling shareholder prior to the effective date, the Standard shall apply to such loan as of the effective date.

Initial implementation of Standard No. 23 had no material impact on the results of operations, financial position and cash flows of the Company.

2. Accounting Standard No. 26 – "Inventory"

Since January 1, 2007, the Company has been implementing Accounting Standard No. 26 – "Inventory" (hereinafter – the "Standard") issued in August 2006 by the Israel Accounting Standards Board. The Standard sets forth the accounting treatment of inventory.

The Standard stipulates, among other things, that inventory be measured at the lower of cost and net realizable value. Net realizable value is the estimated sales price during the normal course of business, less the estimated costs of completion and the estimated costs required to conduct the sale. Cost of the inventory includes purchase costs, manufacturing costs and other costs incurred in bringing the inventory to its current location and condition.

The Standard mandates specific identification of the cost of inventory items that are irreplaceable and of merchandise or services that were generated and separated for purposes of specific projects. The cost of other inventory should be determined on the basis of the first-in-first out formula or on the basis of the weighted average. A specific formula, as above, should be used for all inventory having a similar nature or use for the entity, unless some other costing formula is justified. Regarding allocation of inventory conversion costs, the Standard stipulates that when in a specific period an entity does not manufacture at its normal output capacity, it should not include in the cost of inventory additional fixed overhead costs in excess of the costs usually incurred in times of normal production. Such costs which were not allocated should be expensed in the period in which they were incurred. In accordance with the Standard, in cases in which the inventory was purchased on credit, and the arrangement contains a financing component, the inventory should be presented at the cash cost, and the financing component should be recognized as interest expense over the duration of the financing period.

When inventory is sold, the book value of the sold inventory should be recognized as an expense in the period in which the revenue from the sale was recognized. The amount of any decline in value of the inventory to its net realizable value and all losses in respect of inventory should be recognized in the period in which they were incurred. The amount of the cancellation of a decline in value deriving from an increase in the net realizable value should be recognized as a reduction in the amount of the inventory that is recognized as an expense in the period in which the cancellation occurred.

Initial implementation of the provisions of the Standard will have no material impact on the financial statements.

OIL REFINERIES LTD. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 2 – GENERAL REPORTING PRINCIPLES AND ACCOUNTING POLICIES (cont.)

D. Initial implementation of accounting standards (cont.)

3. Accounting Standard No. 27 – "Fixed Assets"

Since January 1, 2007, the Company has been implementing Accounting Standard No. 27 – "Fixed Assets" (hereinafter – the "Standard") issued in September 2006 by the Israel Accounting Standards Board. The Standard sets forth the accounting treatment for fixed assets.

In accordance with the Standard, a fixed asset item that qualifies as an asset shall be measured at its cost at the time of its initial recognition.

According to the Standard, cost includes, in addition to the purchase price, all of the costs that can be directly attributed to bringing the item to its present location and to the condition required to enable the item to operate in the manner intended by Company Management. Cost shall also include an estimate of the costs of dismantling and removal of the asset and rehabilitation of the site on which the asset is located if the entity has a commitment to perform such actions.

The Standard permits an entity to elect a measurement model once initial recognition has been achieved, either the cost model or the revaluation model, based on the fair value of the fixed asset item as of the date of revaluation, with the results of the revaluation being carried to a capital fund. According to the cost model, a fixed asset item should be presented at cost, net of accumulated depreciation, and net of accumulated impairment losses. The same measurement model must be applied to an entire class of fixed assets. According to the Standard, any part of the fixed asset the cost of which is significant to the total cost of the entire asset should be depreciated separately over the useful life of the part. The depreciation method should reflect the pattern in which the entity expects to derive economic benefits from the asset in the future. The useful life of an asset is defined in terms of the forecasted benefit to be derived by the entity from the asset. The useful life of an asset may be shorter than its economic life.

According to the Standard, the book value of a fixed asset item should be derecognized when the item is disposed of, or when no future economic benefits are expected from use or disposal of the asset. The gain or loss on the derecognition of the fixed asset item should be carried to the profit and loss account when the item is derecognized. Such gains should not be classified as revenue.

The provisions of Standard No. 27 are to be implemented retroactively, except in connection with an entity which intends on adopting in the financial statements of periods commencing on January 1, 2008, one or more of the leniencies set out in International Financial Reporting Standard No. 1 pertaining to fixed assets, is entitled to adopt the same leniency or leniencies in the financial statements of periods commencing on January 1, 2007.

An entity that elects to adopt the leniency of fair value as deemed cost shall not restate comparative amounts relating to such fixed asset items. The entity shall disclose this fact and the fair value as of January 1, 2007 of each item handled in this manner. The Standard does not stipulate where in shareholders' equity the difference between the fair value of the asset as of January 1, 2007 and its book value is to be carried.

In an entity that elected on January 1, 2007 to use the revaluation model as its accounting policy regarding a group of fixed assets, the difference between the revalued book value of the asset as of January 1, 2007 and its book value will comprise its revaluation reserve on that date. Prior financial statements need not be restated in respect of implementation of the revaluation model.

Standard No. 27 provides a special transition provision in respect of an entity that did not include the costs of dismantling and removal of the asset in the cost of the fixed asset item upon initial recognition.

Initial implementation of the provisions of the Standard did not have a material impact on the results of operations, financial position and cash flows of the Company.

OIL REFINERIES LTD. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 2 – GENERAL REPORTING PRINCIPLES AND ACCOUNTING POLICIES (cont.)

D. Initial implementation of accounting standards (cont.)

4. Accounting Standard No. 30 – “Intangible assets”

Since January 1, 2007, the Company has been implementing Accounting Standard No. 30 – “Intangible Assets” (hereinafter - the “Standard”), issued in March 2007 by the Israel Accounting Standards Board, which prescribes the accounting treatment of intangible assets which are not dealt with in other standards.

The Standard defines the conditions and criteria for the recognition of an intangible asset, including in respect of research and development costs, how to measure the book value of such assets and requires certain disclosures in respect thereof. According to the Standard, an intangible asset is defined as an identifiable, non-monetary asset without physical substance.

Recognition of an item as an intangible asset requires the entity to prove that the item fulfills the following:

- a. the definition of an intangible asset, and;
- b. the recognition criteria – whereby an intangible asset is recognized as such if and only if the forecasted economic benefits that can be attributed to the intangible asset are expected to flow to the entity and that the cost of the asset can be measured reliably.

An intangible asset that qualifies to be recognized as an asset shall be initially measured at cost.

Research costs shall be expensed when incurred. Costs in respect of development, at a stage in which it can be proven that the criteria detailed in the Standard have been fulfilled, should be capitalized as an asset that will be amortized over the useful life of the asset, commencing on the date that the asset is ready for use, i.e., when it is in the location and condition required for it to operate in the manner intended by management.

An expenditure in respect of an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date.

The Standard permits the entity to elect to measure the asset after initial recognition on the basis of the cost model or the revaluation model (only in respect of assets having an active market) which is based on the fair value of an intangible asset at the date of the revaluation, with the revaluation carried to a capital reserve. Measurement after the initial recognition of an intangible asset without an active market shall be done on the basis of the cost model. According to the cost model, an intangible item shall be presented at cost net of accumulated amortization, and net of accumulated impairment losses. The same policy must be implemented in respect of a group of intangible items.

An entity shall assess whether the useful life of an intangible asset is defined or undefined. After initial recognition, an intangible asset with a defined useful life shall be amortized over its useful life, subject to assessments for impairment. Such an intangible asset should be presented at cost less accumulated amortization and less accumulated impairment losses. In addition, an intangible asset with an undefined useful life shall not be amortized. Instead, the entity should test for impairment of the asset at least once a year, or more frequently if indications exist that there may have been a decline in value of the asset. The Standard shall be applied retrospectively, except as presented below.

An entity which intends on adopting in the financial statements of periods commencing on January 1, 2008, one or more of the leniencies set out in International Financial Reporting Standard No. 1 pertaining to intangible assets having an active market, is entitled to adopt the same leniency or leniencies in the financial statements of periods commencing on January 1, 2007. An entity which elects to adopt the leniency of fair value as deemed cost shall not restate comparative data that relate to such an intangible asset. The entity shall provide disclosure of this fact and the fair value as of January 1, 2007 of the item treated as above.

The Standard shall be implemented in respect of business combinations occurring on or after January 1, 2007. Regarding an R&D project in process which was purchased as part of a business combination prior to January 1, 2007, which fulfills the definition of an intangible asset on the date of purchase and which was expensed on the date of purchase, the entity shall recognize it on January 1, 2007 as an R&D project asset in process. The amount of the adjustment should be carried to retained earnings on January 1, 2007.

Initial implementation of the Standard did not have a material impact on the results of operations, financial position and cash flows of the Company.

OIL REFINERIES LTD. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 2 – GENERAL REPORTING PRINCIPLES AND ACCOUNTING POLICIES (cont.)

E. Disclosure of the effects of new accounting standards in the period prior to implementation:

1. Accounting Standard No. 29 – "Adoption of International Financial Reporting Standards (IFRS)"

In July 2006, the Israeli Accounting Standards Board issued Accounting Standard No. 29 – "Adoption of International Financial Reporting Standards (IFRS)" (hereinafter – the "Standard"). The Standard prescribes that entities that are subject to the Israeli Securities Law – 1968 and that are required to file reports under the provisions of this law shall present their financial statements in accordance with International Financial Reporting Standards (hereinafter – "IFRS Standards"). This stipulation applies to periods commencing on or after January 1, 2008 (i.e., the interim financial statements for the first quarter of 2008), with the entity's first comprehensive financial statements in accordance with IFRS Standards being the annual financial statements of 2008. The Standard permits and encourages such entities to present their financial statements, issued subsequent to July 31, 2006, in accordance with IFRS Standards.

An entity that presented its financial statements in the past not in accordance with international standards and is required or elects to present them in accordance with international standards shall implement International Financial Reporting Standard No. 1 (IFRS 1), "First-time Adoption of International Financial Reporting Standards", for transition purposes.

IFRS 1 provides guidelines as to the transition from reporting under previous accounting principles (accounting principles generally accepted in Israel) to reporting in accordance with international standards. In order to alleviate the transition, financial statements presented for the first time under International Financial Reporting Standards (the financial statements for the year ended December 31, 2008) are required to present comparative amounts in respect of only one year (as of December 31, 2007 and for the year then ended) instead of the two years that is the accepted practice in Israel.

IFRS 1 stipulates that an entity implement the same accounting policy in its opening balance as of January 1, 2007 (hereinafter – "Opening Balance" or "Transition Date") in accordance with the IFRS that are in effect on the reporting date of the first annual financial statements. All comparative amounts presented in the financial statements must also be presented accordingly. In other words, the IFRS in effect on the reporting date of the first annual financial statements must be applied retrospectively. Changes and adjustments to balances to be included in the balance sheet that is presented for the first time in accordance with IFRS as opposed to the balances included in accordance with previously accepted accounting principles, should be carried directly to retained earnings (or, if appropriate, another category of equity).

IFRS 1 grants 12 limited exemptions from some requirements of other IFRS that an entity adopting IFRS Standards for the first time may elect to use (all or part thereof). In addition, it includes four prohibitions regarding the retrospective application of some aspects of other IFRS Standards.

The IFRS provisions for recognition and measurement of assets and liabilities, disclosure requirements, and reporting formats differ from, those generally accepted in Israel. Therefore, the initial adoption of IFRS Standards may have a material impact on the financial position and results of operations of the Company. The Company has been assessing the implications of the initial adoption of IFRS on the financial statements.

2. Accounting Standard No. 13 (Revised) – "Effects of Changes in Foreign Currency Exchange Rates"

In May 2007, the Israel Accounting Standards Board issued Accounting Standard No. 13 (Revised) – "The Effects of Changes in Foreign Currency Exchange Rates" (hereinafter – the "Standard") which deals with the determination of the functional currency of a foreign entity or activity, the translation of transactions in foreign currency, the translation of the financial statements of foreign activities, and the translation of financial statements from the functional currency to the reporting currency. The Standard replaces Accounting Standard No. 13, "The Effects of Changes in Foreign Currency Exchange Rates" issued in October 2001 and which was based on International Accounting Standard No. 21 (IAS 21).

The Standard requires all entities to determine the functional currency of each of their components (a subsidiary, branch, or other activity that constitutes part of any unit of the consolidated entity) on a stand-alone basis and to measure the results of operations and financial position of each such component on the basis of that currency.

OIL REFINERIES LTD. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 2 – GENERAL REPORTING PRINCIPLES AND ACCOUNTING POLICIES (cont.)

E. Disclosure of the effects of new accounting standards in the period prior to implementation (cont.):

2. Accounting Standard No. 13 (Revised) – "Effects of Changes in Foreign Currency Exchange Rates" (cont.)

The major changes in the Standard when compared with original Standard No. 13 are as follows:

- a. Replacement of the term "reporting currency" with the following two terms:
 1. Functional currency – the currency of the principle economic environment in which the entity operates; and
 2. Presentation currency – the currency in which the financial statements are presented.
- b. Inclusion of factors which must be taken into consideration when determining the functional currency. The Standard emphasizes that when determining the functional currency, more emphasis should be placed on the currency which primarily impacts on the prices of the transactions and not necessarily on the currency in which the prices of the transactions are denominated.
- c. Cancellation of the differentiation between investee companies that are the "long arm" of the company and investee companies that are autonomous units. According to the Standard, the differentiation is between a unit whose functional currency is identical with the functional currency of the reporting entity and a unit whose functional currency is different than the functional currency of the reporting unit (foreign activity).
- d. The standard permits the entity to present its financial statements in any currency (or currencies). The entity is required to translate the results of operations and financial position from the functional currency to the presentation currency (or currencies), through use of the method required to translate a foreign activity for purposes of inclusion in the financial statements of the reporting entity. In accordance with this method, assets and liabilities are translated at the closing rate and income and expense data are translated at the exchange rate on the transaction date (or average rate for the period, when such a rate constitutes a reasonable approximation).

The Standard applies to the financial statements of periods commencing on or after January 1, 2008. According to the transition provisions set out in the Standard, an entity shall implement the provisions of the Standard retroactively, except in connection with fair value adjustments and goodwill in respect of purchases made after the beginning of the period in which the Standard is initially implemented, which are to be handled prospectively.

The Company is assessing the ramifications of implementation of the Standard, but at present, it is unable to estimate the impact on the results of operations, financial position and cash flows.

NOTE 3 – LOAN TO HAIFA EARLY PENSIONS LTD.

According to the collective agreement for the early retirement and enhanced severance pay of Company employees, signed between the Company and representatives of the employees on June 14, 2006 (the "early retirement agreement"), a loan agreement was drafted and signed on that date between the Company and Haifa Early Pensions Ltd. ("HEP") whereby the Company granted a loan in an amount of NIS 300 million, linked to the ICPI, for purposes of purchasing pension rights for the employees, at any date or time, if HEP sees that the Company was in breach of the early retirement agreement. HEP will invest the loan in bank deposits or in debentures listed for trade on the stock exchange or in marketable government bonds. HEP will pay make annual payments in respect of interest and principal in accordance with the terms set forth in the loan agreement, with the first principal payment scheduled for the earlier of January 2010 or the date on which 75 employees retire under the early retirement agreement. The loan shall be in effect until the retirement of the last employee covered by the early retirement agreement, or until the date on which full rights are acquired under the early retirement agreement.

OIL REFINERIES LTD. AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (cont.)

In thousands of reported NIS

NOTE 4 – MAJOR EVENTS DURING THE REPORTED PERIOD

1. Changes in capital

The Company increased its registered share capital from NIS 381,280,000 TO NIS 2,000,000,010 by the creation of 1,618,720,010 new ordinary “A” shares. For purposes of the increase in the share capital, an amount of NIS 1,080 million was transferred from retained earnings.

2. Privatization Grant

During the first quarter of 2007, the State of Israel completed the process of privatizing the Company. As part of the privatization process and as part of agreements with employees as defined in the agreement (including employees of Gadiv), the employees are entitled to a privatization grant from the State. The Government Companies Authority applied the entitlement to the privatization grant also to employees of Carmel Olefins and Haifa Basic Oils, proportionate to the percentage held by ORL (directly and indirectly) in each of those companies. The privatization grant, in an amount of NIS 118 million, was received from the State of Israel and recorded as an expense against a capital reserve (after the tax effect – an amount of NIS 106 million).

NOTE 5 – SEGMENT REPORTING

The Company operates in three major segments:

ORL - oil refining and production of fuel products ("refining")

Carmel Olefins - production of polymers and raw materials for the plastic industry ("polymers")

Gadiv - production of aromatic materials and solvents used in the chemical and plastic industries ("aromatic materials")

The following table summarizes segment activity:

For the three month period ended March 31, 2007 (unaudited) in thousands of NIS:

	Refining	Polymers	Aromatic Materials	Adjustments	Consolidated
Segment revenues	<u>4,320,193</u>	<u>311,269</u>	<u>480,845</u>	<u>(316,273)</u>	<u>4,796,034</u>
Results of segment operational income	<u>301,088</u>	<u>33,793</u>	<u>12,127</u>	<u>(274)</u>	<u>346,734</u>

For the three month period ended March 31, 2006 (unaudited) in thousands of NIS:

	Refining	Polymers	Aromatic Materials	Adjustments	Consolidated
Segment revenues	<u>6,715,030</u>	<u>288,561</u>	<u>431,211</u>	<u>(303,390)</u>	<u>7,131,412</u>
Results of segment operational income	<u>472,931</u>	<u>33,098</u>	<u>17,839</u>	<u>-</u>	<u>523,868</u>

For the year ended December 31, 2006 (audited) in thousands of NIS:

	Refining	Polymers	Aromatic Materials	Adjustments	Consolidated
Segment revenues	<u>26,266,015</u>	<u>992,880</u>	<u>1,902,790</u>	<u>(663,882)</u>	<u>28,497,803</u>
Results of segment operational income	<u>1,281,649</u>	<u>58,563</u>	<u>50,800</u>	<u>252</u>	<u>1,391,264</u>

OIL REFINERIES LTD. AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (cont.)

In thousands of reported NIS

NOTE 6 – DEVELOPMENTS IN CONTINGENT LIABILITIES

The updates presented below should be read in conjunction with the financial statements as of December 31, 2006. During the reporting period, the following developments occurred in contingent liabilities:

1. Claim of the Movement for Quality Government in Israel against the agreement

On January 24, 2007, an amendment to the memorandum of principles was signed between the Company and the State of Israel with regard to the assets of the Company. Among other things, the amendment stipulated that in the event that the claim of the Movement for Quality Government is sustained and that the court determines that the disputed assets should have been returned to the State at the end of the concession period, the amendment would be considered as the resolution of the rights of the Company in the disputed assets.

2. Litigation pertaining to the Kishon River

The Company and Carmel Olefins were served with third party notifications from parties being sued by the Haifa Rowing Club in a class action suit under the Law for the Prevention of Ecological Damage (Civil Suits) 1992. The plaintiffs petitioned for issuance of a restraining order that would put an immediate stop to the discharge of wastes that they claim pollute the River and prevent any discharge of such wastes in the future. They also requested a mandatory injunction to restore the River to its prior condition. Petitions were filed to have the suit as well as the third party notices against the Company and Carmel Olefins dismissed. As a result, a defense brief has not yet been filed. During the reporting period, the court ordered that the suit be summarily dismissed. Subsequent to the reporting period, an appeal with regard to the dismissal was filed with the Haifa District Court.

3. Class action suit – Kiryat Tivon

Subsequent to the balance sheet date, and after Carmel Olefins and its senior executives were acquitted of the criminal charges brought against them in respect of two events, the suit against Carmel and its CEO was erased with the consent of the parties.

4. Other litigation

A charge sheet was issued against the Company and the CEO of the Company for an alleged violation of the Law for Control of Prices of Goods and Services – 1996, claiming that the Company sold low-sulfur diesel fuel at a price that exceeded the maximum price stipulated in the law. Concurrent with the request for a stay of proceedings filed by the Company, subsequent to the balance sheet date and as part of the initial hearing in the court, the Company and the CEO of the Company requested that the court erase the indictment against them prior to the clarification of the actual charge claiming that the facts do not reveal any illegal act. The attorneys for the State objected to the motion and the court has not yet rendered a decision in respect thereof.

5. Three companies which hold the shares of Haifa Basic Oils Ltd. together with the Company demanded of the Company that it pay Haifa Basic Oils an amount of NIS 147 million and that it invest required amounts to upgrade a facility used to provide feedstocks for Haifa Basic Oils. On April 30, 2007, a hearing was held on the motion to approve a derivative suit, after ORL had submitted its response and the petitioners had submitted their reply to the response. There was no examination of witnesses. Further to the comments of the court after it heard part of the claims of the parties on various points, it was decided that the board of directors of Haifa Basic Oils, at its regular meeting on May 13, 2007, would discuss the decision regarding the upgrading of the feedstock facility and the parties were referred to a bridging process regarding the other disputes. On May 27, 2007, the Company was notified that the board of directors of Haifa Basic Oils decided to approve the investment in the upgrade of the feedstock facility and other facilities of Haifa Basic Oils, subject to the agreement with the Company for the supply of feedstocks over the long term, at prices to be agreed upon and of quantities required to operate the feedstock facility at full output.

6. A suit was filed against Carmel Olefins and one of its senior officers with regard to the emission of black smoke, as reported in the financial statements as of December 31, 2006. On March 25, 2007, the court acquitted Carmel Olefins and the senior officer. In handing down its decision, the court determined that Carmel Olefins complied with all of the provisions of the personal order that it received and, therefore, it was not possible to convict it. On May 8, 2007, the Ministry of Environmental Quality appealed the decision to the District Court and requested that the decision of the Magistrates Court on the conviction of the defendants be vacated. A hearing on the appeal was set for July 5, 2007.

OIL REFINERIES LTD. AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (cont.)

In thousands of reported NIS

NOTE 6 – DEVELOPMENTS IN CONTINGENT LIABILITIES (cont.)

7. On March 20, 2007, an indictment was issued against Carmel Olefins and one of its senior executives regarding the running of a business for the production of hazardous, inflammable, poisonous or radioactive materials without a business license, pursuant to the Law for Business Licenses – 1968. The relief requested in the indictment is the immediate and absolute termination of the business at Carmel Olefins' facility on HaHistadrut Street in Haifa, by closure of the premises.

Please note that on August 27, 2006, Carmel Olefins submitted a request for a business license for the aforementioned facility from the Haifa Municipality. A representative of the district attorney's office informed Carmel Olefins that if such a business license is obtained, they will withdraw the indictment. At present, a date for the reading of the indictment has not been set.

In the opinion of Carmel Olefins, based on its legal counsel, in the event that Carmel Olefins does not obtain a license and the district attorney's office continues investigation of the indictment, the chances of the charges being sustained are greater than the chances of the charges being dismissed. In the opinion of Carmel Olefins, if it is convicted by the court, it will be fined. Notwithstanding the fact that the maximum fine set out in the law is NIS 134,600 (with the Justice Minister being empowered to issue an order changing the amount of the fine on the basis of the changes that occurred in the Consumer Price Index), legal counsel of Carmel Olefins believes that the court will fine Carmel Olefins in a smaller amount. In the opinion of Carmel Olefins, based on its legal counsel, it is reasonable to assume that the Court will not order a cessation of business activity at the facility of Carmel Olefins by closing down the premises. No provision was included in respect of this matter.

NOTE 7 – PRO FORMA DATA

On September 28, 2006, the Company sold all of its shares in Ashdod Oil Refinery ("ORA") to Paz Oil Company Ltd. for an amount of NIS 3.25 billion. On that same date, assets, rights, employees, and liabilities which constituted the Ashdod oil refinery were transferred to ORA. In addition, the agreement covering the granting of services and other agreements went into effect. As a result of the sale of ORA, the Company recorded a capital gain in an amount of NIS 1.7 billion which was included in the financial statements as of December 31, 2006.

In accordance with the organizational structure of the Company, until that date, responsibility for the planning and execution of crude oil purchases for both the Haifa and the Ashdod sites, the channeling of the crude oil to each of the sites on the basis of the planned production breakdown between the refining facilities in Haifa Bay and in Ashdod and the setting of the sales goals for the products (to the local market and for export) rested with the Company, under the VP – Marketing and Trade, located at Company headquarters. The Company's facilities were constructed at two sites, on the basis of planning that maximizes the benefit to the Company as a whole. Therefore, the processing capacity of the downstream and finishing facilities at each of the sites does not necessarily match the refining capacity of the crude refining facilities at the same site. Accordingly, interim materials were transferred from site to site as needed, through pipes as well as maritime and overland shipping. Therefore, the Company under the VP – Marketing and Trade at Company headquarters treated all of the refining and finishing facilities at the two sites as one single production unit that services the needs of the Company as a single entity. Accordingly, the breakdown of the production between the refining and finishing facilities at the two sites, including the transfer of interim products between the two, is based on a linear model that calculates the optimal production framework, with the goal of maximizing the Company's overall profits.

The consolidated pro forma statements of income reflect the separation of activities actually carried out by ORL at both production sites, the Ashdod site and the Haifa site, based on, among other things, assumptions and estimates detailed below. Notwithstanding the above, these assumptions and estimates involve a significant amount of uncertainty. Furthermore, in making calculations, it is possible to make use of alternative estimates and assumptions and it is also possible that changes may occur from period to period in the estimates and assumptions used. Such changes may have a material impact on the data presented.

Moreover, in view of the fact that the Company carried out operations until September 28, 2006 from the standpoint of the two sites constituting one economic unit, the overall results of operations of ORL do not necessarily equal the arithmetic sum of the results of operations of each of the sites had each site conducted operations in an independent manner, for each of the reported periods. The reason for the above, among other reasons, is the loss of overall optimization.

OIL REFINERIES LTD. AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (cont.)

In thousands of reported NIS

NOTE 7 – PRO FORMA DATA (cont.)

In addition, we draw attention to the significant changes expected to occur in the business environment and in the regulation that will apply to the activities of the Haifa and Ashdod refineries after the spin-off and privatization including, but not limited to, the following:

- A. The Supervisory Order on Prices of Goods and Services – 1992 was amended so that in the event that at least two refineries operate in Israel, with each one being owned by a separate entity and there is no cooperation between the two refineries regarding their sales networks, the maximum ex-refinery price of oil distillates will be cancelled. With regard to liquefied petroleum gas, the method of price control will be changed at the end of the twelve month period following the consummation of the sale and transfer of ownership of the Ashdod refinery.
- B. Whereas prior to the spin-off and privatization, Company activity was subject to the provisions and restrictions set forth in the Government Companies Law, subsequent to the spin-off and privatization, the Company ceased being a government company. Therefore, the aforementioned provisions and restrictions no longer apply to the Company.
- C. Another material change is expected to occur when the restriction of the Company to operate in the marketing segment is removed, activities which the Company was prevented from doing prior to the privatization.
- D. As a direct result of the above, as well as other possible changes in the financing structure of each entity following the spin-off, and other factors, changes may take place to the volume of activity, to the marketing base, the customer base and segmentation, and to the management and planning framework of critical functions.

In view of the above, the results reported in the pro forma financial statements should not necessarily be construed as an indication of the future results of the Company following the completion of the sale of the Ashdod oil refinery.

In the opinion of Company Management, the pro forma financial statements fairly reflect the results obtained, based on the assumptions detailed below:

1. Balance sheet

In the pro forma consolidated balance sheet as of December 31, 2006, certain balances were adjusted as part of the Company's working capital with the goal of reflecting the volume of Company activity following the sale of ORA.

2. Statements of income

The consolidated pro forma statements of operations are presented under the assumption that the date of the completion of the sale of the shares of the Company and the State of Israel in ORA (the effective date) occurred on January 1, 2006. Accordingly, certain revenues and expenses related to the sold Ashdod refinery were deducted on the basis of the following assessments and calculations:

- Revenues – on the basis of the quantities actually produced in Ashdod and on the basis of the average prices of Company sales to the local and export markets for each of the products during the relevant periods.
- Cost of sales – on the basis of the quantities actually refined in Ashdod during the relevant periods and in accordance with average prices of each of the types of crude oil imported by the Company and refined in ORA.
- Feedstocks consumed and transferred between the two refineries – on the basis of the consumed quantities and in accordance with the prices that were traded during the period in the Mediterranean Basin.
- General and administrative expenses – those that relate to the activity of the Ashdod oil refinery.
- Financing expenses – financing expenses that relate to the loans and debentures transferred to ORA were neutralized. In addition, financing expenses were adjusted on the basis of the forecasted reduction in the working capital of the continued operations of the Haifa oil refinery.
- Taxes on income – in accordance with the effective tax rates of each period.
- The results of Company operations commencing from the last quarter of 2006 and the first quarter of 2007 reflect the operations of the Haifa oil refinery only. The results of operations of the last quarter of 2006 included the effects of the dividend distribution mechanism that was part of the commercial services package that the Company rendered to ORA until December 31, 2006.

OIL REFINERIES LTD. AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (cont.)

In thousands of reported NIS

NOTE 7 – PRO FORMA DATA (cont.)

A. Consolidated balance sheet

	March 31, 2007 Actual Unaudited	December 31, 2006 Pro forma Audited
Current assets		
Cash and cash equivalents	197,393	141,570
Trade accounts receivable	1,821,455	1,604,299
Receivables and debit balances	498,071	454,701
Inventory	<u>2,770,426</u>	<u>2,738,321</u>
	<u>5,287,345</u>	<u>4,938,891</u>
Long-term investments and loans		
Investee companies	179,841	191,002
Loan to Haifa Early Pensions Ltd.	299,592	300,000
Long-term loans and other debit balances	7,343	7,409
Excess of funded amounts over the liability for severance pay, net	<u>39,641</u>	<u>45,458</u>
	<u>526,417</u>	<u>543,869</u>
Fixed assets		
Property, plant and equipment	3,711,566	3,701,744
Materials and spare parts	210,748	200,372
Fund for investment in fixed assets	<u>421,910</u>	<u>414,749</u>
	<u>4,344,224</u>	<u>4,316,865</u>
Other assets and deferred expenses	<u>47,175</u>	<u>48,100</u>
	<u>10,205,161</u>	<u>9,847,725</u>
Current liabilities		
Credit from banking institutions and other credit providers	1,369,470	899,142
Suppliers and service providers	1,320,640	1,561,723
Payables and credit balances	541,340	785,309
Declared dividend	-	20,000
	<u>3,231,450</u>	<u>3,266,174</u>
Long-term liabilities		
Debentures	987,312	854,799
Bank loans	2,197,660	2,205,647
Deferred taxes	511,917	498,352
Liability in respect of financing lease	29,247	29,275
Liability for severance pay, net	<u>268,659</u>	<u>278,801</u>
	<u>3,994,795</u>	<u>3,866,874</u>
Total liabilities	<u>7,226,245</u>	<u>7,133,048</u>
Shareholders' equity	<u>2,978,916</u>	<u>2,714,677</u>
	<u>10,205,161</u>	<u>9,847,725</u>

OIL REFINERIES LTD. AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (cont.)

In thousands of reported NIS

NOTE 7 – PRO FORMA DATA (cont.)

B. Consolidated statements of income

	Appendix	Three months ended March 31, 2007	2006	Year ended December 31, 2006
		Actual	Pro forma	
		Unaudited	Unaudited	Pro forma Audited
Revenues	(1)	4,796,034	5,031,557	21,734,553
Cost of sales, refining and services	(2)	<u>4,335,820</u>	<u>4,605,036</u>	<u>20,584,260</u>
Gross profit		460,214	426,521	1,150,293
Selling expenses	(3)	30,579	24,317	94,634
General and administrative expenses	(4)	<u>82,901</u>	<u>56,564</u>	<u>222,104</u>
Operating income		346,734	345,640	833,555
Financing (expenses) income, net	(5)	<u>2,208</u>	<u>(27,621)</u>	<u>106,589</u>
		348,942	318,019	726,966
Privatization grant		<u>(118,529)</u>	-	-
Income before taxes on income		203,413	318,019	726,966
Taxes on income		<u>90,044</u>	<u>92,535</u>	<u>221,539</u>
		140,369	225,484	505,427
Company's share in income of investee companies		<u>9,156</u>	<u>10,598</u>	<u>32,570</u>
Net income for the period		<u><u>149,525</u></u>	<u><u>236,082</u></u>	<u><u>537,997</u></u>
Earnings per 1 ordinary share (in NIS)		<u><u>0.075</u></u>	<u><u>0.118</u></u>	<u><u>0.269</u></u>

OIL REFINERIES LTD. AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (cont.)

In thousands of reported NIS

NOTE 7 – PRO FORMA DATA (cont.)

Appendix 1 – Revenues:

	Three months ended March 31,		Year ended December 31,
	2007	2006	2006
	Unaudited	Unaudited	Audited
Local market	3,202,618	3,708,143	14,970,902
Export	<u>1,571,731</u>	<u>1,291,941</u>	<u>6,624,135</u>
	4,774,349	5,000,084	21,595,037
Services provided to outsiders and other income	<u>21,685</u>	<u>31,437</u>	<u>139,516</u>
	<u><u>4,796,034</u></u>	<u><u>5,031,557</u></u>	<u><u>21,734,553</u></u>

Appendix 2 – Cost of sales, refining and services

	Three months ended March 31,		Year ended December 31,
	2007	2006	2006
	Unaudited	Unaudited	Audited
Consumed material	4,033,090	4,408,325	19,070,866
Salary and related expenses	74,303	68,753	258,700
Maintenance of facilities, buildings and equipment (*)	38,333	32,498(*)	179,221(*)
Amortization of periodic maintenance	25,609	20,645(*)	93,237(*)
Depreciation and amortization	55,720	56,590	238,289
Others	93,432	90,801	386,023
Decrease (increase) in product inventory	<u>15,333</u>	<u>(72,576)</u>	<u>357,924</u>
	<u><u>4,335,820</u></u>	<u><u>4,605,036</u></u>	<u><u>20,584,260</u></u>
(*) Including salaries and related expenses	<u><u>11,044</u></u>	<u><u>9,568</u></u>	<u><u>38,549</u></u>

Appendix 3 – Selling expenses:

	Three months ended March 31,		Year ended December 31,
	2007	2006	2006
	Unaudited	Unaudited	Audited
Salary and related expenses	3,032	2,488	10,814
Shipping and storage	24,355	18,492	70,255
Others	<u>3,192</u>	<u>3,337</u>	<u>13,565</u>
	<u><u>30,579</u></u>	<u><u>24,317</u></u>	<u><u>94,634</u></u>

OIL REFINERIES LTD. AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (cont.)

In thousands of reported NIS

NOTE 7 – PRO FORMA DATA (cont.)

Appendix 4 – General and administrative and expenses:

	Three months ended March 31,		Year ended December 31,
	2007	2006	2006
	Unaudited	Unaudited	Audited
Salary and related expenses	24,533	25,726	96,993
Insurance, taxes and levies	43,880	17,055	67,301
Depreciation	1,540	2,051	8,034
Others	12,948	11,732	49,776
	<u>82,901</u>	<u>56,564</u>	<u>222,104</u>

Appendix 5 – Financing (income) expenses, net:

	Three months ended March 31,		Year ended December 31,
	2007	2006	2006
	Unaudited	Unaudited	Audited
Long-term loans and debentures received	(2,424)	(28,055)	45,369
Long-term loans granted	58	83	(239)
Short-term loans and advances from customers	(2,599)	(7,407)	(97,339)
Gains on marketable securities	7,084	4,360	17,915
Other items, net	89	3,398	17,965
	<u>2,208</u>	<u>(27,621)</u>	<u>(106,589)</u>

NOTE 8 – SUBSEQUENT EVENTS

According to a notification received by the Company from Carmel Olefins, 50% of the shares of which are held by the Company, on May 17, 2007, Carmel Olefins received notice from the Turkish privatization authority that it had approved the candidacy of Carmel Olefins and a Turkish company with which it entered into a cooperative agreement (in equal shares between the two parties) as potential contenders in a tender (the “Tender”) for the sale of 51% of the shares of Petkim Petrokimya Holdings A.S., a Turkish petrochemical company, as part of the privatization of Petkim. According to the aforementioned notification of Carmel Olefins, Petkim is the major manufacturer in the Turkish petrochemical industry, with a sales turnover in 2006 of \$1.6 billion. In addition to Carmel Olefins and its Turkish partner, participation of another 17 groups in the tender process was approved.