STANDARD & POOR'S Maalot

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Press Release

Oil Refineries Ltd.

Standard & Poor's Maalot Announces Downgrades Oil Refineries Ltd.'s Non-Traded Series And Traded Series A, B, And C Bonds To A/Negative From AA/Stable

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Major Rating Factors

On Nov. 12, 2008, Standard & Poor's Maalot lowered its rating on the non-traded series and traded series A, B, and C bonds issued by Oil Refineries Ltd. (ORL) to 'A' from 'AA'. The outlook is negative.

ORL operates mainly in the oil refining industry, selling its output to the Israeli gasoline market and the petrochemicals and plastics industries. Since September 2006, the company has been operating one oil refinery in Haifa, following its sale of the Ashdod refinery to Paz as part of the industry's privatization.

The oil refinery's current owners include Israel Corporation Ltd. (ICL; AA/Stable), with 45.08%, and Israel Petrochemical Enterprise Ltd. (IPE), with 15.76% via PCH. This ownership structure will change if ORL's acquisition of the remaining 50% of Carmel Olefins Ltd. (Caol) is successfully completed.

The downgrade reflects the deterioration we anticipate in the company's financial profile as a result of the expected decline in cracking margins in the refining and petrochemicals industries, the board of directors' recent approval of an aggressive investment plan, and the uncertain and considerably volatile macroeconomic environment.

We expect the company to record low debt coverage ratios in the coming years (average net debt to EBITDA of 8.0x, consolidated) relative to rated Israeli industrial companies and to similar refining companies rated by Standard & Poor's. These ratios make ORL more vulnerable than its peers, given the challenges cited above.

The rating is based on the company's robust business position in Israel, as reflected mostly in its high share of the gasoline market and its ability, over time, to achieve profitability no lower than that of its peers. In addition, the rating takes into account ORL's vertical integration through the petrochemicals sector, via Caol.

We believe that a merging of Caol's operations within ORL, with Caol becoming a wholly owned subsidiary, would likely help optimize the group's value chain and diversify its risks, which are currently concentrated in the refining sector. However, in the short term, the proposed transaction structure--involving a dividend distribution--creates an additional financial burden.

The rating is also based on the ORL chairman's statement that the company will favor investments over dividend distributions. This statement contrasts with the earlier agreement between the shareholders to adopt a dividend payout policy of up to 75% of current profits. Moreover, IPE depends on the dividends

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from its ORL shares to service its substantial debt, which is likely to increase after the completion of the Caol acquisition.

Liquidity

The company's liquidity and access to the capital markets are currently adequate. ORL had a cash surplus of approximately $224 million as of end-June 2008, and its amortization schedule is relatively reasonable in the near future. ORL will use part of its cash surplus to finance the first stage of its investment plan, while the second stage will be financed via loans.

As of June 30, 2008, the company's inventory (consolidated) of oil and end products was valued at $1.346 billion (prior to the drop in energy prices in the market). This is a high level compared with that of peers, and stems from the logistics of importing oil to Israel. The inventory contributes to ORL's liquidity and can serve as a temporary source of funding. We believe that, while inventory price changes can increase or decrease the company's working capital and funding needs in the short term, in the long term the debt burden derived from the inventory level is part of the ongoing business of an oil refinery.

ORL's access to funding is affected to a certain extent by its lack of both committed credit lines and secured financing for its investment plan, and by the Bank of Israel's "single lender" regulation, which applies to ORL given its membership within the ICL group.

Outlook

The negative outlook reflects a possible deterioration in ORL's operating environment, which could weigh on profitability, and/or the completion of the Caol deal in its present structure. Either of these would likely penalize the company's financial position.

In addition, the outlook reflects a possible increase in the company's investment plan through new investments (such as a 100MW power plant, investments in environmental protection, or acquisitions abroad).

An upgrade would be possible if ORL adopted a conservative financial policy that supported net financial debt to EBITDA of no more than 4.0x.

The McGraw-Hill Companies

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Peer Comparison With Companies Rated By Standard & Poor's

	Oil Refineries LTD ¶ *	Petroplus Holdings AG	Alon USA Energy	MOL Hungarian Oil and Gas PLC ¶
Current Rating	A/Negative (Local Rating)	BB/Stable/-- (Global Rating)	B+/Negative (Global Rating)	BBB-/Stable/-- (Global Rating)
(Last update)	10-Nov-2008	30-Apr-2008	21-Nov-2007	17-Jul-2008
Business position (Global Scale)	**n.a.**	**Weak**	**Vulnerable**	**Satisfactory**
Financial position (Global Scale)	**n.a.**	**Aggressive**	**Highly leveraged**	**Intermediate**
Exploration and Productions Segment	X	X	X	V
Refinery Segment	V	V	V	V
Petrochemical Segment	V	X	X	V
Retail Segment	X	X	V	V
Other Segments	X	X	X	V
Financial Ratios (Mil. US $)				
	2007	**2007**	**2007**	**2007**
Revenues	5,237	13,905	4,542	15,103
Net income from cont. oper.	170	310	104	1,492
Funds from operations (FFO)	220	477	178	2,099
Capital expenditures	89	260	78	952
Debt	1,442	1,534	655	5,004
Equity	800	2,515	404	4,561
Cash & Investment @	372	63	96	191
Adjusted ratios				
Oper. Income (bef. D&A)/revenues (%)	7.3	4.1	5.8	15.6
EBIT interest coverage (x)	n.a.	3.8	3.6	8.7
EBITDA interest coverage (x)	n.a.	5.2	4.3	12.7
Return on capital (%)	n.a.	7.7	17.5	18.4
FFO/debt (%)	15.3	31.1	27.2	42
Debt/EBITDA (x)	3.8	2.7	2.6	2.1
Debt/Cap (%)	64.3	37.9	61.9	52.3
FFO/debt, net (%)	20.6	32.4	31.9	43.6
Debt/EBITDA, net (x)	2.8	2.6	2.2	2.0
Ratios expectation - Public	--	FFO/Debt 30%-40%	FFO/Debt 40% EBITDA/Int 10x	Debt/CAP 30%-35%

Notes: ¶For MOL, the cash surplus was deducted from debt. For ORL, we expect the cash surplus to be used to fund part of the investment plan and, therefore, we focus on net coverage ratios instead.

*ORL's figures are based on consolidated figures according to IFRS, as published in the second-quarter 2008 financial reports.

- **MOL Hungarian Oil & Gas PLC** – a midsize integrated oil and gas company that operates in Eastern Europe. The refinery, with a capacity of approximately 410,000 barrels per day at three production sites, was responsible in 2007 for approximately 44% of the group's EBITDA.
- **Petroplus Holding AG** – the largest independent refining company in Europe (nonintegrated). The company has a capacity of some 864,000 barrels per day at eight production sites in Western Europe.
- **Alon USA Energy** – a small, partially vertically integrated, refining company in the U.S. with a capacity of around 164,000 barrels per day at three production sites.