

This is an English convenience translation from the original Hebrew version. In case of any discrepancy, the binding version is the Hebrew original.

Oil Refineries Ltd.

January 1, 2009

To:
The Israel Securities Authority
22 Canfei Nesharim St.
Jerusalem

To:
The Tel Aviv Stock Exchange Ltd.
54 Ahad Ha'am St.
Tel Aviv

via MAGNA

Dear Sir/Madam,

Re: **Immediate Report: Update – CAOL Merger Transaction**

Pursuant to the Transaction Report published by the Company on July 8, 2008 (reference no. 197127-01-2008), the Supplementary Report dated July 29, 2008 (reference no. 219927-01-2008), and the Immediate Report published by the company on September 28, 2008 (reference no. 274332-01-2008) regarding the entry into an agreement with Israel Petrochemical Enterprises Ltd. (“**IPE**”) on the subject of the purchase of the remaining 50% of the shares of Carmel Olefins Ltd. (“**CAOL**”) in exchange for an allocation of 20.53% of Company shares and the sale of IPE shares held by the Company (the “**Agreement**”), which was approved by the Company’s General Meeting on August 13, 2008 (see reference no. 234090-01-2008), the Company hereby reports that not all preconditions of the Agreement were fulfilled by December 31, 2008, which was determined as the final date for fulfilling all preconditions, and therefore the transaction which was the subject of the Agreement was not completed.

Since the fundamental reasons forming the basis of the Board of Directors' decision to approve the merger of COL operations with the Company remain valid today, the Company and IPE have agreed to continue collaborating in order to attempt to complete the merger transaction, and as conditions shall be met, the matter will be brought before the Company's Board of Directors.

At the same time, the Company is working to establish ways to strengthen its collaboration with COL in various fields, in order to enhance, as of now, the synergies between the two companies, that can be realized prior to the merger, and in order to prepare for the realization of the full synergy between the companies, if and when the merger is completed.

Sincerely,

Oil Refineries Ltd.