

Oil Refineries Ltd.

December 31, 2007

Israel Securities Authority
Via electronic communications

Tel Aviv Stock Exchange Ltd.
Via electronic communications

Gentlemen,

Re: **Oil Refineries Ltd. ("the Company") – Immediate Report on Private Placement**

A. Preface

1. Immediate notice is hereby given in accordance with Regulation 21 of the Israel Securities Regulations (Private Placement of Securities in a Registered Company), 2000 ("**Private Placement Regulation**"), of a resolution by the Company's Board of Directors dated December 31, 2007, regarding approval of an accumulated allocation of 6,950,000 Options to a trustee for 16 of the Company's senior employees, whom are not position holders ("the Offerees", and each "the Oferee"), as part of the approval of a general option plan for the Company's position holders and senior employees. The Offerees are not interested parties in the Company, and will not become interested parties as a result of the offering detailed in this report.

B. Terms of the Securities Offered for Issuance

2. The offered securities are non-marketable options, pursuant to each of which the Offeree will be entitled to purchase from the Company one ordinary share, NIS 1 par value of the Company, under the terms of the Company's Options Plan that was approved by the Company's Board of Directors and has been submitted for the approval of the tax authorities, and they will be offered on the capital track (with a trustee), under Section 102 of the Income Tax Ordinance and at the significant terms provided below ("**the Options**" and "**the Plan**"). All the Options will be allocated to the Offerees immediately after receipt of all the approvals required by law for a private placement, including receipt of the approval of the Tel Aviv Stock Exchange Ltd. ("**TASE**") to list the shares resulting from exercise of the options ("**the Underlying Shares**").
3. **Terms of the Options**
 - 3.1. The exercise price of the Options is NIS 3.486. This is the average of the Company's share price over the 30 trading days ending on the day preceding the date on which the Company's Board of Directors approved the allocation of the Options to the Offerees (30 December, 2007), whom are the subject of this Report. The date of approval by the Board of Directors, December 31, 2007, will be called the **Record Date** in this Report. The exercise price will be subject to the adjustments provided below.
 - 3.2. The Options will vest during a three-year period from the Record Date, in three equal portions, at the end of every year, during the three years. The Options that will vest in each of these portions will be exercisable, commencing from the end of one year from the vesting date, for a period of one year.
 - 3.3. The terms of the Options will be as follows:

- 3.3.1. Upon exercise of the Options, the Offeree will not be allocated the full amount of Underlying Shares, but rather, only the quantity of shares that reflects the amount of the financial benefit inherent in the Options. Therefore, the "exercise price" stated above will only be used to determine the amount of the financial benefit and the number of shares that will actually be allocated to the Offeree. In view of Section 304 of the Israeli Companies Law, 1999, the Company will convert some of its earnings to share capital, as noted in the Section, up to the par value amount of the shares actually allocated.
- 3.3.2. If the Offerees employment ends, the Offeree will only have the right to exercise the Options vested until the date employment ends, and they will be exercisable for a period of 180 days from the final day of employment. The remaining Options allocated to the Offeree will expire on the final day of employment.
- 3.3.3. Provisions to protect the Offeree –
- 3.3.3.1. If the Company distributes a stock dividend to its ordinary shareholders, NIS 1 par value, during the period of the Options, the rights of the Offerees will be preserved in the following manner: immediately after the record date for distribution of the stock dividend ("**the Record Date**"), the number of underlying shares that the Offeree is entitled to receive, upon their exercise will be increased, by adding the number and class of shares which the Offeree would have been entitled to receive as a stock dividend, if the (unexercised) Options had been exercised proximate to the Record Date.
- 3.3.3.2. If the Company is party to an exchange of shares agreement or arrangement (such as in a merger or reorganization) ("**exchange transaction**"), in which the Company's ordinary shareholders will be offered to exchange these shares with the securities of any other corporation, the Company will be allowed to compel the Offeree, for every Option held by him or for him and not yet exercised, to receive Options that are exercisable for shares of the other corporation, the substitute for the Options of the Company he holds, according to the exchange ratio that will be prescribed for all of the Company's ordinary shareholders, provided that the total exercise price for all the substitute Options that will be allocated will be equal to the total exercise price for all the unexercised Options held by or for the Offeree.
- 3.3.3.3. In the event of a Company rights offering to shareholders, the exercise price of each Option will, on the "ex-date", be reduced by an amount equal to the benefit component. In this context, the "benefit component" shall mean: the difference between the share price on the TASE, which, according to the rights offering prospectus, served as the basis for calculating the share price "ex-rights" stated in the prospectus, and between the share price "ex-rights" according to the prospectus.
- 3.3.3.4. In any case of the Company paying a cash dividend to the ordinary shareholders, on the "ex-date of the dividend", prescribed by the TASE, the exercise price of each Option will be reduced by the amount of the dividend paid for each share of the Company.

- 3.3.3.5. If the Company executes an ordinary share merger or split into shares bearing a different par value, the requisite adjustments will apply to the underlying shares.

It is clarified that all the securities to be allocated to the Offeree for the Options or the Underlying Shares will be also deposited with the trustee, and will be subject to those terms applicable to the Options and the Underlying Shares, with the requisite changes.

4. Number of shares covered by the options

All the Offerees will be allocated an accumulated total of 6,950,000 Options, exercisable for 6,950,000 ordinary shares of the Company (subject to the instructions in section 3.3.1 above, under which the options will only be exercised to the extent of the financial benefit of the option, as well as subject to the adjustments noted in Section 3.3.3 above), constituting 0.34% of the Company's issued and paid-up share capital.

5. The underlying shares of the Options will be listed for trading on the TASE and, commencing from the allocation date, will be equal in their rights in all matters to the ordinary shares, NIS 1 par value, existing in the Company's share capital.

6. Trust arrangement under Section 102 of the Income Tax Ordinance

6.1. The Company has approached the Income Tax Commission with the requisite reports and/or requests, so that the allocation of the Options pursuant to the Options Plan will be subject to the provisions of Section 102 of the Income Tax Ordinance, on the capital track of an allocation through a trustee (Section 102 and the regulations promulgated and rules prescribed thereunder will be referred to hereafter as "Section 102 Provisions").

6.2. Pursuant to the Section 102 Provisions, the Options will be allocated to a trustee for the Offeree, and the Trustee will treat the Options and underlying shares in accordance with the provisions of Section 102, and in accordance with the trust provisions and exercise provisions of the Options and the sale of the underlying shares, as will be stipulated between the Company and the trustee.

6.3. Any tax liability related to the Options (including in connection with the granting, exercise, sale of the option or the underlying shares) will be imposed exclusively on the Offeree.

6.4. The trustee will hold the Options for the Offeree for their entire period of existence, and will hold the underlying shares until their sale or the payment of the tax imposed on the Offeree, whichever is earlier. If the Offeree will request to sell the underlying shares before the applicable tax is paid, he will be allowed to do so through the trustee, subject to the terms of the arrangement to be prescribed, if prescribed, with the tax authorities, and subject to the payment of tax. The trustee will be allowed to withhold any amount from the sales proceeds to secure payment of the tax.

C. Proceeds from Offered Securities

7. The Options are granted to the Offeree for no consideration, as part of the remuneration within the scope of their employment terms with the Company.

D. Agreements between the Offerees and Company's Shareholders

8. To the best of the Company's knowledge, and after examining this matter with the Offerees, there are no agreements between the Offerees and the shareholders of the Company regarding the purchase or sale of the Company's shares or voting rights therein.

E. Economic Value of the Option

9. The average economic value of each Option on the approval date of the Offering by the Board of Directors, according to the "Black & Scholes" method is: NIS 1.098.

In calculating the above economic value, the following assumptions were taken into account:

- Each Option will be exercised on the last exercise date of the Option;
- The calculation of economic value does not take into account the fact that the Options will not be listed for trading on the TASE and does not take into account the lock-up of the Options during the restriction period provided in the Plan;
- Calculation of the economic value does not relate to the possible implications of the employment termination;
- The price of the share on the valuation date ("Spot") – the closing price of the Company's share on the TASE on the date preceding the Record date, was NIS 3.70 per share;
- The exercise price of the Option ("Strike") – the average price of the Company's share in the 30 trading days that ended on the date preceding the Record Date, is NIS 3.486. CPI linkage will be added to the exercise price;
- The standard deviation of the underlying asset – The annual standard deviation expected for the price of the Company's share used in the calculation is 28%, based on the share's yield from the start of trading in the share on the TASE (21 February, 2007) and the yield on the shares of energy companies traded on the TASE, in recent years, as published by the TASE;
- A risk-free interest rate of 3.2%;
- The cumulative economic value of all the Options that will be allocated pursuant to this Report (6.95 million Options), in accordance with the aforesaid, is approximately NIS 7.6 million.

F. Required Approvals

10. Approval from the Tax Authority. As at the date of this report, the Company submitted the plan to the Tax Authority for approval.
11. In addition, the allocation of the Options is subject to the TASE's approval for listing the underlying shares for trading.
12. The Options to each of the Offerees will be allocated subject to all the required approvals being received, and after the elapsing of the periods required by the Income Tax Ordinance for recognition as a plan under Section 102 of the Income Tax Ordinance (on the capital track) and for the allocation of Options pursuant thereto.

G. Details of the Restriction Provisions Applicable to the Allocation of Options pursuant to this Report

13. Pursuant to the Israel Securities Law, 1968 ("the Securities Law") and the Israel Securities Regulations (Details regarding Sections 15A to 15C of the Law), 2000, the restrictions provided below will apply to the sale during TASE trading, of the underlying shares that will be allocated with the exercise of the Options (in addition to the provisions regarding the vesting of the Options, as provided previously in this Report):

13.1. Prohibition from offering the underlying shares in stock exchange trading, for six months from the allocation date of the Options.

13.2. During the six subsequent quarters from the end of the said six months, the Offeree will be allowed to offer, on any trading day, a quantity of shares that will not exceed the average daily trading volume of the Company's shares on the TASE, in the eight-week period preceding the Offering date, provided that in a single quarter, he will not offer a number of shares that exceeds one percent of the Company's issued and paid-up capital.

H. Details on Representatives of the Company with respect to the Handling of the Immediate Report

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Respectfully,

Oil Refineries Ltd.