

THIRD LETTER OF UNDERTAKING ISSUED BY ISRAEL CORP WITH REGARDS TO HOLDINGS IN OIL REFINERIES

Haifa, Israel, August 5, 2008 - Oil Refineries Ltd. (TASE: ORL.TA) (the "Company"), Israel's largest oil refiner, announced today that, further to the Company's release of June 4, 2008 regarding signing of the Second letter of Undertaking by Israel Corporation Company ("Israel Corporation") vis-à-vis Israel Petrochemicals Enterprises Ltd. ("IPE") and Petroleum Capital Holdings Ltd. ("Petroleum") ("Second letter of Undertaking"), the Israel corporation has issued an immediate report regarding the signing of a third letter of undertaking vis-à-vis IPE and Petroleum ("Third Letter of Undertaking"). A full convenience translation of the said immediate report is attached herewith.

As detailed in the report on the transaction that the Company described in the Company's release of July 10, 2008, regarding an agreement for the purchase of 50% of the shares of Carmel Olefins, Israel Corporation conditioned its vote at the general meeting of the Company, which is called for August 13, 2008 on approval of said agreement, upon completion of the negotiations to amend the Second letter of Undertaking. In the above mentioned report, Israel Corporation advised that with signing of the Third letter of Undertaking, the required condition was met, and Israel Corporation intends to vote at said general meeting in favor of approving the said agreement.

For additional details, see the said convenience translation of the immediate report issued by Israel Cooperation, as specified above.

About Oil Refineries Ltd.

Oil Refineries Ltd. (ORL), located in the bay area of Haifa, is Israel's largest Oil refinery. Using its sophisticated and state-of-the-art industrial facilities, ORL is capable of refining approximately 9 million tons of crude oil per year providing a variety of products used in industrial operation, transportation, private consumption, agriculture and infrastructures. With the refining business representing 90% of the Company's total activities, ORL produces refined products with a high added value by using complex refinery facilities and at 7.4 on the Nelson Complexity Index, among the highest in the East Mediterranean region. The Company has a maximum crude oil refining capacity of approximately 24,800 tons per day (180,000 barrels per day). Over 75% of the Company's produce goes to local consumption, while the balance is exported, primarily to the Mediterranean basin. The company is active in the area of Polymers and Aromatics through its holdings in Carmel Olefins Ltd. and wholly-owned Gadiv Petrochemical Industries Ltd. Oil Refineries is traded on the Tel Aviv Stock Exchange under the ticker ORL. The Company also provides power and heat services (electricity and steam) to industrial customers in the Haifa Bay, as well as infrastructure services (storage, pumping and truck loading of fuel products). ORL is traded on the Tel Aviv Stock Exchange under the ticker ORL. For additional information please visit the Company's website: www.orl.co.il

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

ISRAEL CORP.

4th August, 2008

To:
The Securities Authority
22 Kanfei Nesharim Street
Jerusalem 95464
(via MAGNA)

To:
The Tel Aviv Stock Exchange Ltd.
54 Echad Ha'am Street
Tel Aviv 65202
(via MAGNA)

Dear Sir/Madam,

Re: **Agreements between the Company and Israel Petrochemical Enterprises Ltd.,
Regarding Joint Control over Oil Refineries Ltd.**

Following previous Immediate Reports regarding Oil Refineries Ltd. ("**ORL**"), including the Immediate Report dated June 25, 2008 (Reference No. 2008-01-178335) (the "**Previous Immediate Report**"), the Company hereby notifies as follows:

1. The Company signed an additional letter of undertaking on August 3, 2008, regarding the signing of an agreement of joint control over ORL, in favor of Israel Petrochemical Enterprises ("**Petrochemical**") and Petroleum Capital Holdings Ltd. ("**Petroleum**", Petrochemical and Petroleum jointly – "**Petroleum Group**"), 100% of whose issued shares are held by Petrochemical ("**Third Letter of Undertaking**"). The Third Letter of Undertaking replaced the Company's previous letters of undertaking, dated May 10, 2007 and June 1, 2008, regarding the signing of an agreement of joint control over ORL, which were annulled, and the attachment thereto of two draft agreements of joint control over ORL, which will become valid subject to the terms mentioned below.
2. The Third Letter of Undertaking was signed following the agreement dated June 24, 2008, between Petrochemical and ORL ("**COL Agreement**"), according to which, inter alia, subject to the existence of specific conditions stated in the COL Agreement, Petrochemical would sell and transfer to ORL all its shares in Carmel Olefins Ltd. ("**COL**"), which are 50% of COL's issued share capital, in return for the allocation of ORL's shares, at that time comprising 20.53% of ORL's issued share capital ("**Allocation of Shares**"). The Third Letter of Undertaking and the attached draft agreements regulate the joining of the Petrochemical Group to the control over ORL, under specific conditions and according to various alternatives, prior to, and after, the completion of the COL Agreement, and in the event that the COL Agreement is cancelled by both parties or terminated due to the non-upholding of its terms of validation, or due to its breach by one or both of the parties, while the parties do not have any claims for its enforcement (each of the above, "**Annulment of the COL Agreement**").
3. The Company and the Petrochemical Group have mutually undertaken that in the event that the COL Agreement will be executed according to all its terms, and that the

Petrochemical Group receives all authorizations required by law to enter into the joint agreement of control over ORL (including control according to the Order of Government Companies (Declaration of Vital State Interests in Oil Refineries Ltd.) 5767 – 2007) ("**Required Authorizations**"), up until and not later than five years from the date of the Allocation of Shares (the "**Period of Five Years**"), then a joint agreement of control over ORL will be signed between the parties ("**Control Agreement after Execution of the COL Agreement**") according to the draft attached to the Third Letter of Undertaking, and whose principles are similar to the agreements previously formulated between the parties, as follows:

- 3.1 The definition of core control shares in ORL: The core control shares in ORL will comprise 50.25% of the issued and outstanding share capital of ORL after the Allocation of Shares. The Company will hold 55% of the core control shares in ORL, while the Petrochemical Group will hold 45% of the core control shares in ORL. The remaining shares held by the parties will be considered free shares, save for their voting power which will be subject to the provisions applicable to the voting of the core control shares.
- 3.2 Freeze Period: the agreement establishes a Freeze Period of six months, commencing from the date of the signing of the control agreement ("**Freeze Period**"), during which core control shares may not be transferred by either of the parties.
- 3.3 Right of First Refusal: the parties will have a Right of First Refusal to purchase and have transferred all the core control shares offered for sale by the other party ("**Right of First Refusal**"). It is hereby clarified that any party will be entitled to sell and/or transfer all, but not part of, its core control shares held at that time. The Right of First Refusal will apply with certain changes also in the case that a pledge is realized (if in fact there is a pledge) on the core control shares by the holder of the pledge on these shares. It was agreed, as part of the Right of First Refusal that a change in the control of Petrochemical or of the Company, as defined in the draft agreement and subject to the existence of certain conditions stated in the draft agreement, will entitle the other party to purchase the core control shares in ORL of the party in which a change in control was made, at the average market price in the 60 business days prior to the notification regarding the change in control, and with an added premium of 15%. The abovementioned right will be awarded to the Company in the case that there will be a change in the direct control in Petrochemical, or a change is made in the direct or indirect holdings of the controlling shareholders in Petrochemical, in a way that David Federman and/or his kin, on the one hand, and Yaakov Gottenstein and/or Alex Pesel, on the other hand, will cease being the holders of the direct or indirect controlling interest in Petrochemical, provided that the core control shares in ORL constitute the main assets of Petrochemical. In other words, Petrochemical has no assets, other than the core control shares, cash and cash value, which according to Petrochemical's last financial reports exceed the value of US\$200 million.
- 3.4 Right of Participation: each party will have a Right of Participation to the sale of core control shares of the other party, provided that the Right of First Refusal has not been exercised ("**Right of Participation**").
- 3.5 Buy Me - Buy You: at the end of the Freeze Period, each party to the agreement will have the right to exercise the Buy Me - Buy You mechanism regarding the core control shares, whereby each party may offer the other party to purchase all

its core control shares that will be held by the other party at a price stated in a proposal, or to sell to the other party all its core control shares to be held by it at the above stated price (the "**Buy Me - Buy You Mechanism**").

- 3.6 Appointment of Directors: the parties to the control agreement will undertake, as part of the agreement, to use all their voting power at ORL's general meetings, to select or appoint the members of ORL's Board of Directors, in the following manner: ORL's Board of Directors will comprise of 11 members (including 2 external directors), while the Company will recommend the appointment of 5 directors and the appointment of one external director, and Petrochemical Group will recommend the appointment of 4 directors and the appointment of one external director (the "**Right for Full Representation on the Board of Directors**"). It was hereby determined, inter alia, that the Right of Representation of the Company and the Petrochemical Group on ORL's Board of Directors, as stated above, will relate also to all of ORL's Board of Directors committees, excluding the audit committee, and, as much as possible, the Boards of Directors of all ORL's subsidiaries and affiliated companies.
- 3.7 Appointment of Executives and Advisors: subject to the provisions of any applicable law, the parties, serving as shareholders in ORL, will act so that the appointment of the CEO of ORL, accountants, auditors and lawyers of ORL, the subsidiaries of ORL, and, as much as possible, the affiliated companies of ORL, will be in agreement between the parties (the "**Right to Participate in the Appointment of Executives**"). In addition, subject to any law, the appointment of the Chairman of ORL's Board of Directors will be according to the Company's recommendation.
- 3.8 Voting on Specific Issues: the parties will agree in advance on the manner of voting on several issues, if and when they are put on the agenda and brought for voting at general meetings of ORL's shareholders, and in the absence of agreement the vote will be decided by a jointly-approved arbitrator. It is also determined that the parties will act in order to amend ORL's Articles of Association, so that decisions on those matters which are within the authority of ORL's Board of Directors, will be transferred to the authority of the general meeting of ORL's shareholders or that a decision in this matter will require a qualified majority of 75% of all present directors. Following is a list of these issues: (a) the entering of ORL or of any of its subsidiaries into new areas of business; (b) the issuing of shares or other securities by ORL or by its subsidiary; (c) a change in the Articles of Association or ORL and/or of any of its subsidiaries and/or of any company held by it; (d) the merging or splitting or reorganization of ORL or of any of its subsidiaries; (e) any transaction which is not in the ordinary course of business of ORL or of any of its subsidiaries or of any of its companies with an interested party; (f) the appointment of ORL's accountants; (g) dissolution or freezing of legal proceedings in ORL or in any of its subsidiaries and/or in any of its companies in which it has a controlling interest; and (h) ORL's material sale or purchase transactions.
- 3.9 Dividend Policy: the parties to the control agreement will act subject to any applicable law, so that ORL and its subsidiaries will adopt a dividend policy, according to which at least 75% of the annual profits suitable for distribution, will be distributed annually.

- 3.10 Agreement Period: the control agreement will become valid at the time of its signing and will end (a) according to its terms, or (b) from the time that one party ceases to hold at least 10% of ORL's share capital.
- 3.11 Additional Provisions: the agreement includes additional provisions customary in these types of agreements, including confidentiality, remedy, no-waiver of rights, arbitration, judicial authority, etc.
4. As long as the COL Agreement has not been implemented, the Company and the Petrochemical Group have mutually undertaken that if all required approvals are received up until, and not later than, May 10, 2009 (the "**Determining Date**"), then, according to the demand of the Petrochemical Group, an agreement of joint control over ORL will be signed between the parties ("**Control Agreement Prior to the Execution of the COL Agreement**"), according to the draft attached to the Third Letter of Undertaking, which Control Agreement is similar to the Control Agreement after the Execution of the COL Agreement, subject to the following changes:
- 4.1 The Call Option: Petroleum shall be given a Call Option to purchase and receive from the Company 230 million shares of ORL ("**Realization Shares**"), when the price of the Realization Shares is the cost price of purchasing core control shares, purchased at the sale proposal from the State of Israel on February 19, 2007, i.e. a total of NIS 3.3 per share and a total of NIS 759 million, with added linkage to the Consumer's Price Index and interest at an annual rate of 5% and a semi-annual calculation and debit from the date of purchase and after deduction of distributed dividends, with added linkage and interest, as stated above (the "**Call Option**"). The Call Option will be frozen until the realization of the COL Agreement, and will be annulled with the realization of the COL Agreement. The Call Option may be exercised by Petroleum, if at all, only from the date of annulling the COL Agreement and until the Determining Date or until 120 days from receiving the required authorizations, the earlier of the two.
- 4.2 As long as the Call Option has not been exercised: (a) the Petrochemical Group will not be entitled to the Right of First Refusal; (b) the Company will not be entitled to the Right of Participation; (c) the Buy Me - Buy You Mechanism will not apply; (d) the Right for Full Representation on the Board of Directors will not apply. Instead, ORL's Board of Directors will comprise of 9 members (including 2 external directors), while the Company will recommend the appointment of 5 directors, Petroleum will recommend the appointment of 2 directors and the recommendation regarding the appointment of the two external directors will be made in agreement between the parties; and (e) the Right to Participate in the Appointment of Executives will not apply. It is hereby clarified that the rights specified above will become valid at the time of the exercise of the Call Option, if and when it is exercised or when the Control Agreement after the Execution of the COL Agreement is signed.
- 4.3 On the date that the COL Agreement is realized and the Control Agreement after the Execution of the COL Agreement is signed, it will replace and annul the Control Agreement Prior to the Execution of the COL Agreement, if and when signed, and, inter alia, the Call Option will be void.
5. If and when the annulment of the COL Agreement occurs prior to the Determining Date for reasons not connected to an action or omission of Petrochemical, and the Control Agreement Prior to the Execution of the COL Agreement has not yet been signed, then

in such a case, and notwithstanding Section 1 above, the Company's Letter of Undertaking dated June 1, 2008 will become to be in effect together with the attached draft agreement of joint control over ORL (the "**Second Letter of Undertaking**"), and the Third Letter of Undertaking and the attached draft agreements will be considered void. According to the Second Letter of Undertaking, the Petrochemical Group is entitled, inter alia, to transfer its rights according to the Second Letter of Undertaking to a third party which has obtained the required approvals until the Determining Date, subject to the Company's Right of First Refusal.

6. At the time of signing the Third Letter of Undertaking, Petroleum signed an irrevocable letter of authorization ("**Letter of Authorization**") that authorizes the Company to vote on its behalf at ORL's general meetings for its holding of 235 million ORL shares ("**Authorized Shares**"). The Letter of Authorization will become valid one day prior to the date of the Allocation of Shares and will be valid until the time of signing the Control Agreement after the Execution of the COL Agreement or until the end of the Period of Five Years, the earlier of the two ("**Intermediate Period**"). During the Intermediate Period Petroleum will not sell the Authorized Shares unless prior to their sale the Petrochemical Groups has given the Company an additional letter of authorization pertaining to the number of ORL shares that is identical to the number of shares to be sold, as stated above, and in such a case the Letter of Authorization in regard to the sold shares will be void. In case the Authorized Shares are pledged as a security in favor of third parties that have given credit to Petrochemical or Petroleum, the Letter of Authorization will be subject to the rights of the pledge owner, and in the case of realization of the pledge and the sale of the Authorized Shares to an unrelated third party (subject to the Company's Right of First Refusal), the Letter of Authorization will become void, and the Petroleum Group will give the Company an additional Letter of Authorization relating to the number of shares identical to the sold shares.
7. According to the directives of the Third Letter of Undertaking, the Company shall be entitled to the Right of First Refusal even prior to the signing of the agreement of joint control over ORL. Until the signing of the control agreement, the Company is entitled to use its control power in ORL, at its discretion and without any limitations derived from its holding of ORL's shares, and during the Intermediate Period – also under the Letter of Authorization.

The Company also wishes to announce, as a follow-up to the previous Immediate Report, that the manner of the Company's voting in ORL's general meeting regarding the approval of the COL Agreement was subject to the completion of the negotiations with Petrochemical to update the Second Letter of Undertaking. With the execution of the Third Letter of Undertaking, as specified above in this report, the above required condition has been fulfilled and the Company plans to vote for the approval of the COL Agreement at the abovementioned general meeting.

Sincerely,

The Israel Corporation