



## **Oil Refineries Ltd. Announces a Special General Shareholders Meeting to Approve the Proposed Acquisition of the Remaining 50% of CAOL**

- Convenience Translation -

**Haifa, Israel, July 10, 2008** - Oil Refineries Ltd. (TASE: ORL.TA) ("ORL" or the "Company") announced that pursuant to the Securities Regulations (Transaction between a Company and Controlling Shareholder therein) – 2001, the Securities Regulations (Private Offer of Securities of a Listed Company) – 2000, and in accordance with Companies Regulations (Publication of a Notice of a General Meeting and a Special Meeting in a Public Company) – 2000, regarding the convening of a special general meeting of the Company's shareholders on August 13, 2008 at 10 a.m. at the Company's offices on the 26<sup>th</sup> floor of the Square Tower, Azrieli Towers at 132 Menahem Begin Road, Tel Aviv, the agenda of which will include, inter alia, a proposed resolution to approve the engagement of the Company in an agreement with the Israel Petrochemical Enterprises Ltd. ("IPE") dated June 24, 2008 (the "**Agreement**"), in which the controlling shareholder of the Company has a personal interest, as detailed below.

### **1. Summary description of the transaction and its main conditions**

#### **a. Description of the transaction**

The Agreement includes a number of central components which are combined and conditioned on each other, as follows:

- 1.1 Upon the closing of the transaction, IPE will sell to the Company all the shares it owns in Carmel Olefins ("COL") comprising 50% of the issued share capital of COL (hereinafter: the "**Acquired COL Shares**"), in such manner that following the acquisition, the Company will hold 100% of COL's issued share capital. In consideration for the Acquired COL Shares, the Company will allot IPE 516,672,961 ordinary shares of the Company comprising (after the allotment and without dilution) 20.53% of the Company's issued share capital and its voting rights (hereinafter: the "**Allotted Shares**").
- 1.2 Upon the closing of the transaction, the Company will sell to IPE 3,741,680 shares of IPE (hereinafter: the "**Acquired IPE Shares**"), comprising 12.29% of IPE's share capital in consideration for 40 million Dollars.
- 1.3 As a condition precedent for closing of the transaction, after complying with all the other conditions precedent, and prior to the allotment of the Allotted Shares to IPE, as mentioned above, the Company will distribute to its shareholders a dividend of 60 million dollars (the "**First Dividend**"). In addition, on the date of closing of the transaction, the Company's Board of Directors will resolve to distribute an additional dividend of 100 million Dollars (the "**Second Dividend**"), the Allotted Shares will participate in such distribution.

**b. Description of the main provisions of the Agreement**

- 1.4 In the framework of the Agreement, each of the parties made representations which included, inter alia, representations of the Company regarding its financial statements as of December 31, 2007 and March 31, 2008, and its shelf prospectus dated May 29, 2008 (the “**Shelf Prospectus**”), representations of IPE about COL financial statements as of December 31, 2007 and March 31, 2008, and a description of COL [Hebrew] attached to the transaction report published regarding the transaction, the subject of this notice (the “**Transaction Report**”).
- 1.5 The Agreement includes undertakings by the parties in connection with their operations during the interim period, from the date of the Agreement and until the closing of the transaction. In the event of a significant adverse change, regarding the representations made by one of the parties to the Agreement, as a result of which the value of the Acquired COL's Shares or of the Allotted Shares, whichever relevant, declines by 50,000,000 Dollars or more, the party injured by the change may withdraw from the Agreement.
- 1.6 The Company undertook that, in the event that the distribution of the first or Second Dividend by the Company, does not meet the criteria for distribution set forth in the Companies Law, the Company will approach the court to receive its approval for such distribution. IPE undertook an identical undertaking regarding the acquisition of the Acquired IPE's Shares.
- 1.7 In the framework of the Agreement, a mechanism was set for indemnifying each of the parties for damages or losses as a result of incorrectness of presentation or declaration given by that party to the Agreement (subject to exceptions). As a rule, the obligation for indemnifying party will apply only after the accumulated amounts of all the damages caused to the injured party, for which it is entitled to indemnification, will exceed the amount of 15,000,000 Dollars and in such a case, the indemnification will apply as from 7,500,000 Dollars to a maximum indemnification of 75,000,000 Dollars. The entitlement to such an indemnification is limited in time. Each party waived its right to claim any indemnification from subsidiaries and officers of the other party for any incorrectness in representations made in the framework of the Agreement.
- 1.8 According to the Agreement, all agreements between COL and IPE and all agreements between the Company and IPE regarding COL, including the founders agreement, the management agreement, and the shareholders agreement, will terminate on the closing date of the Agreement.
- 1.9 Subject to the closing of the transaction, each of the parties waived claims against the other, including subsidiaries and officers, regarding every matter connected to COL and which cause is prior to the closing date.
- 1.10 The Company undertook to cause COL to purchase directors and officers liability insurance (runoff) in the level of cover and maximum liability set forth in the policy which will be in force on the eve of the closing of the transaction, and which will cover the liability of officers serving in COL on the closing date, or who served prior to such date, as officers in COL for their acts and omissions during the periods prior to the closing date, for a 7-year period from the closing date.

1.11 The Company undertook not to carry out, and to cause COL not to carry out, actions set forth in Section 103C of the Income Tax Ordinance [New Version], which will harm the exemption to be given to IPE by the Tax Authority in connection with the Agreement.

**c. The main conditions precedents required for the closing of the transactions**

1.12 Closing of the Agreement is subject to meeting a number of conditions precedent by December 31, 2008, including, inter alia, receipt of regulatory approvals; receipt of the approvals of the organs required by law in each of the parties for closing the transactions and the actions connected with it; receipt of required third party approvals according to certain agreements, undertakings, licenses, and approval of COL detailed in the Agreement; receipt of approval of the IPE's debenture holders or of the trustee of such debentures; receipt of a notice from IPE, according to which an amendment to the irrevocable letter of undertaking dated June 1, 2008 was signed between it and the Israel Corporation Ltd. ("**the Israel Corporation**"); that during the period from the date of signing the Agreement and until the closing date no events occurred as a result of which representations of the Company or representations of IPE, whichever relevant, were incorrect, and which cause in the aggregate to the reduction of the Acquired COL Shares' value or of the Allotted Shares' value, whichever relevant, in an amount exceeding 50,000,000 Dollars; and also the payment of the First Dividend.

Should all the conditions precedent not be met by December 31, 2008, the Agreement will terminate. In the event in which all the conditions precedent have been met, and on the same date an application for approving a distribution pursuant to the Agreement by one of the parties is pending before the court (as detailed in Clause 1.6 above), the last day for complying with the conditions precedent will be postponed to March 31, 2009. Each of the dates stated above can be extended with the agreement of the parties, by a resolution adopted by their Boards of Directors.

**d. The method of determining the consideration**

1.13 The number of the Company's shares to be allotted to IPE and their ratio of the Company's share capital, and the amount that shall be paid by IPE for IPE's shares it acquires, were determined in negotiations considering the evaluation of the ratio of the fair economic value of 50% of COL shares to the value of the Company's share capital (hereinafter: the "**Ratio Value**"), and the value of the Acquired IPE Shares, which has been made for the purpose of engaging in the Agreement, and which was prepared by Uri Cohen CPA of the Yitzhak Suari Ltd. (the "**Evaluation**" and the "**Assessor**" respectively). The Assessor was appointed by the Company and IPE, jointly, in order to determine the Ratio Value and the value of IPE shares, as mentioned above. According to the Evaluation, the value of the Company's share capital was estimated in a range of 1,624-1,927 million Dollars (after distribution of the First Dividend as defined below), and COL's share capital is estimated in the range of 860-959 million Dollars; accordingly, the Ratio Value is in the range of 19.9%-20.9%. According to the Evaluation, the value of the Acquired IPE's Shares sold to IPE in the framework of the Agreement, comprising 12.29% of IPE's share capital, ranges between 34-44 million Dollars.

The Company obtained from Prof. Amir Barnea an additional opinion (the "**Opinion**"), according to which the transaction for exchanging 50% of COL's

shares in consideration for 20.53% of the Company's shares, following the payment of a dividend of 60 million Dollars, and the acquisition of the Acquired IPE Shares, held by the Company in consideration for 40 million Dollars, correctly reflects the range of economic values determined in the Evaluation, and are fair and reasonable for the Company's shareholders.

Additional details, in Hebrew, of the transaction and its conditions are given in the framework of the Transaction Report, to which are annexed a description of COL and its business as of March 31, 2008, financial statements of COL as of March 31, 2008, and as of December 31, 2007, the Evaluation and the Opinion.

## **2. Shareholders with a personal interest in the transaction and the nature of such interest**

- 2.1. The controlling shareholder in the Company is the Israel Corporation.
- 2.2. On June 2008, the Israel Corporation gave to IPE and to Petroleum Capital Holdings Ltd. ("PCH"), a private company which as of the date of this notice is wholly owned by IPE, an irrevocable letter of undertaking (the "**Second Letter of Undertaking**") to which the wording of a joint-control agreement in the Company is attached (the "**Second Control Agreement**"). The terms of the Second Letter of Undertaking and the Second Control Agreement were detailed by the Company, based on the Israel Corporation's publications, in an immediate report of the Company dated June 2, 2008.
- 2.3. In view of the Israel Corporation's undertaking to sign a joint-control agreement with IPE and PCH, subject to receiving control approval by IPE or PCH, IPE and PCH are considered as parties with a personal interest in their vote in the Company's general meetings for approval of the Company's transactions with the Israel Corporation, or in which the Israel Corporation has a personal interest. Furthermore, the Israel Corporation will be considered as a party with a personal interest regarding its vote in the Company's general meetings for the approval of the Company's transactions with IPE or with PCH, or in which IPE or PCH have a personal interest.
- 2.4. As mentioned in Clause 1.12 above, IPE's notice, according to which an amendment of the Second Letter of Undertaking was signed between it and the Israel Corporation, relating to the results stemming from the Agreement, is a condition precedent for the closing of the Agreement.
- 2.5. Moreover, the Israel Corporation informed the Company that it is negotiating with IPE in order to change and adjust the Letter of Undertaking given to IPE on June 1, 2008, and the wording of the conditional joint control agreement to the new state of holdings to be created as a result of implementing the provisions of the Agreement, including canceling the Call option, and that it conditions its vote in favor of approving the Agreement in ORL's general meeting conditional upon the consummation of the negotiations with IPE, while changing and adjusting the Second Letter of Undertaking.

## **3. Directors with a personal interest in the transaction and the nature of this interest**

As mentioned above, in the framework of the transaction and subject to its closing, IPE will waive any contention regarding COL or its subsidiaries whose cause occurred prior to the closing date, against officers in the Company and its subsidiaries, and against officers in ORL where the contention relates to the incorrectness of the representations

made by ORL in the Agreement. Accordingly, all members of the Company's Board of Directors have a personal interest in the proposed transaction by virtue of this waiver.

Yossi Rozen, Ori Slonim, and Uzi Netanel have an additional interest being members of COL's Board of Directors by virtue of the said waiver and in view of the Company's undertaking, to cause COL to purchase directors and officers liability insurance for officers in COL, subject to Clause 1.9 above.

In addition, Ori Slonim and Avisar Paz informed the Company that they will not attend in discussions nor vote on resolutions of the Company's Audit Committee or Board of Directors relating to transactions with the Israel Corporation, or in which the Israel Corporation has a personal interest.

As all the members of the Company's Audit Committee and Board of Directors have a personal interest in the transaction, all of them have participated in the discussions and decisions for its approval.

**4. Convening a special general meeting –place of meeting, time and quorum required for it and the ex date**

The special general meeting of the Company's shareholders will convene on August 13, 2008 at 10 AM, at the Company's office on the 26<sup>th</sup> floor of the Square Tower, Azrieli Towers at 132 Menahem Begin Road, Tel Aviv.

**(I) Subjects on the agenda and the condensed proposed resolutions:**

- 4.1 Engagement with IPE in a transaction as detailed in Clause 1 to this Notice.
- 4.2 An increase in the Company's authorized capital by NIS 1,000,000,000 divided into 1,000,000,000 ordinary shares of NIS 1 par value each, in such a way that following the increase of the capital, the Company's authorized capital will be of NIS 3,000,000,010 divided into 3,000,000,010 ordinary shares of NIS 1 par value each.
- 4.3 The amendment of Article 178(A) and Article 178(B) of the Company Articles in such a way that a resolution regarding the distribution of dividends, will be at the authority of the Board of Directors (and not of the general meeting of the Company as determined today).
- 4.4 Deletion of Article 178(c) of the Company's articles for the cancellation of the prohibition for a subsidiary or a company controlled by the Company to acquire shares of the Company.

**(II) The majority required to pass resolutions:**

- 4.5 In order to approve the subject mentioned in Clause 4.1 on the agenda, in accordance with the provisions of Section 275 of the Companies Law, one of the following two conditions must exist:
  - 4.5.1 in A count of votes, the majority in the general meeting includes at least one third of all of the votes of those shareholders who do not have a personal interest in the approval of the transaction, who are present at the meeting (in a count of all of the votes of such shareholders, abstentions shall not be taken into account);
  - 4.5.2 The total of opposition votes amongst those shareholders referred to in sub-clause 4.5.1 above shall not be greater than 1% of all the voting rights in the Company.

- 4.6 In order to approve the subjects mentioned in clauses 4.2, 4.3 and 4.4 on the agenda, an ordinary majority is required of all the votes of shareholders present in the general meeting and entitled who are to vote, and voted.

(III) Quorum

A discussion at the general meeting must not begin unless a quorum is present at the time of opening the meeting. A quorum will be present when two shareholders are present themselves or by proxies or who sent the Company a voting letter stating the manner of their vote and who hold or represent 25% (twenty five percent) and more of the voting rights in the Company. If within half-an-hour from the date set for the meeting a quorum is not present, the meeting will be postponed to August 20, 2008 at 10 a.m. at the same place. If within half-an-hour from the date stipulated at the deferred meeting no quorum will be present, as mentioned above, the meeting will take place whatever number of participants there are.

(IV) The ex date

The ex date for determining entitlement of a shareholder in the Company to vote at the general meeting, as mentioned in Section 182 of the Companies Law, is July 15, 2008.

According to the Companies Regulations (Proof of Ownership of a Share for the Purpose of Voting at a General Meeting) – 2000 (the “**Regulations**”), a shareholder to whom a share is registered with a member of the Tel Aviv Stock Exchange Ltd., and such share is included among the shares of the Company registered in the Register of Shareholders in the name of a nominee company, and who is interested to vote at the general meeting, will submit to the Company a certificate from the member of the stock exchange at which the shares are registered, regarding his ownership in the share, the determining date, in accordance with Form 1 in the Addendum to the Regulations.

The shareholder may appoint a proxy who can participate and vote on his behalf at the general meeting, according to the provisions of the Companies Articles. The proxy letters will be deposited at the registered office of the Company at least 48 hours prior to the time of convening the meeting.

(V) Details regarding voting letters

The distribution site of the Securities Authority (“**the distribution site**”) and the internet site of the Tel Aviv Stock Exchange Ltd. where one can find the Transaction Report [Hebrew] and the voting letter [Hebrew] and position notices [Hebrew] within the meaning of Section 88 of the Companies Law are: [www.magna.isa.gov.il](http://www.magna.isa.gov.il) and [www.maya.tase.co.il](http://www.maya.tase.co.il), respectively. Voting according to a voting letter will be done on the second part of the voting letter, as published in the distribution site. A shareholder may contact the Company directly and receive from it the voting letter and position notices (should there be any).

A member of the stock exchange will send, gratis, by email a connection to the voting letter and the position letters, in the distribution site, for every shareholder not registered with the Registrar of Shareholders and whose share are registered with that member of the stock exchange, if the shareholder gives notice that he is interested in this, provided that the notice given regarding a certain securities account and on a date prior to the ex date.

A shareholder whose shares are registered with a member of the stock exchange may receive an ownership certificate from the member of the stock exchange through which he holds his shares, at the branch of the member of the stock exchange or by mail to his address in consideration for postage and delivery expenses only, if

requested to do so. An application regarding this matter will be given in advance to a specific securities account.

The voting letter must be submitted to the Company's offices at Hahistadrut Avenue in the Haifa Bay, in such a way that the voting letter will reach the Company's offices no later than 72 hours prior to the date of convening the meeting.

The last date to submit position notices to the Company is up to 10 days after the ex date.

One shareholder or more which holds shares at a rate comprising 5% or more of the total voting rights in the Company (i.e. 100 million shares), and anyone holding such a rate of the total voting rights which are not held by a controlling shareholder in the Company (i.e. 54,920,413 shares) is entitled to peruse the voting letters as detailed in Regulation 10 to the Companies Regulations (Voting in Writing and Position Notices) – 2005.

#### **4. Perusal of documents**

The documents relating to the decisions the subject of this report may be perused at the offices of the Company at Hahistadrut Avenue - Haifa Bay during regular working hours, after prior coordination by telephone 04-878-8135.

Convenience translation of the immediate report relating to the transaction that was published in Hebrew will be available on the Company's Website from July 13. The complete description of the proposed transaction is available in Hebrew on the Company's website or on the TASE and the Israeli SEC website.

#### **About Oil Refineries Ltd.**

Oil Refineries Ltd. (ORL), located in the bay area of the city of Haifa, operates Israel's largest oil refinery. ORL operates sophisticated and state-of-the-art industrial facilities with refining capacity of 9 million tons of crude oil per year, with a Nelson complexity index of 7.4, providing a variety of quality products used in industrial operation, transportation, private consumption, agriculture and infrastructure. The company is also active in the area of Aromatics and Polymers through wholly-owned Gadiv Petrochemical Industries Ltd. and 50% owned Carmel Olefins Ltd. 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](http://www.orl.co.il).

#### **Contacts**

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