



OIL REFINERIES RECEIVES NOTICE WITH REGARD TO INTERESTED PARTIES OF THE COMPANY

Haifa, Israel, May 14, 2007 - Oil Refineries Ltd. (TASE: ORL.TA) (the "Company" or "ORL"), Israel's largest oil refiner, has announced that further to the Immediate Reports the Company filed with the Tel Aviv Stock Exchange on February 21, 2007, regarding reports received from The Israel Corporation Ltd. ("the Israel Corporation") and from Petroleum Capital Holdings Ltd. ("PCH"), on their becoming an interested party, and on their purchase of the Company's shares under the terms of a Memorandum of Understanding between the Israel Corporation and PCH and Scailex Corporation Ltd. ("Scailex"), the Company received, on May 10, 2007, notice from the Israel Corporation that the Israel Corporation had filed an Immediate Report on the cancellation of the above mentioned memorandum of understanding, and on the signing of a letter of undertaking by the Israel Corporation towards Scailex and PCH. For additional information, see the Immediate Report of the Israel Corporation, attached hereto.

The below is a non binding translation from Hebrew – for convenience purposes only.

Israel Corporation Letterhead
May 10, 2007

Israeli Securities Authority
22 Kanfei Nesharim Street
Jerusalem 95464

Tel Aviv Stock Exchange Ltd.
54 Achad Ha'am Street
Tel-Aviv 65202

(By electronic means)

(By electronic means)

Gentlemen:

Re: Acquisition of shares of ORL

This Immediate Report is filed further to the previous Immediate Reports published by the Company regarding the binding Memorandum of Understanding ("**Memorandum of Understanding**") signed on February 18, 2007 between the Company and Scailex Corporation Ltd. ("**Scailex**") and a company it controls, Petroleum Capital Holdings Ltd. ("**PCH**"), and regarding the acquisition of shares of Oil Refineries Ltd. ("**ORL**") by the Company and by PCH, as follows:

1. As noted in the Company's previous Immediate Reports, the control and exerting of means of control in ORL is subject to the approval of the Prime Minister and the Minister of Finance, in accordance with the Government Companies Order (Declaration of the State's Critical Interests in the Oil Refineries Ltd.), 2007 ("**Ministers' Approval**") and the consent of the Anti-Trust Commissioner ("**Commissioner's Consent**" – and together – "**the Requisite Approvals**"). Whereas to date, the Commissioner's consent has been received, the process has still not been

completed because the Ministers' Approval has not yet been received, and whereas the Company, Scailex and PCH believe that the good of ORL requires control in it as soon as possible, and that the Company, which until February 2006 was a significant shareholders in ORL, could receive the ministers' approval in a shorter time than the time PCH could receive it, therefore, the Company, PCH and Scailex agreed to cancel the Memorandum of Understanding. Cancellation of the Memorandum of Understanding will enable the Company to file a separate request to obtain a control permit in ORL.

2. Concurrent with cancellation of the Memorandum of Understanding, the Company has undertaken toward Scailex and PCH, within the scope of an irrevocable letter of undertaking ("**the Letter of Undertaking**"), the highlights of which will be provided below, and PCH and Scailex have agreed to these undertakings and have undertaken toward the Company to act in accordance therewith.

The highlights of the Letter of Undertaking:

- 2.1 If PCH and Scailex receive all of the Requisite Approvals, including any other approval or permit required by the provisions of any law, not later than May 15, 2009 ("**Determining Date**"), then in such a case, the Company will enter into a joint control agreement with them in ORL ("**the Control Agreement**"), pursuant to the wording agreed between the parties and in accordance with the principles that will be provided in Section 3 of this Immediate Report.
- 2.2 The sale and transfer of the ORL shares in the possession of PCH to a third party, or the sale of control in PCH by Scailex to a third party, will confer on the Company the right of first refusal to purchase all of the ORL shares or the relevant securities, in accordance with the stipulations of the Control Agreement.
- 2.3 If PCH will sell all of its shares in ORL to a third party (and the Company did not exercise its right of first refusal), or if Scailex will sell control in PCH to a third party, and if the third party will receive all of the Requisite Approvals by not later than the Determining Date, in such a case, the Company will enter into the Control Agreement with the third party, and the third party will step into the shoes of PCH and Scailex in all matters.
- 2.4 The Call Option may be exercised (as stipulated in the Control Agreement – see Subparagraph 3.2 of this Immediate Report), until the Determining Date or until 120 days from the receipt of the Requisite Approvals, whichever is earlier.
- 2.5 On the signing date of the Letter of Undertaking, PCH signed an irrevocable written mandate, whereby it appoints the Company to vote in its name and on its behalf at the general meetings of the shareholders of ORL for the 100 million shares of ORL it possesses ("**the Mandate**"). The Mandate will expire on the date the Control Agreement will be entered into, or within six (6) months from the signature date of the Mandate, whichever is earlier.
- 2.6 Until the Control Agreement is entered into, the Company will be entitled to exert its control in ORL (provided that it received the Ministers' Approval) at its discretion and without limit.

3. **Highlights of the Control Agreement**

Presented below are the highlights of the Control Agreement that will be signed by the Company – as one party, and by PCH and Scailex (together: "**Scailex Group**") – as the other party, upon receipt of the requisite approvals by the parties to it, and will take effect on the signing date –

- 3.1 Definition of controlling interest shares in ORL – The controlling interest shares will constitute 50.25% of the issued and paid-up share capital of ORL ("**the Controlling Interest Shares**"). As of the date of this Immediate Report, the Company holds 77.9% of the Controlling Interest Shares and PCH holds 22.1% of the Controlling Interest Shares. It should also be noted that in addition to the Controlling Interest Shares, as of the date of this Immediate Report, the Company holds an additional 1.84% of the issued and paid-up share capital of ORL and PCH holds an additional 1.51% of the issued and paid-up shares capital of ORL.
- 3.2 Call option – Under the terms of the Control Agreement, PCH will be given a call option ("**the Call Option**") to purchase and receive in a transfer from the Company, 230 million shares of ORL ("**the Underlying Shares**"), whereby after the exercise of the Call Option, the internal holdings ratio in the controlling interest of ORL (which includes 50.25% of the share capital of ORL) will be: the Company – 55%; PCH – 45%. The price of the Underlying Shares will be the cost price for acquiring the Controlling Interest Shares, i.e.: a total of NIS 3.3 per share, plus linkage differences and linked interest at the annual rate of 5%, charged and computed semiannually from the date of the purchase, net of dividends distributed (if distributed) plus linkage differences to the CPI and interest, as noted.
- 3.3 Lock-up period – The agreement prescribes a lock-up period of 5 months, to begin from the signing date of the Control Agreement, during which the transfer of the Controlling Interest Shares by any of the parties will not be permitted.
- 3.4 Right of first refusal –
- 3.4.1 The Scailex Group will give the Company the right of first refusal to purchase and receive in a transfer all of the Controlling Interest Shares that it will offer for sale to a third party, commencing from the signing date of the Control Agreement, whereas the Company will give the Scailex Group such right from the exercise date of the Call Option. The right of first refusal will be in effect, with certain changes, also in case a lien, to be registered (if registered) on the Controlling Interest Shares, will be realized by the holder of the lien on these shares.
- 3.4.2 The transfer of control in PCH and in Scailex (subject to certain conditions) will be deemed cause for invoking the Company's right of first refusal, when in the case of a change in control in PCH, the Company will have the right to purchase all of the securities that constitute the object of the control transfer transaction in PCH. In the event of a change in control in Scailex or in a corporation that controls Scailex (except for Israel Petrochemical Enterprises Ltd. and the corporations that control it), the Company will have the right to purchase the shares of ORL from PCH at the average market price in the 60 trading days that preceded the sale announcement plus a premium of 15%.
- 3.4.3 It should be clarified that a party to the Control Agreement will be permitted to sell or transfer all of the Controlling Interest Shares it will hold at such time – but not a part of them.
- 3.5 Tag-Along – Every party will have the right to join in the sale of the Controlling Interest Shares of the other party, provided that the right of first refusal was not invoked. The Company's right to join will take effect only from the date on which PCH lawfully exercises the Call Option.
- 3.6 BMBY (Buy Me Buy You) – Each party to the agreement will have the right to invoke BMBY for Controlling Interest Shares (commencing from the end of the lock-up period), whereby the party can offer the other party to

purchase all of the Controlling Interest Shares to be held by the other party at a price to be stated in the offer, or to sell to the other party all of the Controlling Interest Shares that will be held by the party, at the said price.

3.7 Appointment of directors – The parties to the control agreement will undertake to invoke all of the voting rights available to them at general meetings of ORL, to elect or appoint members of the ORL board of directors, in the following manner:

3.7.1 As long as the Call Option has not been exercised, the board of directors of ORL will comprise of 9 members (including 2 outside directors), with the Company recommending the appointment of 5 directors, PCH recommending the appointment of 2 directors and the identity of the two outside directors will be recommended with the consent of the parties.

3.7.2 From the time the Call Option is exercised, the board of directors of ORL will comprise of 11 members (including 2 outside directors), the Company will recommend the appointment of 5 directors and the appointment of one outside director, and PCH will recommend the appointment of 4 directors and the appointment of one outside director.

3.8 Voting on certain matters – The control agreement provides several matters about which, if they are put on the agenda and decided at a general meeting of the shareholders of ORL, the parties will agree in advance as to how they will vote on these matters. In the absence of agreement, the parties vote will be decided by an agreed adjudicator. It was also provided that the parties would take action to amend ORL's Articles, so that the decision on those agreed matters submitted to a decision by the board of directors of ORL would be sent to a general meeting of the shareholders of ORL for a decision, or the decision on them will require a special majority of 75% of all the directors present.

3.9 Dividend policy – The parties to the control agreement will act, subject to all laws, so that ORL and its subsidiaries will adopt a dividend policy whereby at least 75% of the annual distributable income will be distributed every year.

3.10 Agreement period – The control agreement will take effect from the signing date and will terminate (a) in accordance with its provisions, or (b) from that date on which one party stopped holding at least 10% of the issued and paid-up share capital of ORL, whichever is earlier.

3.11 Additional provisions – The agreement contains additional provisions that are prevalent in agreements of this type, including confidentiality clauses, remedies, non-waiver of rights, arbitration, jurisdiction, etc.

3.12 Scailex guarantee – Scailex is guarantee for all the liabilities of PCH pursuant to the control agreement.

Respectfully,

Noga Yatziv

About Oil Refineries Ltd.

Oil Refineries Ltd. (ORL), located in the bay area of the city of Haifa, is 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

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