

Oil Refineries Ltd.

Annual Report 2007

On the Move

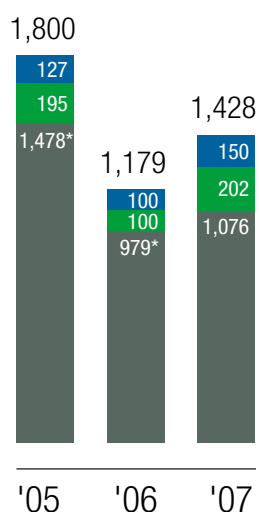


Financial Highlights

On the Move

EBITDA

(NIS In Millions)



Net Income

(NIS In Millions)



■ Aromatics (Gadiv)
■ Polymers (Carmel Olefins)
■ Refining

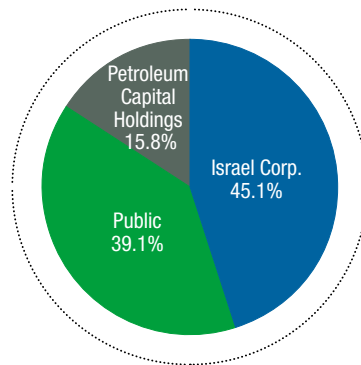
NIS In Millions, except per share and ratio amount	2007	2006*
EBITDA	1,428	1,179
Operating Profit	1,082	834
Net Income**	693	538
EPS**	0.35	0.27
Net Debt	3,893	3,417
Shareholders' Equity	3,238	2,715
Total Assets	12,071	9,848
Net Debt/EBITDA	2.73	2.90
Net Debt/(Net Debt + Equity)	0.55	0.56

* The reported results throughout this report exclude the results of Ashdod Refineries, which was sold at the end of the third quarter 2006. The results for 2007 are actual results, while the results for 2005 and 2006 are pro-forma figures and refer to the consolidated pro-forma statements, excluding the results of subsequently sold-Oil Refineries Ashdod.

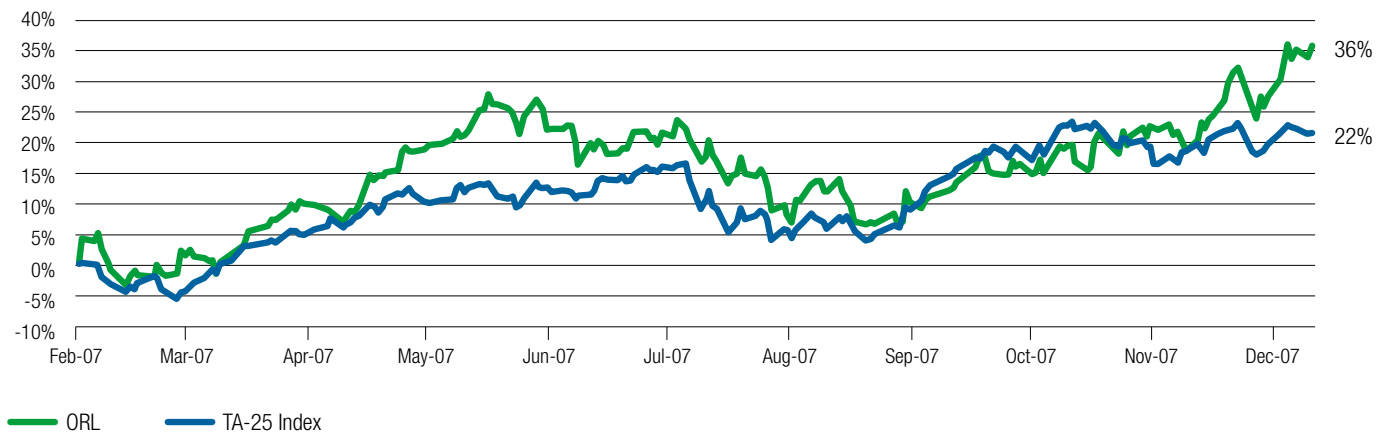
** 2007 net income includes a one-time charge, net after tax, totaling NIS 106 million recorded in the first quarter 2007, resulting from the accounting treatment of a privatization grant paid in the first quarter 2007, by the Israeli government to the employees of Oil Refineries and its subsidiaries, following the successful privatization in February 2007. The gross amount of NIS 118 million was recorded as a Capital Reserve in the Balance Sheet.

Oil Refineries' Shareholders

As at December 31, 2007



Oil Refineries' Share Price Performance in 2007 vs. TA-25 Index



February 07

- ▶ Government of State of Israel privatizes the Company. 36.8% acquired by the Israel Corporation Ltd. and 9.2% by Petroleum Capital Holdings Ltd.

June 07

- ▶ Israel Corp. receives approval from the Israeli Government to exercise active control over the Company, holding 44.2% at that date.

July 07

- ▶ Oil Refineries shares join Premier TA-25 Index.
- ▶ Carmel Olefins, 50%-owned petrochemicals subsidiary, commissions new polypropylene plant, doubling its production capacity.
- ▶ Israel Corporation increases its holding in the company to 45.1%.

Letter to Shareholders

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Dear Shareholders,

2007 was a turnaround year for Oil Refineries

The process began in February with Oil Refineries' successful privatization, which established us as an independent, publicly listed, company with dynamic new shareholders, primarily the Israel Corporation and Petroleum Capital Holdings.

In August, a new dynamic and professional Board of Directors was nominated, chaired by Mr. Yossi Rosen, former Chairman of Israel Chemicals (ICL) and CEO of the Israel Corporation, our controlling shareholder (45%). We then set to work at an accelerated pace to create a long-term growth strategy aimed at repositioning the company and elevating it to the next level.

In November, we unveiled the details of the five-year \$1.1 billion investment plan, which aims to significantly expand our existing operations and position us to address new global opportunities. The plan charts a course for upgrading our key assets – especially our Haifa-based oil refinery, Israel's largest, and integrated petrochemical infrastructure – while leveraging our differentiating capabilities – know-how of our engineers and managers, together with the financial assets and global network of our new controlling shareholders.

With a clear focus on market needs, we will continue to extend the quality and range of our products, thereby further reducing our exposure to the volatility of our markets. We will seek out opportunities to expand globally through organic growth, acquisitions



Mr. Yashar Ben Mordechai
Chief Executive Officer



Mr. Yossi Rosen
Executive Chairman

and partnerships. In parallel, we allocated \$270 million, of the cumulative investment, to improve our environmental profile, making a clear statement of our commitment to lead the industry's evolution towards greater environmental responsibility. Last but not least, with the goal of significantly improving our profitability, we will carry out far-reaching efficiency projects, including initiatives for capitalizing on inter and intra-operational synergies.

As we move into 2008, the strategic plan is now already underway, and the first fruits of the transformation are clearly visible. To help finance these capital projects, we recently raised \$474 million in a successful public bond offering in Israel. Having already launched the initial stages of several projects, we are now moving ahead to execute the strategic plan's key elements.

A Year of operating and financial performance

2007 was a year of transition, from a government-owned entity to a publicly listed entity. Despite a challenging environment and rapidly changing refining margins, we succeeded in beating the regional average refining margin quarter after quarter, a testament to our ability in understanding how to take advantage of global supply and demand dynamics. In parallel, we presented strong growth in our petrochemical and aromatic businesses, and, during the year, commissioned the new Polypropylene plant which is expected

August 07

- ▶ New Board of Directors nominated; Yossi Rosen, former CEO of Israel Corporation, appointed Chairman.
- ▶ Board of Directors approves a \$50 million investment to upgrade the Company's largest crude refining unit to broaden its refining capabilities by the first half of 2009.

September 07

- ▶ Board of Directors approves distribution of a special NIS 280 million dividend.

November 07

- ▶ \$1.1 billion, five-year strategic investment plan launched to restructure business, which includes aggressively upgrading refining capabilities and expanding into new energy and petrochemical markets. Includes a \$270 million investment for environmental, safety and operational, as well as quality, activities.

to double production capacity by mid-2008. Our steady financial and operating performance enabled us to deliver strong financial performance, with consolidated EBITDA increasing 21% reaching NIS 1,428 million (approx. \$371 million) for 2007, and with consolidated net income reaching NIS 693 million (approximately US\$180 million), or NIS 799 million assuming exclusion of government-paid privatization grant recorded in the first quarter 2007.

On the Move

Looking ahead, our vision for Oil Refineries is to create a global company positioned as one of the Mediterranean region's major global refining and petrochemical groups. We will do so by leveraging our deep understanding of market trends and operations optimization, in order to capitalize on the growing global demand for higher-grade, more environmentally responsible, fuel and petrochemical products.

As we transform Oil Refineries, we intend to take full advantage of the differentiating competitive strengths that we have developed over the Company's 70 years of operations:

- **Favorable location:** our geographic location in the Eastern Mediterranean offers us close proximity to our primary oil supply lines, reducing costs while increasing our flexibility in determining the most profitable product mix. Equally important, this favorable location reduces the cost of supplying our closest customers, especially those in fast-growing East Mediterranean markets.
- **Highly complex and integrated operations:** our Haifa-based operations are highly complex, giving us superior flexibility regarding the mix of products that we produce. As a result, we have been able to beat average regional refining margins consistently since 2004. The integration of our refining and petrochemicals operations further enhances our flexibility, and

contributes significant cost savings, improving the profitability of our operations. We will continue to optimize our operations to enhance these benefits, and will use it as a model in our efforts to replicate our business around the globe.

- **Environmental leadership:** we have established an early lead in the adoption and manufacture of Euro IV- and Euro V-compliant products. This is a clear advantage over other regional refineries given the expectation that a variety of our target markets will be adopting these standards in the coming months. This lead will contribute to our product differentiation, driving higher overall returns.
- **Engineering and technological capabilities:** one of our most important assets is our large in-house engineering department and its trove of experienced operations and integration know-how. We will leverage this expertise as we move forward into new global ventures

To fuel our growth, we will be taking advantage of significant market opportunities that we are well-positioned to address.

First, with clear constraints on world fuel supplies, we will continuously expand our fuel trade and logistics activities, and explore opportunities in complementary areas. We will also expand the sale of our value-added petrochemicals and aromatic products.

In parallel, we will capitalize on acquisition and business development opportunities. We believe our unique assets – the technological know-how of our engineers, the operational experience of our management team and our plant-building experience, together with the strong financial resources and long term vision of Israel Corporation – position us to take advantage of accretive acquisitions and become a value-added partner.

November 07

▶ Reorganization plan implemented resulting in restructuring of the Company into Refining, Petrochemical and Trade sectors, under a global headquarters.

▶ Maalot, Israel ratings agency and strategic partner of Standard & Poor's, awards AA/Stable rating to Company's debentures based on Oil Refineries' business position, higher refining margins, integrated operations and high profitability.

December 07

▶ The Company completed an oversubscribed NIS 1.8 billion (\$474 million), three-series bond offering.

Environment

Our environmental plan is an integral part of our business strategy and our commitment to preserve the environment at the factory, regional, national and global level. Over the next five years, we will be investing, as part of the total strategic plan, a total of \$270 million to bring all of our operations into compliance with the highest international environmental standards while developing next-generation, environmentally-friendly products and operations.

Social responsibility

Viewing our profitability as an opportunity to give back to the community, our plan calls for significant ongoing investments in social initiatives. We feel privileged to take an active part in the Israel Corporation's exceptional "Afternoon Clubs" for children at risk, and to provide substantial monetary support to a broad variety of educational services.

Taken as a whole, we believe that Oil Refineries is currently at the turning point. Less than a year after our privatization, we have chartered - and begun to implement - an ambitious but achievable roadmap. As we execute each step of our plan, we intend to build our Company into a leading player with a strong platform for responsible value creation from global opportunities. We would like to thank our shareholders, managers, employees and partners for their far-reaching vision, continued cooperation, commitment and determination to achieve our plan. Moving forward, our entire team is motivated and working to maximize the value of the Company for our mutual benefit. We look forward to reporting significant progress in the year ahead.

Truly yours,



Mr. Yashar Ben Mordechai
Chief Executive Officer



Mr. Yossi Rosen
Executive Chairman



We are a Leading Integrated Refiner... on the Move

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Who we are

Established in 1938 and privatized in 2007, Oil Refineries (“Oil Refineries”, the “Company”), is among Israel’s largest energy groups. Its operations include one of the largest and most complex refineries in the Eastern Mediterranean, integrated petrochemical and aromatic manufacturing facilities and a global trading business. With a manufacturing center in Haifa, Israel, we benefit from close proximity to abundant crude oil supplies, a leading position in our large domestic market and access to attractive export markets.

Our business segments

Refining

Our primary activity is the refining of various crudes into higher-value distillates. We consistently outperform the benchmark average Mediterranean Urals cracking margins by leveraging our state-of-the-art facilities, considerable engineering capabilities and integrated operations. Our principal sources of crude oil are from Russia and the Caspian Sea, which are transported to our refinery via terminals in the Black Sea and Southern Turkey. With complexity levels higher than most other plants in the Eastern Mediterranean, we are able to sell fuels compliant with Euro IV and Euro V emission standards.

Polymers

We produce polymers through Carmel Olefins Ltd. (“Carmel Olefins”), a petrochemicals subsidiary jointly owned with Israel Petrochemical Enterprises Ltd. Carmel Olefins manufactures and markets low density polyethylene and polypropylene and sells them to plastic manufacturers. As the sole producers of these raw materials in Israel, we enjoy a substantial market share of Israel’s highly developed plastics industry and a strong competitive advantage in the Mediterranean.

Aromatics

We manufacture aromatics and aliphatic solvents through our wholly-owned subsidiary, Gadiv Petrochemical Industries Ltd. (“Gadiv”), and sell them as raw materials to a broad variety of chemical and plastics manufacturers throughout the Mediterranean Basin and Europe. Gadiv obtains all of its feedstock from our refineries.

In addition, we sell steam from our refining operations to adjacent industrialists and supply various logistical services to neighboring industries.

Our new investment strategy

We are currently pursuing an aggressive \$1.1 billion investment strategy that includes building two hydrocrackers, one mild and one full conversion. These hydrocrackers will increase our refinery’s “complexity” according to the Nelson index from its current 7.4 to 9.0., allowing us to better process feedstocks such as heavier crude oils into value-added products. We are also upgrading our facilities to achieve greater flexibility in processing crude oils, better operating efficiencies and a higher environmental profile.

Our competitive strengths

Integration

Our Haifa refinery benefits from a high degree of integration with our petrochemicals businesses. This integration allow us to optimize our refining output across product and petrochemical business lines, while increasing our aggregate margins and create cost efficiencies through joint management and facilities. Our petrochemical operations diversify our earnings by often reducing the volatility of our refinery earnings. The implementation of our strategic plan will result in a higher refining complexity, better positioning us to obtain higher and less volatile cumulative refining margins.

Strategic location

Our Haifa refinery's strategic location provides access to both growing sources of crude supply and fast-growing product markets. The refinery is located close to the access points for Russian and Caspian crudes, affording us a competitive advantage in terms of freight costs and flexibility. New pipelines from the Caspian Sea to Turkey will transform our refinery into a strategic oil hub and further increase our access to crude and reduce our freight costs.

Customers and markets

Our refinery is the dominant player in the Israeli market, with twice the capacity of our only domestic competitor. Haifa is also close to key export markets, especially fast growing markets in the Eastern Mediterranean. We are the closest export refinery to Southern Turkey, whose transition to the Euro IV environmental standard, projected to

be implemented in 2008, represents a significant opportunity for us, having developed Euro IV and Euro V capabilities earlier than the majority of our competitors. In addition, we have a strong presence in Cyprus, a region lacking its own domestic refinery and therefore totally reliant upon imports of refined products.

In February 2007, our controlling and largest shareholder, Israel Corporation ("Israel Corp."), Israel's largest holding company, acquired control of the Company from the Government of Israel and currently owns 45.1%. Israel Corp. has substantial experience with privatized companies and putting in place strategic plans to promote growth, efficiency and expanded operations, with a deep underlying commitment to the environment. Israel Corp. is also the majority shareholder in leading global chemical manufacturer Israel Chemicals (ICL), and global container shipping company Zim Integrated Shipping Services.



Our Focused Vision and Investment Strategy

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On the Move



Our vision rests on four foundations

Going global

We intend to extend our leadership of the Eastern Mediterranean energy and petrochemicals industry and to expand globally.

Investing aggressively

We will make significant investments to grow all of our businesses, leveraging our existing assets to address new investment opportunities and to improve efficiency.

Focusing on the environment

We are committed to preserving the environment at the factory, regional, national and global level. Through pioneering initiatives and first-class investments, we will improve the environmental profile of our facilities, processes and products, earning a reputation as an industry leader in this vital arena.

Increasing shareholder return

We are dedicated to maximizing our profitability through continuous growth and improved efficiency.

Strategic investment plan

In November 2007, we unveiled the details of a five-year strategic investment plan. Through a cumulative investment of \$1.1 billion, we intend to leverage our key assets to upgrade our existing operations and to address new investment opportunities. These assets include our Haifa-based refinery, petrochemical and aromatic plants, differentiating know-how of our engineers and managers; and the long term vision of our new controlling shareholders. With a focus on customer needs, we are extending the quality and range of our products, thereby reducing our exposure to market volatility. To improve our profitability, we mandated far-reaching efficiency projects, including those designed to capitalize on inter and intra-operational synergies. In addition, we have budgeted a significant portion of the investment plan to improve our environmental profile, with the goal of leading our industry's evolution towards a higher level of environmental responsibility.

Key elements of the plan include

■ Refining

We will invest \$850 million in order to increase our refinery's complexity and efficiency, and to capitalize on business opportunities outside of Israel. Of this, \$600 million will be invested to construct hydro-cracker facilities over the next three years, an achievement that will increase our Nelson Complexity Index from 7.4 to nearly 9 while significantly enhancing our product range. \$110 million will be invested in establishing an electricity co-generation plant, a project which will reduce our own power costs while becoming an additional source of potential revenues. \$90 million will be invested in projects designed to increase operating flexibility and efficiency, and \$50 million will be invested in upgrading our largest crude unit to process a wider range of crudes.

■ Petrochemicals

Expanding our production capacity in Israel with a focus on high value-added products, and extending operations through acquisitions and joint ventures around the globe.

■ Environment

We will invest \$270 million to bring all operations into compliance with the highest international standards, reducing emissions, improving safety and reliability, while developing a broad portfolio of next-generation, environmentally-friendly products and

operations. The environmental plan also includes transitioning operations to natural gas to reduce carbon emissions while improving operating margins.

During 2007, we began setting the plan into motion

■ Financing

To finance the plan, we completed an oversubscribed \$474 million bond offering.

■ Organizational changes

To position the Company for optimized operations and global expansion, we implemented far-reaching structural and organizational changes. The most significant changes included the restructuring of our business into three divisions: Refining, Petrochemicals and Trade.

■ Trade

Continual expansion of our fuel trading and logistics activities.

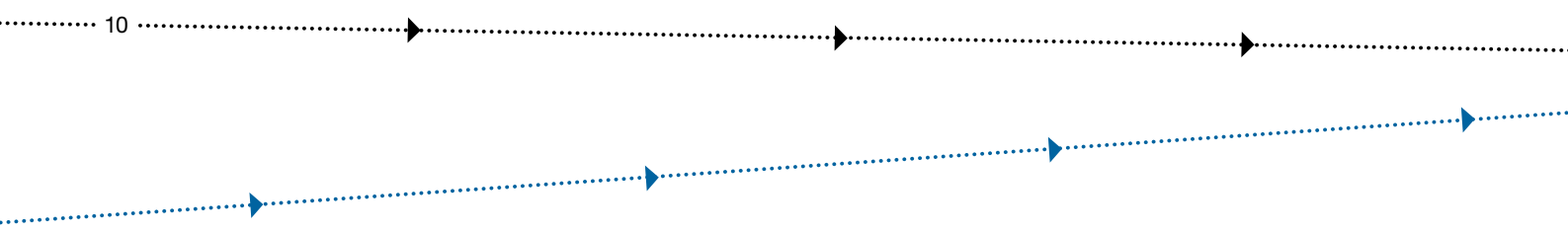
■ Management additions

We have built out our corporate management team, adding a Business and Strategic Development group with the mandate of identifying global investment opportunities.

■ Project launches

We began implementation of the initial stages of several projects. We are investing \$50 million to upgrade our largest crude unit to process a wider range of crude oils. The upgrade is to be operational in the first half of 2009. Additionally, we are moving ahead with a \$79 million investment in a project to replace the Catalyst in the gas oil hydro-treater and to convert the VGO hydro-treater into a mild hydro-cracker, in order to increase quantities of gas oil refined in the Haifa refinery and for the cracking of part of the VGO quantity manufactured by the Haifa refinery. The interim stage of the project is due to be completed towards the beginning of 2009 and the project is due to be completed in its entirety in mid 2010. Furthermore, we are investing \$37 million in the pre-project stages of constructing a full conversion hydrocracker at the Haifa refinery, which, when approved in its entirety, is expected to be operational during 2011. This will enable process planning, reserving for supply times by the equipment manufacturers and planners, and time in order to receive the necessary approvals. The Company expects to finalize the approval of the full project by the end of summer 2008.

Refining – Our Platform for Growth



A large and complex refinery

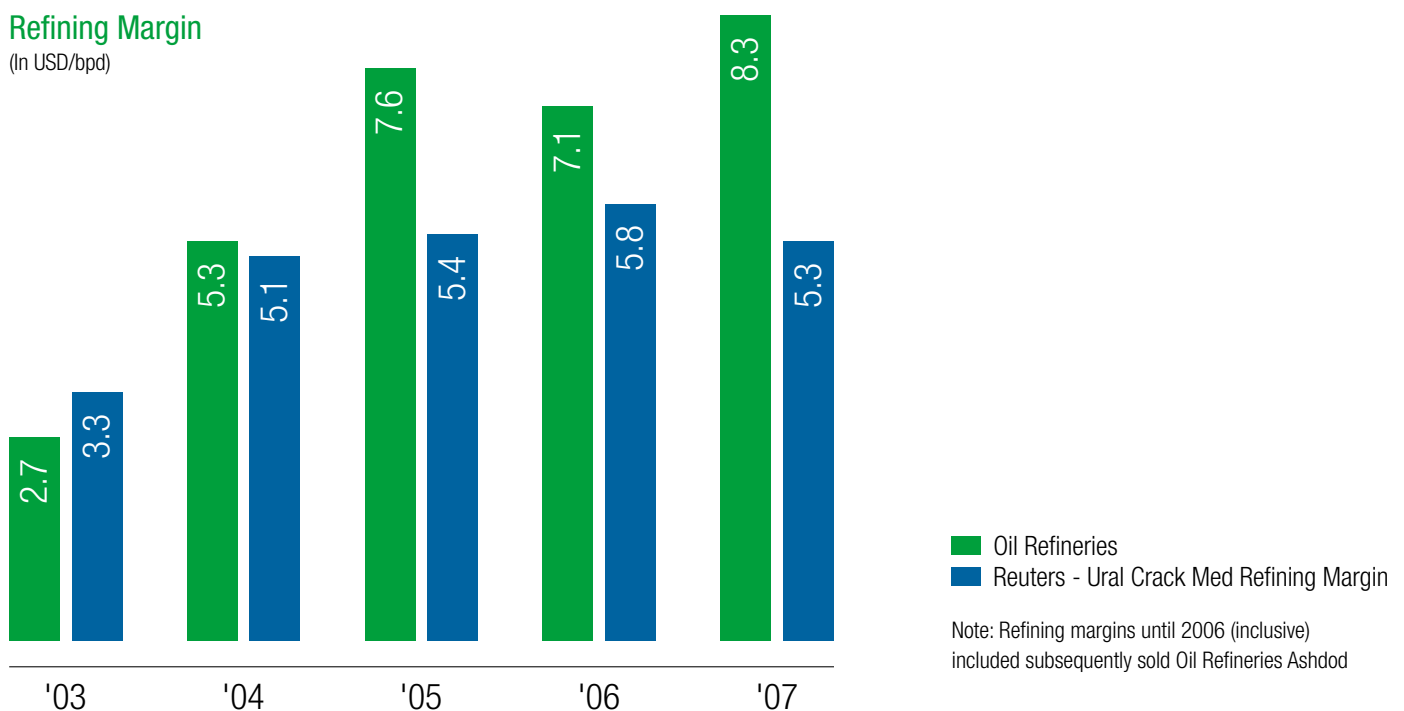
With a capacity of 180,000 barrels per day, a Nelson complexity of 7.4 and the ability to process a wide range of crudes, our oil refinery is one of the largest and most complex in the Eastern Mediterranean. With a pioneering ability to produce gasoline and diesel with a sulphur content under 10ppm, our refinery has achieved full compliance with cutting-edge 2009 Euro V fuel standards earlier than most of our competitors. This positions us to emerge as a preferred supplier to the ever-evolving local and export markets.

Our key competitive strengths include

- **Favorable location:** the close proximity of our refinery to primary oil supply lines reduces our input costs as well as the cost of supplying customers in the East Mediterranean.
- **Highly complex facilities:** our highly complex operations give us flexibility regarding the mix of products that we produce.
- **Integrated operations:** the integration of our refining and petrochemicals operations enhances our flexibility and contributes significant cost savings, improving the profitability of our operations.
- **Marketing access:** being a pioneering manufacturer of Euro V-compliant products earlier than most of our competitors, provides us a competitive advantage via our marketing access to countries transitioning to strict environmental regulations.
- **Engineering and technological capabilities:** our large in-house engineering department, experienced operations and integration know-how positions us to leverage this expertise in new global markets.

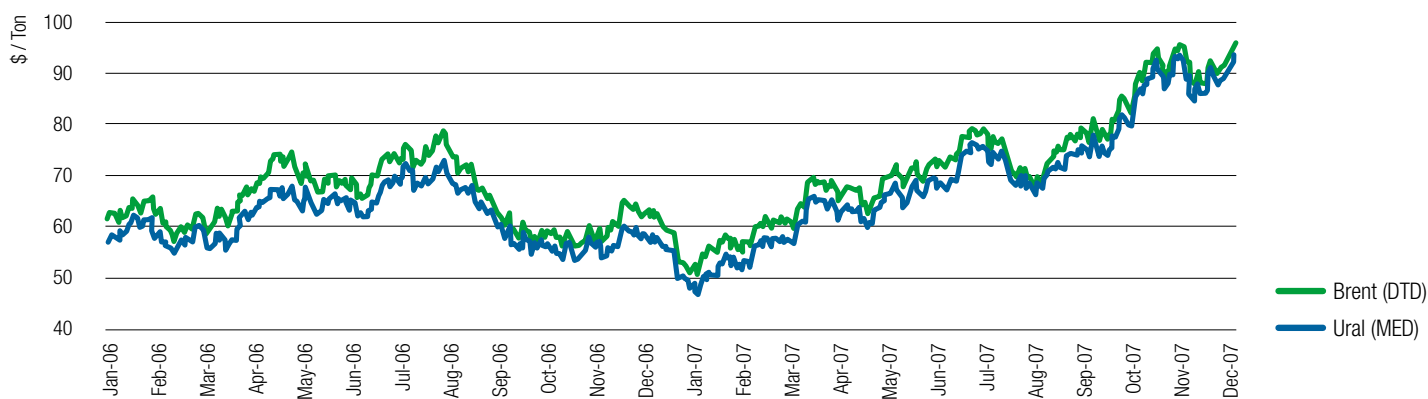
Refining Margin

(In USD/bpd)





Product Prices of Brent Crude Oil and Mediterranean Ural 2006-2007



Refining – Our Platform for Growth (continued)

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On the Move

The refining process

Leveraging decades of experience and technological know-how, we manufacture a wide range of oil products, optimizing our manufacturing to take advantage of variations in the economics of different grades of crude oil and feedstocks.

In our refinery, we execute all stages of the refining process – from initial refining to catalytic reforming hydro-finishing and removal of sulfur and other pollutants.

Our primary processes include:

- **Distillation:** processing crude oil at different boiling points to create a variety of products. Refining crude oil leaves an unrefined residue that is used to create asphalt and fuel oil.
- **Cracking and Reformation:** altering the chemical composition of selected separated materials to create more advanced value-added products.
- **Refining:** purifying, cleansing and improving products through additional separation processes, such as reducing sulphur content.
- **Finishing:** processing products to meet end product requirements.

Our products

- **Light Gasses:** for energy and industry.
- **Liquefied Petroleum Gas:** for both residential and industrial usage.
- **Naphtha:** for use by Petrochemical Industries.
- **Gasoline:** different grades for use in combustion engines.
- **Kerosene:** fuel for jet airplanes and heating.
- **Gas Oils:** for use in diesel engines, heating and gas turbines.
- **Fuel Oils:** for use for industrial furnaces and the production of electricity.
- **Waxy substances:** raw materials used in the manufacture of lubricants for machines and manufacturing wax.
- **Bitumen:** used in the tarring of roads and manufacturing of sealing products.

Recently developed products include

- **Ultra Low Sulphur (10 ppm) Transportation Gasoline and Diesel:** designed for transportation vehicles to meet EURO V specifications.
- **Improved Bitumen PG grades:** durable under extreme temperatures and especially adapted to warm weather climates.



Environmental activities

As part of our five-year plan, we are investing \$270 million to bring all of our refinery operations into compliance with the highest international standards while developing next-generation, environmentally-friendly products and operations, steadily improving reliability and safety.

The transition of all our operations to natural gas will serve as a turning point, significantly reducing our carbon emissions while significantly improving our operating margins.

2007 developments

Substantial investment

As part of our five-year strategic plan, we are investing \$850 million to increase our refinery's complexity and efficiency. This includes investing \$600 million to construct two hydro-cracker facilities, \$110 million for an electricity co-generation plant, \$90 million in projects to increase our operating flexibility and efficiency, as well as \$50 million to upgrade our largest crude unit to process a wider range of crude oils.

Expansion of overseas sales

We intend to expand sales of fuel products to fast-growing East Mediterranean markets. As a natural complement to our fuel products' business, we also intend to expand our fuel products and chemicals, trade and logistics activities.

Financial Developments

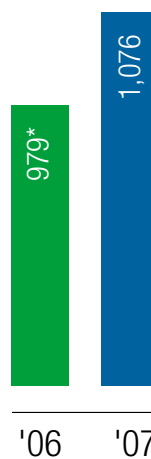
Throughout 2007, the Refining segment refined a total of 7,759 metric tons of crude oil, compared to 7,644 in 2006.

The Company's refining margin in 2007 reached USD/bbl 8.3, steadily higher than the regional benchmark of USD/bbl 5.3, representing the refining margin of European Urals cracking refineries in the Mediterranean. The refining sector contributed NIS 1,076 million EBITDA, up 10%, from NIS 979 million in 2006.

The refining sector continued to be the largest contributor to the consolidated results, contributing 75% to EBITDA in 2007. The Company's ability to steadily generate higher refining margin than the regional benchmark mainly results from the Company's flexible refining capabilities, enabling the refining of a broad variety of crude oils, the composition and quality of the Company's refined products, as well as the differences created between the daily-quoted spot prices and the timing between the actual purchase and sale of the products.

Refining Sector EBITDA

(NIS In Millions)



* Pro-forma, excluding the results of sold-Oil Refineries Ashdod.

Polymers – Doubling Capacity to Meet Global Demand

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A major regional polymer manufacturer

Through our 50% stake in Carmel Olefins Ltd. (“Carmel Olefins”), we are a major regional operator in the field of polymers. Carmel Olefins is an Israel-based manufacturer of polypropylene and low density polyethylene, which are critical raw materials used by the plastics industry.

Approximately 65% of Carmel Olefins’ sales are to customers in Israel with the remainder exports to customers in Turkey and Europe. As the only Israeli manufacturer of polymers, Carmel Olefins benefits from Israel’s highly developed plastics industry, giving it hundreds of local customers.

Our products and uses

Polypropylene

- Consumables: diapers, toys, bottles, containers, household plumbing and tool boxes.
- Home and garden: storage sheds, garden furniture, fibers and threads for carpets.
- Vehicle industry: bumpers, carpets, upholstery and dashboards.
- Substitutes for substances: including aluminum, wood, glass and other plastics.



On the Move

Polyethylene

- Agriculture: sheets used in greenhouses.
- Flexible and hard packaging: bags and bottles.
- Insulation products and household implements.

2007 developments

In 2007, Carmel Olefins completed a major expansion of its polypropylene production capabilities by commissioning a new polypropylene plant, doubling its polypropylene production capacity to 450,000 tons per annum. The expanded and upgraded facility is now able to capitalize more fully on its integration with our refinery operation, which is located within the same compound.

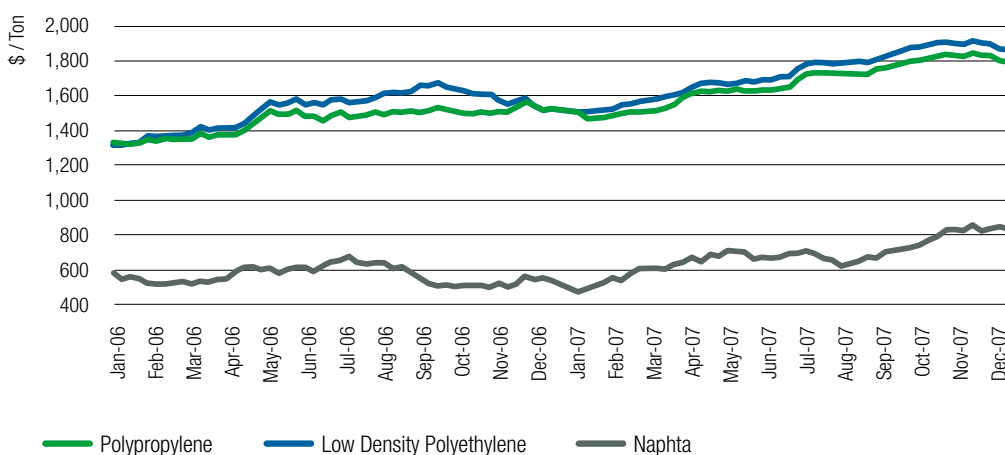
Throughout 2007, Carmel Olefins manufactured approximately 320 thousand tons of petrochemical products, compared to approximately 280 thousand in 2006.

The steady increase in sales prices and the increase in quantity produced throughout 2007 contributed to a doubling in Carmel Olefins EBITDA, reaching NIS 404 million. This contributed in turn, NIS 202 million to the consolidated EBITDA, making Carmel Olefins the second largest EBITDA contributor to the Company contributing 14% to the consolidated EBITDA.

In line with our intention to extend our operations in other markets, in 2007 Carmel Olefins signed an agreement to acquire 49% of Domo Polypropylene BV, a Netherlands-based manufacturer and marketer of polypropylene. Domo's manufacturing facility in the Netherlands has a capacity of 180,000 tons per annum. The transaction is expected to be completed during 2008.

Product Prices

Polypropylene, Low Density Polyethylene, Naphta



Carmel Olefins EBITDA

(NIS In Millions)



Aromatics – Optimizing Our Integrated Operations

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On the Move

A leading Mediterranean aromatics' producer

Our Aromatics segment is operated through wholly-owned Gadiv Petrochemical Industries Ltd. ("Gadiv"), the leading producer of aromatics in the Mediterranean area and one of Israel's largest petrochemical companies. Utilizing feedstocks from our refineries and Carmel Olefins, Gadiv produces and markets aliphatic solvents and aromatics used in the chemicals and plastics industries for manufacturing clothing, pharmaceuticals, packaging, cosmetics, computers, paints and home maintenance products.

95% of Gadiv's products are exported to the US, Europe and countries in the Far East.

Our production synergies

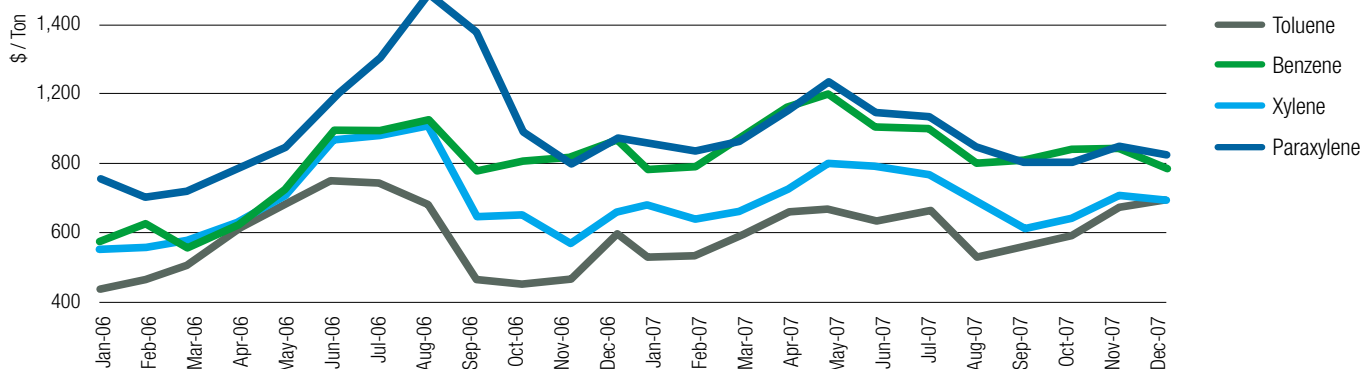
High degree of integration with Oil Refineries' other businesses: This integration allows us to optimize our refining output, create cost efficiencies through joint management and facilities and increase our aggregate margins.

Our products and uses

- **Paraxylene:** an important component in the production of polyester for the clothing industry. It is also used as raw material in the production of beverage packaging. (PET) This is Gadiv's primary product.
- **Benzene:** used as a basic chemical in manufacturing a broad variety of non-consumer products such as polystyrene, polycarbonate and nylon.
- **Toluene:** a component in manufacturing polyurethane which is used to prepare foam for insulation or coatings in the vehicle, furniture, construction and other industries. Toluene is also used in the production of paraxylene and benzene.
- **Xylene:** used as a raw material in the production of paraxylene and as an organic solvent in the paint industry.
- **Orthoxylene:** used as a raw material for the production of phthalic anhydrides.
- **Phthalic Anhydride:** used in the production of plasticizers for the plastics industry and in the production of various resins.
- **Solvents:** for the paint and coatings industry, as raw materials in agriculture for pesticides and weed killers, in the ink printing industry and as raw material in the cleaning industry.

Product Prices

Benzene, Toluene, Xylene, Paraxylene



2007 developments

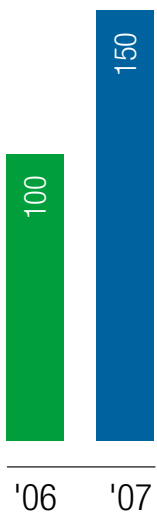
Throughout 2007, Gadiv manufactured approximately 470 thousand tons of various aromatic products, compared to approximately 440 thousand tons in 2006.

During the year, Gadiv benefited from a 12.5% increase in average sale prices, contributing to a 50% increase in EBITDA in 2007, reaching NIS 150 million, or 11% of the consolidated EBITDA for the year.

In late 2007, Gadiv signed a letter of intent to acquire 50% of a Chinese business manufacturing Tri-maleic Anhydride ("TMA"), a product used primarily as a plasticizer in the polymer industry and as a component in powder coating colors, and Para Diethyl Benzene ("PDEB") used in the manufacturing of Paraxylene. The letter of intent has since expired and to date, the negotiations between the parties have not resulted in a conclusive agreement.

Gadiv Petrochemical Industries EBITDA

(NIS In Millions)



Leading the Industry to Environmental Responsibility

18



Our commitment to the environment

Our environmental plan is an integral part of our business strategy and demonstrates our commitment to preserving and improving the environment at the factory, regional, national and global level.

Our environmental activities are focused primarily in two areas:

- **Clean production processes:** we continuously improve our installations and production lines to minimize the amount of pollution resulting from our manufacturing processes; and
- **Product development of environmentally responsible products:** we engage in extensive development activities to remain on the cutting edge of energy technologies, energy efficient and environmentally friendly products and production processes.

We make substantial investments in order to ensure cleaner and more controlled production processes. Working in close cooperation with Israel's Ministry of Environmental Protection and the Association of Municipalities for the Environment, we have dramatically reduced air emissions, installed a new biological purification system for sludge treatment (developed in conjunction with the Technion Institute of Technology in Haifa) and decreased pollutants from industrial effluents, to a level on par with modern European refineries. Our state-of-the-art monitoring system inspects pollution levels on a real time basis, adjusting concentrations of sulfur in the refining process depending on weather conditions. This control has resulted in a near-zero level of deviation from the strictest standards governing pollutants. Our efforts have resulted in a dramatic improvement in air quality in the vicinity of our refinery.

Our efforts have led to the successful development of advanced distillates. We are already capable of producing gasoline and diesel with a sulphur content below 10ppm, which makes our refinery fully compliant with Euro V standards.

Investing in the environment

Over the next five years, we will be investing \$270 million to improve our environmental profile, a clear statement of our commitment to lead the industry's evolution towards higher environmental responsibility. These investments will include a broad range of initiatives designed to enhance our emissions footprint, improve safety and security at our facilities, increase operational reliability and guarantee product quality. Of this amount, we are investing approximately \$150 million to bring our Haifa operations into compliance with the highest international environmental standards.

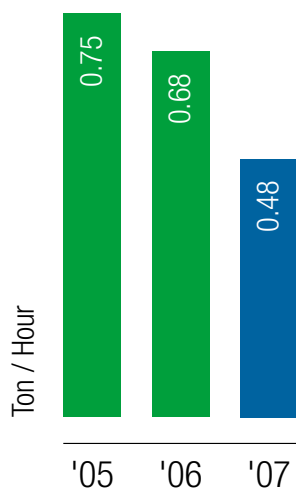
Investments over the next five years include

- \$10 million to install filters to reduce emissions from our catalytic cracker.
- \$27.5 million to install domed roofs on tanks containing volatile materials to substantially reduce evaporation of light hydrocarbons.
- \$3.7 million to cover sludge pits to reduce odors.
- \$14 million to reduce NOX emissions.
- \$30 million to switch to natural gas burning
- \$63 million in other investments

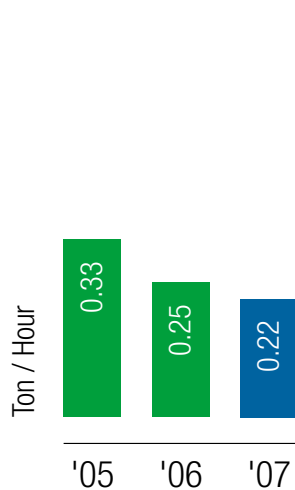
We have also allocated \$68 million for safety and security enhancements at our facilities and \$54 million for increased operational reliability and product quality.

Our environmental plan and investment will build on our current compliance with Israel's Ministry of Environmental Protection requirements for treating effluents and wastes, handling dangerous materials and regulating air emissions and enable us to meet increasingly rigorous standards in the future.

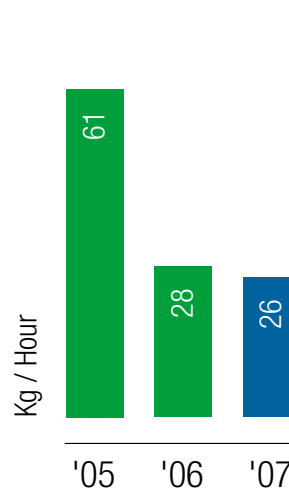
SO₂ Emissions



Particle Emissions



NOX Emissions



Social Responsibility

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On the Move

Strengthening our community involvement

Following the privatization of our company in early 2007, we significantly strengthened our involvement in community activities, following the example of our controlling shareholders, the Israel Corp., who are trend setters in making social responsibility a key objective of their business activities.

Taking the Israel Corp.'s lead, we are fully committed to supporting the communities in which we operate. During the year, we made significant contributions to a wide range of social, educational and environmental initiatives, especially in the Haifa region where most of our facilities are located.

Together with the City of Haifa, we recently funded the establishment of a new chemistry laboratory in one of Haifa's high schools to interest students in the study of sciences. We also support a program at the Weizmann Institute in Rehovot, Israel, to encourage students to study chemistry, and provide scholarships to support engineering students at the Technion – Israel Institute of Technology.

We also funded programs to enhance the environment and lives of special communities, and support educational institutions in Haifa and Northern Israel. We are taking an active role in the Israel Corporation's highly effective Afternoon Club initiative for Israeli children-at-risk. We are also supporting afternoon programs that provide meals, trips, homework tutoring and enrichment classes for underprivileged children in the Haifa area.



Consolidated Pro-Forma Balance Sheet

In thousands of reported NIS

	December 31,	
	2007 Actual	2006 Pro-forma
Current assets		
Cash and cash equivalents	997,363	141,570
Marketable Securities	434,734	414,749 *
Trade accounts receivable	1,517,130	1,604,299
Accounts receivable and debit balances	490,545	454,701
Inventory	4,148,554	2,791,167
	<u>7,588,326</u>	<u>5,406,486</u>
Long-term investments and loans		
Investee companies	160,066	191,002
Loan to Haifa Early Pensions Ltd.	307,827	300,000
Long-term loans and other debit balances	17,290	7,409
Excess of funded amounts over the liability for employee termination benefits, net	37,089	45,458
	<u>522,272</u>	<u>543,869</u>
Fixed assets, net	3,870,594	3,849,270 *
Intangible assets and deferred expenses	<u>89,814</u>	<u>48,100</u>
	<u>12,071,006</u>	<u>9,847,725</u>
Current liabilities		
Credit from banking institutions and other credit providers	830,818	899,142
Suppliers and service providers	2,158,499	1,561,723
Accounts payable and credit balances	529,640	785,309
Proposed dividend	—	20,000
	<u>3,518,958</u>	<u>3,266,174</u>
Long-term liabilities		
Debentures	2,758,742	854,799
Loans and liabilities	1,738,983	2,205,647
Deferred taxes	563,569	498,352
Liability in respect of financing lease	29,857	29,275
Liability for employee termination benefits, net	222,703	278,801
	<u>5,313,854</u>	<u>3,866,874</u>
Total liabilities	<u>8,832,812</u>	<u>7,133,048</u>
Shareholders' equity	<u>3,238,194</u>	<u>2,714,677</u>
	<u>12,071,006</u>	<u>9,847,725</u>

(*) Reclassified

The reported results for the 2007 exclude the results of Ashdod Refineries, which was subsequently sold at the end of the third quarter 2006. The results for 2006 are pro-forma figures and refer to the consolidated pro-forma statements, excluding the results of sold-Oil Refineries Ashdod.

Consolidated Pro-Forma Profit and Loss Statements

In thousands of reported NIS, except per share amounts

	Year ended December 31,		
	2007 Actual	2006 Pro-forma	2005 Pro-forma
Revenues	21,339,364	20,794,229*	18,517,515*
Cost of sales, refining and services	19,843,713	19,643,936*	16,718,025*
Gross profit	1,495,651	1,150,293	1,799,490
Selling expenses	137,077	94,634	98,129
General and administrative expenses	276,802	222,104	201,860
Operating income	1,081,772	833,555	1,499,501
Financing expenses, net	49,553	106,589	145,173
	1,032,219	726,966	1,354,328
Privatization grant	(117,833)	—	—
Income before taxes on income	914,386	726,966	1,354,328
Taxes on income	241,653	221,539	353,694
	672,733	505,427	1,000,634
Company's share in income of affiliated companies	19,833	32,570	44,325
	692,566	537,997	1,044,959
Cumulative effect of change in accounting method as at the beginning of the year	—	—	(826)
Net income for the year	<u>692,566</u>	<u>537,997</u>	<u>1,044,133</u>
Earnings per share, par value NIS 1 each (in NIS)	<u>0.35</u>	<u>0.27</u>	<u>0.52</u>

(*) Reclassified

The reported results for the 2007 exclude the results of Ashdod Refineries, which was sold at the end of the third quarter 2006. The results for 2005 and 2006 are pro-forma figures and refer to the consolidated pro-forma statements, excluding the results of sold-Oil Refineries Ashdod.

Selected Pro-forma Consolidated Data*

In millions of reported NIS

	Year ended December 31,	
	2007 Actual	2006 Pro-forma
Revenues		
Refining	18,012	18,072
Polymers	1,400	993
Aromatics	1,927	1,730
Total	21,339	20,795
Cost of sales, refining and services		
Refining	16,914	17,146
Polymers	1,212	900
Aromatics	1,718	1,598
Total	19,844	19,644
Gross profit		
Refining	1,097	926
Polymers	188	93
Aromatics	210	132
Total	1,495	1,151
Sales, general and administrative expenses		
Refining	249	202
Polymers	59	34
Aromatics	106	81
Total	414	317
Operating income		
Refining	848	724
Polymers	129	59
Aromatics	105	51
Total	1,082	834
Financing expenses, net	50	106
Privatization grant	(118)	—
Income before taxes on income	914	728
Income tax	241	222
	673	506
Company's share in earnings of investee companies	20	32
Net income for the year	693	538

The reported results for the 2007 exclude the results of Ashdod Refineries, which was sold at the end of the third quarter 2006. The results for 2006 are pro-forma figures and refer to the consolidated pro-forma statements, excluding the results of sold-Oil Refineries Ashdod.

* Taken from the Board of Directors' Report on the State of the Corporation's Affairs for the Period

Corporate Directory

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On the Move

Board of Directors

Mr. Yossi Rosen, Chairman of the Board

Mr. Yachin Cohen, External Director

Mr. Ran Croll, Director

Mr. Uzi Netanel, Director

Mr. Avisar Paz, Director

Ms. Nehama Ronen, Director

Ms. Dafna Schwartz, External Director

Mr. Ory Slonim, Director

Executive Management

Mr. Yashar Ben Mordechai, Chief Executive Officer

Mr. Hanan Klachouck, General Manager of the Refining Sector

Ms. Rivka (Riki) Brokman, General Manager of Trade Sector

Mr. Rami Shlomo, Manager, Petrochemical Sector

Mr. Jacob Hirsh, Chief Financial Officer

Mr. Gad Mendelsohn, Deputy General Manager, Technical

Mr. Rami Sasson, EVP, Business Development and Capital Markets

Ms. Michal Minzer, General Counsel

Ms. Eti Gutman, Chief Information Officer

External Auditors

KPMG Somekh Chaikin, 17 Ha'arbaa Street, Tel Aviv

Share Trading Information

Oil Refineries shares are traded on the Tel Aviv Stock Exchange under the ticker symbol 'ORL'.

Information Requests

Information requests can be sent by email to:

ContactIREn@orl.co.il

or by fax to **+972 4 878 8852**

to the attention of **Mr. Rami Sasson**,

EVP Business Development & Capital Markets

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