



**Convenience translation from Hebrew -
The binding version is the Hebrew version only**

Report on a transaction pursuant to the Securities Regulations (A Transaction between a Company and a Controlling Shareholder) - 2001

A corrected report is hereby issued of a transaction pursuant to the Israeli Securities Regulations (A Transaction between a Company and a Controlling Shareholder) – 2001; the Companies' Regulations (Notice and Publication of a General Meeting and a Meeting of Types of Shareholders in a Public Company) – 2000; and Regulation 37A (3) of the Securities Regulations (Periodic and Immediate Reports) – 1970.

1. Condensed description of the transactions and their main conditions

1.1 Approval of the terms of service of Mr. David Federman as Vice Chairman of the Company's Board of Directors, as Chairman of the subsidiary – Carmel Olefins Ltd., ("CAOL"), and his other functions in the Group.

Background

As of May 15, 2000, Mr. Federman, a controlling shareholder (indirect) in the Company, serves as Executive Chairman of the Board of Directors of CAOL, and as of June 17, 2009 serves as Deputy Chairman of the Company's Board of Directors, as a director in other subsidiaries of the Company, and serves on various committees of the Company's Board of Directors – including the Executive Committee.

For his functions in the Company - excluding his serving as Chairman of CAOL's Board of Directors - Mr. Federman is not entitled to any compensation, apart from a Compensation Plan approved by the General Meeting of the Company of April 7, 2011 and according to which Mr. Federman may be entitled to an annual bonus totaling a maximum of NIS 1.5 million and multi-year grant totaling up to \$1 million (not including an extra bonus for expediting the timetable for projects or creating savings in project budgets). For additional details about this Compensation Plan, see the Transaction Report (as amended) published by the Company on April 7, 2011 (Document No. 2011-01-090252), The contents of which are presented here by reference ("**the Compensation Plan**").

The terms of service of Mr. Federman, as Chairman of CAOL's Board of Directors, were approved by the competent groups of CAOL in 2007 and by the General Meeting of Israel Petrochemical Enterprises Ltd., which, on the relevant date, was the controlling shareholder in CAOL, as a "Transaction with a Controlling Shareholder" – in accordance with the provisions of the fifth chapter of the Companies Law – 1999.

Correct as of the date of this Report, the total cost to CAOL of the terms of service of Mr. Federman, as approved, and as mentioned above, aggregates NIS 164,580 (plus VAT) per month.

As mentioned above, in addition to his function as Chairman of the Board of Directors of CAOL, Mr. Federman devotes considerable time to his functions in the Company. In view of this and as a result of the operative merger between the Company and CAOL, it is proposed to arrange Mr. Federman's terms of service in the Company in such a way that the engagement relating to Mr. Federman's services will be carried out by the Company. It should be clarified that the terms of Mr. Federman's services will not change compared to those to which he is entitled today in CAOL – excluding the fact that these terms of compensation will be granted to him for serving in a full-time position, whereas in CAOL Mr. Federman was entitled to these terms for a 70% position.

The main terms of the Agreement

Subject to the approval of the General Meeting, the Company engaged with a private company owned by Mr. Federman and his family ("**the Private Company**") in an agreement for providing management services whose main terms are as follows:

- The Private Company will grant the Company services as Deputy Chairman of the Company's Board of Directors, Chairman of CAOL's Board of Directors, service as a director in other subsidiaries of the Company, and service on various committees of the Company's Board of Directors – including the Executive Committee ("**the Services**"). The Services will be provided by Mr. David Federman only, in a full-time position.
- In consideration for the Services, the Private Company will be entitled to a monthly payment of NIS 164,580 plus VAT, plus linkage differences to the increase in the consumer price index, over the index for the month of August 2011.
- The consideration to the Private Company will not be reduced due to an absence of Mr. Federman from work for an accumulated period of up to 22 days a year; and if not utilized, they can be accumulated from year to year up to a maximum of 66 days, but they may not be redeemed, including at the end of the period of engagement. In addition, the consideration will not be reduced under the Management Agreement due to an absence of Mr. Federman as a result of illness for an accumulated period of up to 30 days a year, which can be accumulated up to an absence of 90 days per year, which will be utilized only in the event of Mr. Federman being ill.
- Mr. Federman will be entitled to a refund of reasonable expenses for his board and lodging and other expenses spent by him while abroad, by virtue of his position, as is customary in the Company
- Mr. Federman will not be entitled to engage in additional occupations in consideration for a salary – apart from his occupations detailed above, unless he receives the prior written approval of the Company's Board of Directors and subject to the terms as determined by the Board of Directors.
- Mr. Federman will not be an employee of the Company or of its subsidiaries, and no employee-employer relations will prevail between him and the Company or any of its subsidiaries.

- The Agreement will be in force for a period of three years from the date of its approval by the General Meeting, and every party will be entitled to terminate it with a written notice given at least six months in advance – and this excluding the Company's right to terminate the Agreement immediately under certain circumstances, as detailed in the Agreement.

For the terms of compensation of Mr. Federman in 2010, see Regulation 21 to Chapter D of the Company's Periodic Report in 2010, which was published on March 21, 2011 (Document No. 2011-01-085863) presented here by reference. For details about the cost of employing Mr. Federman at nine months ended September 30, 2011, see Appendix C to this report.

1.2 Amendment to the wording of the Letter of Indemnity to Mr. David Federman

In the framework of Mr. David Federman's terms of service, as detailed above, it is proposed to amend the wording of the Letter of Undertaking for Indemnity, given to Mr. David Federman according to the wording attached as **Appendix B**¹ to this report, as will apply to the other officers in the Company.

The agenda of the General Meeting, which is summoned by this Report, includes a proposed resolution to amend the Company's Articles on the subject of insurance and indemnity of officers, in such a way that will enable the indemnity of officers in the Company also as permitted by Law for Making Enforcement Processes in the Securities Authorities more Efficient (Legislative Amendments) – 2007, and the proposed resolution to amend the Letters of Undertaking for Indemnity to the directors in the Company (excluding controlling shareholders) in order to adapt them to the said amendment in the Company's Articles. The draft updated Articles which include these amendments and additional amendments not on the subject of insurance and indemnity of officers are attached as **Appendix A** to this Report. The draft updated Letter of Undertaking for Indemnity which includes these amendments is attached as **Appendix B** to this Report. Subject to receiving the approval of the General Meeting to the amendment in the Articles on the subject of insurance and indemnity of officers, it is proposed to amend the Letter of Undertaking for Indemnity given to Mr. Federman to the updated wording.

It should be clarified that as long as the General Meeting does not approve the amendment to the Letter of Undertaking for Indemnity, as mentioned above, the existing Letter of Undertaking for Indemnity for Mr. Federman, which was approved by the General Meeting on December 22, 2009, will remain in force for the period stated in the Companies Law.

¹ All Appendices referred to in this document can be supplied by the Company, upon request. Such appendices will be in Hebrew and it is at the discretion of the person requesting the document to translate it.

2. The controlling shareholders in the Company

- 2.1 The Israel Corporation holds 37.08% of the issued capital of the Company and the voting rights in it (36.92% fully diluted), the Israel Petrochemical Enterprises Ltd., ("IPE") holds (both directly and through Petroleum Capital Holdings Ltd. (which is a private company wholly owned by IPE) ("Petroleum")) 32.72% of the issued capital of the Company and the voting rights in it (30.58% fully diluted).
- 2.2 The Israel Corporation Ltd., IPE and Petroleum have a Joint Control Agreement in the Company.
- 2.3 In view of the aforesaid, the controlling shareholders in the Company are: the Israel Corporation, IPE and Petroleum.
- 2.4 IPE is a public company in which Mr. David Federman is (indirectly) one of the controlling shareholders in it.

3. The way in which the consideration was determined

The terms of employment of Mr. Federman were determined by the Company's Audit Committee and Board of Directors, in coordination with Mr. Federman, considering, *inter alia*, comparative data relating to what is customary in companies of a similar size.

On approving the terms of consideration of Mr. Federman, the Audit Committee and Board of Directors were presented with a comparative research, according to an external survey prepared by PWC regarding customary compensation packages of senior officers in similar positions, in companies of a similar size to that of CAOL (and in this regard it should be mentioned that Mr. Federman serves, as mentioned, also as Deputy Chairman of the Company and in various functions in the Company (and in additional subsidiaries of the Company) whose operations are significantly greater than that of CAOL).

The Audit Committee and Board of Directors unanimously approved the terms of compensation.

4. Approvals required to carry out the transactions

- 4.1 The Company's Audit Committee approved the transactions detailed in Clauses 1.1 and 1.2 at its meetings of September 4, 2011 and October 9, 2011. The Board of Directors approved these transactions at its meeting of October 30, 2011.
- 4.2 Approval of the transactions with Mr. Federman is conditional on the approval of the General Meeting of the Company with a special majority, as mentioned in Clause 9.2 below.

5. Similar transactions during the past two years

Excluding, as detailed below, during the two years prior to the approval of the transaction by the Company's Board of Directors, no transactions took place which are similar to the transaction the subject of this Report between the Company and a controlling shareholder in it or in which the controlling shareholder has a personal interest:

5.1 Payment of a grant to Mr. Federman for 2009

On May 10, 2010, the General Meeting of the Company approved granting a bonus to Mr. Federman for 2009, of a total amount of NIS 1.25 million (plus VAT), which was paid in two equal installments. Payment of the first installment was made soon after the approval of granting the bonus by the Company's General Meeting of, and the payment of the second installment was made after the approval of the General Meeting issued on April 6, 2011, as a result of meeting targets approved by the Company regarding the merger between the Company and CAOL. For additional details see the Immediate Reports of the Company of May 10, 2010 (2010-01-476310) and April 7, 2011 (2011-01-113229), the contents of which are presented here by reference.

5.2 The Compensation Plan of officers in the Company, including with regards to Mr. Federman

On March 1, 2011, the Company's Board of Directors decided, after receiving the approval of the Audit Committee on February 27, 2011, to adopt a compensation plan for the Company's management and employees, including Mr. Federman – as detailed in the Immediate Report published on March 23, 2011 (document No. 2011-01-090168). On April 7, 2011, the General Meeting of the Company approved that the said compensation plan will also apply to Mr. David Federman.

5.3 Approval of the insurance of officers in the Company also applying to Mr. David Federman

On February 27, 2011, the Company's Board of Directors approved, after receiving the approval of the Audit Committee on February 13, 2011, that the insurance policy of officers of the Company will also apply to Mr. David Federman, under identical conditions to those of all the officers of the Company. For additional details see the Immediate Report of March 1, 2011 (document No. 2011-01-066618) the contents of which are presented here by reference.

5.4 Granting a Letter of Undertaking for Indemnity to Mr. David Federman

On December 2, 2009, the General Meeting of the Company approved granting an exemption from liability and a Letter of Undertaking for Indemnity to Mr. David Federman, similar to the Letter of Undertaking granted to the other officers in the Company. For additional details see the Immediate Report of the Company dated December 2, 2009 (document No. 2009-01-307473) the contents of which are presented here by reference.

6. Reasoning of the Audit Committee and Board of Directors

6.1 Reasons for the approval of the engagement in the Agreement with Mr. David Federman

6.1.1 Mr. Federman has considerable knowhow and experience over many years of managing companies and increasing their value. Mr. Federman served, *inter alia*, as Chairman and CEO of Elite Industries Ltd., as a Director in the Mann Group (an international goods company) and as Chairman and Director of the Coffee Division of the Mann Group.

- 6.1.2 Mr. Federman served as the Executive Chairman of CAOL for 11 years, a period during which, *inter alia*, CAOL considerably expanded its productive capacity, overcame a serious financial crisis, expanded its international operations and completed the merger with the Company.
- 6.1.3 Mr. Federman's contribution as Chairman of CAOL and as Deputy Chairman of the Company, as a Director in other subsidiaries of the Company, and as a member of various committees of the Company's Board of Directors – including the Executive Committee, assisted the Company and its subsidiaries to become stronger, to improve their business results and introduce long-term strategic steps.
- 6.1.4 The terms of service on the agenda are identical to the cost presently paid to Mr. Federman by CAOL as Chairman of CAOL with only a 70% position, where the salary and terms of service on the agenda are for serving as Deputy Chairman of the Company and for serving as Chairman of CAOL, as a Director in other subsidiaries of the Company and membership in various committees of the Company's Board of Directors, including the Executive Committee, in a full-time position.
- 6.1.5 In the framework of the discussions on the engagement, the Audit Committee / Board of Directors were presented with a comparative research according to an external survey prepared by the PWC firm regarding customary compensation packages of senior officers in companies of a similar size as CAOL (and in this regard, it should be mentioned that Mr. Federman also serves in various functions in the Company, where the size of the operations are considerably larger than that of CAOL). After these were examined according to a criteria discussed by the Company's Board of Directors at its meeting of March 20, 2011, and after being examined in view of the information presented to the directors in the framework of the said comparative research, members of the Audit Committee and Board of Directors were of the opinion that Mr. David Federman's terms of service are fair and reasonable.

6.2 Reasons regarding the amendment to the Letter of Undertaking for Indemnity of Mr. David Federman

- 6.2.1 The Efficiency of Enforcement Processes Law enables the Securities Authority, *inter alia*, to enforce provisions by virtue of the Securities Law in an administrative process, and in the framework of which to impose various sanctions on anyone violating it. Therefore, the Administrative Enforcement Law increases the level of exposure and responsibility imposed on officers in a company and, as a result, justifies the amendment of the Letters of Indemnity so that they will be adapted to the provisions of the law.
- 6.2.2 Adjusting the Letters of Indemnity, as mentioned above, is for the Company's benefit, as it enables its officers, including Mr. Federman, to act freely for the benefit of the Company and to properly perform their functions, considering the related risks and the responsibility imposed on them by law.
- 6.2.3 The Company is interested to continue to strengthen the level of involvement of the officers and management's contribution to the

Company, *inter alia*, by ensuring a more secure and certain work environment for the officers.

- 6.2.4 In view of the risks connected with the activities of the officers in the Company, while considering the fields of activities of the Company, and the extent of its present operations and as it is also a public company, the terms of the undertaking for indemnity, including the maximum amount of indemnity, are reasonable under the circumstances, and considering the size of the Company, the scope and fields of its operations, and its business plans.
- 6.2.5 The wording of the Letter of Undertaking for Indemnity given to Mr. Federman, including the wording of the proposed amendment to the Letter of Undertaking for Indemnity are identical to the wording given to the other officers in the Company.
- 6.2.6 The Letter of Undertaking for Indemnity does not change the terms of indemnity to which Mr. Federman was entitled on the date of this decision, according to a decision of the General Meeting of the Company of December 2, 2009 – excluding its restriction to 25% of the Company's shareholders' equity on the date of the indemnity and the extent required to adapt the undertaking for indemnity to the Efficiency of Enforcing Processes Law.

7. Names of the members of the Audit Committee and the Board of Directors who participated in the deliberations

- 7.1 The following directors participated in the deliberations of the Audit Committee:
Prof. Dafna Schwartz, Prof. Arie Ovadia, Prof. Yachin Cohen and Ms. Nehama Ronen.
- 7.2 The following directors participated in the deliberations of the Board of Directors:
Mr. Yossi Rosen, Mr. Arie Silberberg, Mr. Ori Slonim, Mr. Avisar Paz, Prof. Yachin Cohen, Prof. Arie Ovadia, Mr. Ran Croll, Prof. Dafna Schwartz.

8. Personal interest in vote

Mr. David Federman has a personal interest in the transactions stated in clauses 1.1 and 1.2 above, being a party to the agreement detailed in clause 1.1 and being entitled to receive the amendment to the Letter of Undertaking for Indemnity from the Company, as stated in clause 1.2 above.

Mr. Eran Schwartz has a personal interest in the transaction, being the CEO of IPE and an officer in various private companies controlled by Mr. Federman.

In view of the aforesaid, these directors did not participate in the deliberations and did not vote on the subject of approving the engagement with Mr. Federman and granting the Letter of Indemnity.

9. **Convening an Extraordinary General Meeting – the place of its convening, date, agenda, the majority required in it, the determining date and the legal quorum**

Notice is hereby given regarding the convening of an Extraordinary General Meeting of shareholders of the Company which will convene at the Company's offices on the 26th floor of the Square Tower in the Azerieli Tower Complex, 132 Menahem Begin Street, Tel Aviv on December 8, 2011 at 11.00 a.m.

9.1 The following proposed resolutions are on the agenda are:

- 9.1.1 Approval of the engagement in the agreement with a private company owned by Mr. Federman and his family for his serving as the Deputy Chairman of the Company's Board of Directors, the Chairman of CAOL's Board of Directors, serving as a Director in other subsidiaries of the Company and membership in various committees of the Company's Board of Directors, including the Executive Committee in a full-time position - and all as set forth in clause 1.1 above.
- 9.1.2 Approval of the amendment to the Company's Articles on the subject of insurance and indemnity of officers, as set forth in Articles 150 and 153 to the amended version of the Articles attached as **Appendix A** to this Report.
- 9.1.3 Approval of the amendment to the Company's Articles not on the subject of insurance and indemnity of officers, as set forth in the version of the amended Articles attached as **Appendix A** to this Report (not including Articles 150 and 153 to the amended Articles relating to insurance and indemnity of officers).
- 9.1.4 Subject to approving the resolution detailed in clause 9.1.2 above regarding the amendment of the version of the letters of undertaking for indemnity granted to the Company's officers, apart from controlling shareholders of the Company who serve in it as officers, as detailed in **Appendix B** to this Report.
- 9.1.5 Subject to approving the resolution detailed in clause 9.1.2 above, to approve the amendment to the wording of the Letter of Undertaking for Indemnity granted to Mr. David Federman, one of the controlling shareholders (indirectly) in the Company, who serves as a Director in the Company, in the wording as will apply to the other directors in the Company as detailed in **Appendix B** to this Report.

9.2 The majority required

- 9.2.1 In order to approve the subjects mentioned in clauses 9.1.3 and 9.1.4 on the agenda, an ordinary majority is required of all the votes of shareholders present at the General Meeting and entitled to vote and who voted at it.
- 9.2.2 In order to approve the subjects mentioned in clauses 9.1.1, 9.1.2 and 9.1.5 on the agenda, in accordance with the provisions of Sections 262(b) and 275 to the Companies Law, it is required that, in addition to the regular majority, one of the following two situations will exist ("**requirements of a special majority**"): a. In a poll a majority in a General Meeting will include at least the majority of all votes of shareholders who are not personally interested parties in approving the resolution, who participate in the vote (in counting all the votes of these shareholders, those abstaining will not be taken into account); b. The total votes of those opposing among these shareholders mentioned in sub clause a. above, will not exceed a rate of 2% of all voting rights in the Company.

Those objecting among the shareholders mentioned in sub-clause a. above may not exceed a rate of 2% of all voting rights in the Company.

9.3 Quorum

The discussions 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, which states how they intend to vote, who hold or represent 25% (twenty five percent) and over of the voting rights in the Company. If within half an hour from the day set for the meeting no quorum is present, the meeting will be postponed to December 15, 2011 at the same time and place. If within half an hour from the date set for the postponed meeting no legal quorum will be present, the meeting will take place with any number of participants.

9.4 The determining date and proof of ownership

The date stipulated for approving ownership of a shareholder in the Company to vote at the General Meeting, as mentioned in clause 182 of the Companies Law, is at the end of trading on November 8, 2011 (“**the Determining Date**”).

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

A shareholder may appoint a proxy who can participate and vote on his behalf at the General Meeting according to the provisions of the Company’s Articles. The Letter of Attorney will be deposited at the Company’s offices at Hahistadrut Street, Haifa Bay, at least 48 hours prior to the time of convening the meeting.

9.5 The address of the distribution site of the Securities Authority (“**the Distribution Site**”) and the internet site of the Tel Aviv Stock Exchange Ltd., where it is possible to find the wording of the voting letter and notices of position, within the meaning of Section 88 of the Companies Law, are: www.magna.isa.gov.il and www.maya.tase.co respectively. Voting using a voting letter will be done on the second part of the voting letter as published in the distribution site. A shareholder may directly contact the Company and receive from it the version of the voting letter and position notices (should there be any). A member of the Stock Exchange will send, gratis, by e-mail, a link to the wording of the voting letter and position letters, in the distribution site to every shareholder who is not registered in the Register of Shareholders and whose shares are registered with that member of the Stock Exchange, unless the shareholder announced that he is not interested in this, provided that the notice was issued regarding a certain securities account on a date prior to the determining date. A shareholder whose shares are registered with a member of the Stock Exchange may receive the confirmation of ownership from the member of the Stock Exchange through whom he holds his shares, the branch of a member of the Stock Exchange or by post to the address in consideration for delivery fees only, if he so requests. An application regarding this matter will be given in advance to a certain securities account. The voting letter must be submitted to the Company’s offices at Hahistadrut Avenue, Haifa Bay, in such a

way that the voting letter will reach the Company's offices not later than 72 hours prior to the time of convening the meeting. The last date for submitting position notices to the Company is up to 10 days after the determining date.

10. Viewing documents

The documents relating to the resolutions, the subject of this Report, can be viewed at the Company's offices in Hahistadrut Avenue, Haifa Bay, during regular working hours, after prior coordination by telephone (04) 878-8135.

11. The Powers of the Securities Authority

The Securities Authority (or an employee authorized by it for this purpose) may instruct the Company to give an explanation, details, information, additional documents in connection with the matters detailed in this Report, or instruct that an amendment be made to this Report. Should an instruction be given to amend this report, the Securities Authority may instruct that the date of the General Meeting be postponed to a date which will not be less than 3 business days and not later than 21 days from the date of publishing the amendment to this Report.

12. The Company's representatives regarding handling the immediate report

Adv. Yoav Nahir

Adv. Tomar Sela

Mitar, Likvornik, Geva & Leshem, Brandwein – Legal Office

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Oil Refineries Ltd.
by: Adv. Eli Mordoch

APPENDIX C

Details of compensation to Mr. Federman for the nine months ended September 30, 2011

Name of Recipient for Compensation			Compensation for services (NIS, thousands)							Other Compensation (NIS, thousands)			Total (NIS, thousands)
Name	Position	Availability	Salary	Bonus	Shares	Management	Consultation	Commission	Other	Interest	Rent	Other	
David Federman	Executive Chairman of CAOL BOD ²	70% ³	1,472	625 ⁴	-	-	-	-	-	-	-	-	2,097

² The remuneration to Mr. Federman for the nine months ended September 30, 2011 as specified in the table above has been paid in respect of the tenure of Mr. Federman as Chairman CAOL only.

³ As stated in this report above, starting from the date of approval of the General Assembly regarding this report, Mr. Federman will serve in his role for CAOL full time (100%).

⁴ Half of the compensation paid for the activities and contributions of Mr. Federman for CAOL in 2009, by decision of the company's general meeting (for details see the Company's immediate report dated May 10, 2010 (2010-01-476310) and dated 7 April 2011 (2011 -01-113229)).