

**-Convenience Translation from Hebrew-
Oil Refineries Ltd. ("The Company")**

June 24, 2008

Messrs
Israeli Securities Authority
By email

Messrs
Tel Aviv Stock Exchange
By email

Dear Madam/Sir,

**Re: Immediate Report relating to the engagement in which
a controlling shareholder has a personal interest**

An Immediate Report is hereby issued under Regulations 36 and 37 (b1) of the Securities Regulations (Periodic and Immediate Reports) – 1970, that on June 24, 2008 the Company's Audit Committee, followed by its Board of Directors, approved the signing of an agreement ("**the Agreement**") with Israel Petrochemical Enterprises Ltd. ("**IPE**"), the main points of which are as follows:

1. Description of the transaction

The agreement includes a number of main components which are combined with and conditional on each other as follows:

- 1.1 On the transaction closing date, IPE will sell the Company all the shares it owns in Carmel Olefins Ltd. ("**CAOL**") comprising 50% of CAOL's issued capital (hereinafter: the "**Purchased CAOL Shares**"), in such a way that after the acquisition, the Company will hold 100% of CAOL's issued capital. In consideration for CAOL's shares, the Company will allot IPE 516,672,961 ordinary shares of the Company, which will comprise (after the allotment and without dilution) 20.53% of the Company's issued capital (hereinafter: the "**Allotted Shares**").
- 1.2 On the transaction closing date, the Company will sell IPE 3,741,680 share of IPE that it owns, comprising 12.29% of IPE's capital, in consideration for an amount of 40 million dollars (hereinafter: the "**Purchased IPE Shares**").
- 1.3 As a precondition for the transaction closing, after meeting all the other preconditions, and before the allotment of 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 transaction closing date, the Company's Board of Directors will decide on the distribution of an additional dividend of 100 million dollars ("**the second dividend**") whereby the Allotted Shares will also be recipients of the distribution.
- 1.4 Closing of the agreement is subject to the existence of a number of preconditions as detailed in clause 2.9 below by December 31, 2008.

2. Description of the main provisions of the agreement

2.1 Representations made in the framework of the agreement by the parties:

2.1.1 In the framework of the agreement, the Company made representations in the context of which it confirmed, inter alia, that: (1) the financial statements and reports of the Board of Directors that the Company published, as at December 31, 2007 and March 31, 2008, fully and correctly reflect the Company's business, financial condition, capital, assets, liabilities and financial results on the date of the financial statements; (2) the Company's Prospectus of May 29, 2008 (hereinafter: the "Prospectus") includes all the data and facts that need to be included in such a Prospectus and does not include any material data or fact included that are not fairly described in it, or any significant fact or data which, by law, should have been included in it and which are not included; (3) the Company is not aware of any event in the Company or its subsidiaries or with respect to their business, assets, or legal status, that took place after the date of the Company Prospectus and till the date of the agreement, which can materially adversely affect the Company or its subsidiaries' business as at the date of the Prospectus or their financial standing relative to their standing based on the quarterly financial statements as of March 31, 2008.

2.1.2 In the framework of the agreement, IPE made representations in which it confirmed, inter alia, that: (1) the financial statements and reports of the Board of Directors of CAOL, as at December 31, 2007 and March 31, 2008, fully and correctly reflect CAOL's business, financial condition, capital, assets, liabilities and financial results on the date of the financial statements; (2) IPE does not know of any significant data or fact which are included in CAOL's Hebrew outline, which will be published as outlined in section 6 below, which are not aptly described, or have any significant fact or data which should have been included in the outline and were not included. All matters relating to the relationship between the Company and CAOL were excluded from the IPE representations;

2.2 During the interim period, from the date of signing the agreement until the transaction is closed, the parties undertook not to take any action contradicting the undertakings given by them, and to cause CAOL not to take any steps not in the normal course of business, including the distribution of a dividend. The Company undertook that it will not distribute during the interim period a dividend exceeding the first dividend.

2.3 The Company undertook that should the distribution of the first or second dividend by the Company not meet the distribution tests set forth in the Companies law, the Company will apply to the Court to obtain its approval for this. IPE gave an identical undertaking regarding the purchase of the Purchased IPE Shares.

2.4 In the event of a material adverse change compared to the representations given by one of the parties to the agreement, as a result of which the value of the Purchased CAOL Shares or of the Allotted Shares, whichever relevant, decline

by 50,000,000 dollars or more, the party that was harmed by the change may withdraw from the agreement. It is hereby clarified that any change for the worse does not include a change resulting from the parties' evaluations or forecasts regarding future events or developments in the Company, in CAOL or in the markets and areas of activity in which they operate.

2.5 Liability and indemnity:

- 2.5.1 Every party undertakes to indemnify the other party for any damages or losses, as a result of the incorrectness of a representation or declaration given by that party to the agreement, excluding indirect damages and harm to goodwill and excluding amounts to be paid by an insurance company under a policy held by any of the parties or by any other third party.
- 2.5.2 The obligation for indemnity will apply only after the accumulated amount of all the damages caused to the injured party, for which it is entitled to indemnity, exceed an amount of 15,000,000 dollars, and in such a case, the obligation to indemnity will apply as from 7,500,000 dollars up to a maximum indemnity of 75,000,000 dollars.
- 2.5.3 The restrictions of this indemnity will not apply in the event of deception, fraud or malicious intent, as well as in any event of flaw in the Allotted Shares, the Purchased CAOL shares or the Purchased IPE Shares.
- 2.5.4 A party will be entitled to indemnity only if it gave the indemnifying party notice, up to the end of 18 months from the transaction closing date, of its intention to claim an indemnity, excluding a demand for an indemnity relating to matters of the environment protection or taxes, which can be given up to the end of 36 months from the transaction closing date.
- 2.5.5 The injured party to the agreement will have the right to make a claim, solely of the other party in any instance whereby a representation made is wrong or incomplete, and this while the injured party waives all rights to make a claim on this matter against the other parties' subsidiaries, and/or CAOL and/or CAOL subsidiaries and/or against officers and employees (past and present) of the injured party and of the other party and its subsidiaries (past and present) and/or of CAOL and its subsidiaries (past and present), including a waiver on filing a third-party notice against these factors, in the event in which it will be sued by the other party.
- 2.5.6 Without detracting from the remedies available to IPE against the Company under the Israeli Securities Act (1968), the right to indemnification is the only remedy available to the party to the agreement will be able to use resulting from incorrect statements or representations arising in the agreement.
- 2.5.7 On the transaction closing date the Company will waive, in its name and in the name of its subsidiaries, all claims against IPE, its subsidiaries, its position holders and employees of IPE and CAOL (in the past and until the date of completion), including their subsidiaries, against any of the

following allegations: (1) any allegations relating to CAOL and/or its subsidiaries, the grounds of which stemmed prior to the closing date, excluding as a result of the agreement, and (2) any allegations with respect to the Purchased IPE Shares, excluding as a result of the agreement.

- 2.5.8 On the transaction closing date IPE will waive, in its name and in the name of its subsidiaries (excluding Scailex Corporation Ltd.), all claims against CAOL and its subsidiaries, position holders and employees of the Company and CAOL (in the past and until the date of closing), including their subsidiaries, against any allegations regarding CAOL and/or its subsidiaries, the grounds of which stemmed prior to the date of closing, excluding as a result of the agreement.
- 2.6 All the agreements between CAOL and IPE, and every agreement between the Company and IPE relating to CAOL, including the Founders Agreement, the Management Agreement and the Shareholders Agreement will terminate on the date of closing.
- 2.7 The Company undertook to cause CAOL to purchase officers liability insurance (runoff) with a coverage scope and liability limit, with the amounts stated in the policy, which will be in force on the closing date and which will cover the liability insurance of officers serving in CAOL on the date of closing, or who served as officers in CAOL prior to that, for their acts and omissions during the period prior to the closing, and this for a period of 7 years from the date of closing.
- 2.8 The Company undertook not to take steps, and to cause CAOL not to take steps set forth in the Income Tax Ordinance (New Version) which will harm the exemption which will be given to IPE by the Tax Authority for the engagement in the agreement.
- 2.9 Approvals and conditions for implementing the transaction:
 - 2.9.1 The transaction closing is subject to the existence of a number of preconditions: ("**the preconditions**") by December 31, 2008, as follows:
 - 2.9.1.1 (a) Receipt of the regulatory approvals, including approval to IPE pursuant to the Government Companies Order (Declaration of an Essential Interest of the State in the Oil Refineries Ltd.) – 2007 (as will be required by law), approvals of the General Director of the Antitrust Authority to the mergers included in the agreement, approvals of the Investments Center, approval of the Tel Aviv Stock Exchange for the registration for trading of the Allotted Shares, approval of the Tax Authority whereby the sale of Purchased CAOL Shares against the receipt of the Allotted Shares is tax exempt, as well as the approval of any third party, as required, in order for the said exemption will be valid;

- 2.9.1.2 Receipt of approvals of the organs required by law in each of the companies to implement the transaction and the steps connected with it. Regarding the Israel Corporation Ltd's notice ("**the Israel Corporation**"), the controlling shareholder in the Company, on it conditioning its support on the approval of the agreement by the Company's general meeting, see clause 4.5 below;
 - 2.9.1.3 Receipt of approvals of third parties required in accordance with agreements, undertakings, licenses and approvals detailed in the agreement, including the approval of IPE's bondholders or of their trustee, so that the sale of IPE's holdings in CAOL is not an event which gives the bondholders the right to demand their immediate repayment;
 - 2.9.1.4 Receiving notice from IPE, that an agreement has been signed between it and the Israel Corporation, an amendment to the irrevocable letter of undertaking of June 1, 2008 (to which was attached the suspended agreement for the joint control in Oil Refineries) this relating to the results stemming from the agreement.
 - 2.9.1.5 During the period commencing with the signing of agreement and until the agreement closing date, no event occurred rendering incorrectness of the representations made by the Company or the representations made by IPE, resulting in a cumulative decline of over 50,000,000 dollars in the value of the Purchased CAOL Shares or the Allotted Shares.
 - 2.9.1.6 Payment of the first dividend.
- 2.9.2 Should all preconditions not exist by December 31, 2008, the agreement will be terminated. In the event that all preconditions exist and at that time an application to make a distribution stipulated in the agreement by one of the parties is pending before the courts, the last date for meeting the preconditions 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 passed by their Boards of Directors.

3. The way in which the consideration was determined

- 3.1 The number of Company's shares which will be allotted to IPE and their rate out of the Company's share capital and the amount of consideration in cash that IPE will pay for the IPE shares held by the Company, was determined in negotiations, considering the valuations ratio of the fair economic value of 50% of CAOL's shares to the value of the Company's share capital (hereinafter: "**the Value Ratio**") and the value of 12.29% of IPE's shares, made for the purpose of the engagement in the agreement by Uri Cohen CPA of the Yitzhak Suari Ltd. ("**Evaluation**" and "**Appraiser**", respectively). The appraiser was appointed jointly by the Company and IPE in order to determine the ratio of the value of CAOL and the value of the Company ("**the value ratio**"), and the value ratio and the value of IPE's shares as mentioned above.

- 3.2 According to the evaluation, the value of the Company's share capital was estimated in a range of 1,624 to 1,927 million dollars (after distributing the first dividend) and CAOL's share capital is estimated in the range of 860 to 959 million dollars. Consequently, the value ratio is in the range of 19.9% to 20.9%.
- 3.3 According to the valuation, the value of IPE shares sold to IPE in the framework of the agreement, and which comprises as mentioned 12.29% of IPE's capital, ranges between 34-44 million dollars.

The evaluation is attached as **Appendix A** to the Hebrew immediate report and is available under the investor relations section (in Hebrew) of the Company's website.

- 3.4 The Company received an additional opinion of Prof. Amir Barnea ("**the Opinion**"), according to which the exchange transaction of 50% of CAOL's shares in consideration for 20.53% of the shares of the Company after a payment of 60 million dollar dividend, and the acquisition of 12.29% of IPE's shares held by the Company in consideration for 40 million dollars, correctly reflect the field of economic values, determined in the valuation, and that they are fair and reasonable to the Company's shareholders.

The opinion is attached as **Appendix B** to the Hebrew immediate report and is available under the investor relations section (in Hebrew) of the Company's website.

4. The nature of the personal interest of the controlling shareholder

- 4.1 During June 2007, the Israel Corporation Ltd. ("**The Israel Corporation**"), a controlling shareholder in the Company, undertook to Scailex Corporation Ltd. ("Scailex")¹ and Petroleum Capital Holdings Ltd. ("**PCH**"), irrevocably, that if Scailex and PCH will receive the approvals required for holding the means of control in the Company, including every approval or permit required by any law by March 15, 2009, the Israel Corporation will engage with them in a joint control agreement in the Company, whose conditions are detailed in the Letter of Undertaking. For details about the Letter of Undertaking given, as mentioned, by the Israel Corporation and its details regarding the first control agreement, see clause 4.6 to the Company's Shelf Prospectus dated May 29, 2008 ("**the Prospectus**").
- 4.2 As a result of signing the agreement, according to which IPE will purchase all PCH's shares from Scailex, the Israel Corporation in June 2008 gave IPE and PCH an Irrevocable Letter of Undertaking ("**the Second Letter of Undertaking**") to which the wording of the joint control agreement in the Company ("**the Second Control Agreement**") was attached, which will come into force under certain conditions. The terms of the second Letter of Undertaking and the second control agreement were detailed by the Company based on Israel Corporation's publications in the Company's report of June 2, 2008 (Document 156876-01-2008).
- 4.3 In view of the undertakings of the Israel Corporation to sign a joint control agreement with IPE and PCH, subject to obtaining control approval by IPE or

¹ A public company whose shares are listed for trading on the Tel Aviv Stock Exchange Ltd., which, to the best of the Company's knowledge, (based on the public reports of Scailex) 50.06% of its shares are held (indirectly) by IPE and an additional 36.6% by Ilan Ben Dov and companies controlled by him.

PCH, IPE and PCH will be considered as interested parties regarding voting at general meetings of the Company for approving the transactions of the Company with the Israel Corporation, or the Israel Corporation has a personal interest in it. Moreover, the Israel Corporation will be considered as having a personal interest regarding voting in the general meeting of the Company to approve the Company's transactions with IPE or with PCH, or that IPE or PCH have a personal interest in them.

- 4.4 As mentioned above in clause 2.9 to this report, IPE's notice that an amended agreement to the second letter of undertaking was signed between it and the Israel Corporation, relating to the results stemming from the agreement is a precondition to the transaction closing.
- 4.5 In addition, the Israel Corporation informed the Company that it is currently holding negotiations with IPE in order to modify and adapt the letter of undertaking given to IPE on June 1, 2008 as well as the wording of the attached suspended joint control agreement (hereinafter: the "**Letter of Undertaking**"), to the new shareholding structure which will be reached as a result of the closing of the above agreement, including cancelling the right to the Call Option, and that it is conditioning its vote for the approval of this agreement at the general meeting of Oil Refineries, with the completion of negotiation with IPE, while changing and amending the Letter of Undertaking.

5. The reasoning of the Audit Committee and the Board of Directors

In the framework of the discussions of the Company's Audit Committee and Board of Directors to approve the transaction, the following reasons were raised for its approval:

- 5.1 The CAOL plant is adjacent to that of the Company's refineries in the Haifa Bay area which is a downstream plant of the refineries. The vast majority of feedstock used by CAOL is sold to it by the Company; at the same time, byproducts created during the production in CAOL are returned to ORL, and are used by it or by Gadiv Petrochemical Industries Ltd. (Gadiv), a wholly-owned subsidiary of the Company, in their operations.

The full acquisition of CAOL's shares by the Company will enable the Company to have a total optimization of the production in the three plants (of the Company, of CAOL and of Gadiv), with total planning in the purchase of crude oil and interim materials, optimizing the production function in all of the plants, and each of them and directing all material to the site in which the highest value added will be obtained.

- 5.2 Planning of investments in the refineries, in CAOL and in Gadiv will be possible in such a way that it will maximize the benefit of the whole system, while saving duplicated costs resulting from the existence of separate entities.
- 5.3 Combining the existing management and service functions which are today separated in CAOL and ORL (information systems, trading systems, purchasing, engagements with contractors and suppliers, finance, auditing, legal services and more), is also expected to increase the efficiency of the operations of these systems and reduce costs.

- 5.4 Upon acquisition of CAOL's shares from IPE by the Company, the Company does not have any interest in holding IPE shares and, therefore, the transaction for selling these shares to IPE is also included.
- 5.5 The consideration that the Company will receive for the allotment of its shares (50% of CAOL's shares) after distributing the dividend that was determined as a precondition for closing the agreement (60 million dollars), and the consideration in cash that the Company will receive from the sale of IPE's shares, was set in negotiations between the Company's representatives and those of IPE, on the basis of the evaluation jointly ordered by the parties. In addition, in the independent opinion that the Company received from Prof. Amir Barnea, it was determined that the transaction and all its components is fair and reasonable for ORL's shareholders

Considering the aforesaid, the opinion of members of the Company's Audit Committee and Board of Directors, is that the acquisition of the full capital of CAOL is a process done for the benefit of the Company and the consideration determined in the whole transaction, including for the private offer, is fair and reasonable.

6. Publishing the transaction report and convening a special general meeting

The Company intends to publish a Hebrew transaction report according to the Securities Regulations (A Transaction between the Company and the Controlling Shareholder in it) – 2001, and in accordance with the Securities Regulations (A Private Offer of Securities in a Listed Company) – 2000, in the way and on the dates set in these regulations ("**Transaction Report**"). The transaction report will have attached a description of CAOL, the financial statements of CAOL as at December 31, 2007 and March 31, 2008, the evaluation and the opinion.

In the framework of the transaction report, the Company will announce the convening of a special general meeting of the Company's shareholders, in which the agenda will be:

- 6.1 Approval of the engagement with IPE in the agreement.
- 6.2 Increase of the Company's authorized share capital by NIS 1 billion divided into 1 billion ordinary shares of NIS 1 par value each.
- 6.3 An amendment to Article 178(A) and Article 178(B) of the Companies Articles in such a way that passing a resolution regarding the distribution of dividends will be under the authority of the Company's Board of Directors (and not under the authority of the Company's general meeting as exists today).

Oil Refineries Ltd.