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Israel Corporation

The Israel Corporation Ltd.  
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Adv. Noga Yatziv  
Company Secretary and Assistant to the President

June 1, 2008

The Securities Authority  
22 Kanfei Nesharim Street  
Jerusalem 95464  
(by means of the MAGNA)

The Tel Aviv Stock Exchange Ltd.  
54 Ahad Haam Street  
Tel Aviv 65202  
(by means of the MAGNA)

Dear Sir/Madam,

**Re: Letter of Undertaking concerning Holdings in Oil Refineries Ltd.**

Further to the previous immediate reports concerning Oil Refineries Ltd. (hereinafter "**ORL**"), including the immediate report of May 10, 2007 (Reference No. 386384-01-2007) (hereinafter "**the Previous Report**") in the matter of an irrevocable letter of undertaking given by the Company to Skylex Corporation Ltd. (hereinafter "**Skylex**") and Petroleum Capital Holdings Ltd. (hereinafter "**Petroleum**") (hereinafter "**the First Letter of Undertaking**") to which a form of an agreement for the joint control of ORL was attached which may enter into force upon the fulfillment of certain conditions (hereinafter "**the First Control Agreement**"), the Company hereby reports as follows:

1. On June 1, 2008, the Company gave Israel Petrochemical Enterprises Ltd. (hereinafter "**Petrochemicals**") and Petroleum an irrevocable letter of undertaking (hereinafter "**the Second Letter of Undertaking**") to which a form of an agreement for the joint control of ORL was attached, which may enter into force upon the fulfillment of certain conditions stipulated below (hereinafter "**the Second Control Agreement**") and Petrochemicals ratified by its signature the provisions of the Second Letter of Undertaking.
2. The Second Letter of Undertaking was intended to enable the fulfillment of certain conditions required for the closing of the transaction for the purchase of all (100%) of the issued share capital of Petroleum by Petrochemicals from Skylex (hereinafter "**the Petroleum Agreement**") and for the closing of the transaction for the sale of all the holdings of Petrochemicals in Skylex (in the scope of 50.06% of the issued share capital of Skylex) to Suny Electronics Ltd. (hereinafter "**the Suny Agreement**") and in addition to regulate the relations between the Company, Petrochemicals and Petroleum after the date on which the transactions which are the subject of the Petroleum Agreement and the Suny Agreement are executed, if and to the extent executed

(hereinafter "**the Execution Date**"). The main provisions of the Second Letter of Undertaking are stipulated below.

3. The Second Letter of Undertaking stipulates and clarifies that the First Letter of Undertaking, to which a form of the First Control Agreement was attached, shall remain in force without any amendment as long as the Petroleum Agreement is not executed. Furthermore it states that the execution of the transactions which are the subject of the Petroleum Agreement and the Suny Agreement do not grant the Company any right to exercise the right of first refusal granted to the Company by virtue of the First Letter of Undertaking.
4. In addition, it was agreed that to the extent that: (a) on the Execution Date which shall occur by and no later than November 10, 2008 and as part of the execution of the transactions which are the subject of the Petroleum Agreement and the Suny Agreement, Skylex shall assign and transfer to Petrochemicals all its undertakings and rights pursuant to the provisions of the First Letter of Undertaking in a manner whereby it shall not retain any rights in relation to the Company in accordance with the form of the deed of assignment attached as an annex to the Second Letter of Undertaking or any other form satisfactory to the Company; and (b) immediately after the Execution Date, Petroleum shall add its signature to the Second Letter of Undertaking, then the provisions stipulated below shall apply:

The validity of the First Letter of Undertaking shall expire, the First Control Agreement shall be null and the parties to the First Letter of Undertaking shall have no claims or pleas against each other in connection with the First Letter of Undertaking and the First Control Agreement.

Skylex shall be exempt and released from all its rights and undertakings pursuant to the First Letter of Undertaking and the First Control Agreement.

Petroleum shall be entitled to charge all the control core shares of ORL presently held by it and constituting 11.11% of the share capital of ORL (hereinafter "**the Present Core Shares**") to secure the payment of the series of debentures issued by Petrochemicals provided that when exercising the charge of the Present Core Shares, the trustee of the debentures shall be subject to the Company's right of first refusal.

If Petrochemicals and Petroleum obtain by and no later than May 10, 2009 all the permits required by law, including the permit for control of ORL, then an agreement in the form of the Second Control Agreement shall be signed by the Company and Petrochemicals and Petroleum.

If Petroleum sells all the Present Core Shares to a third party or if it sells the control of Petroleum to a third party and the Company does not exercise its right of first refusal and if the third party obtains all the permits required by law, including the permit for control of ORL, by and no later than May 10, 2009, then an agreement in the form of the Second Control Agreement shall be signed by the Company and the third party, mutatis mutandis.

The sale of the Present Core Shares and the sale of the direct control of Petroleum, all or in part, to a third party including by way of the exercise of charges, is subject to the Company's right of first refusal. In the event of the transfer of direct control of Petrochemicals or changes in the direct or indirect holdings of the controlling shareholders of Petrochemicals in a manner whereby David Federman and/or a relative on the one hand and Jacob Gottenshein and/or Alex Pesel on the other hand shall cease to be the holders of direct or indirect control of Petrochemicals (hereinafter "**the Sale of Direct or Indirect Control of Petrochemicals**"), then the Company shall have the right to purchase the Present Core Shares from Petroleum, to the extent that they constitute the main assets of Petrochemicals, i.e. if Petrochemicals does not have any other assets (other than the control core shares, cash and the cash value), the value of which according to the latest financial statements of Petrochemicals exceeds 200 million US Dollars. In consideration, payment will be made on the basis of the average closing prices of ORL shares on the Stock Exchange in the course of sixty (60) trading days prior to the date of the delivery of notice of transfer of control multiplied by the number of control core shares sold plus a 15% premium.

5. The form of the Second Control Agreement is similar in essence to the form of the First Control Agreement described in the Previous Report, including with regard to the call option described therein, subject to the amendments required by the fact that the agreement shall be signed, if and to the extent that the conditions stipulated for the signature are fulfilled, by the Company and Petrochemicals (as opposed to Skylex) and Petroleum, and in addition, inter alia, subject to the following amendments:

The Second Control Agreement shall not impose any undertakings on Skylex and shall not grant it any rights.

Upon the exercise of the charge of the Present Core Shares, the trustees of the debentures shall be subject solely to the Company's right of first refusal, and on this condition, they shall be entitled to sell the Present Core Shares, all or in part, to a third party who does not have a permit for control of ORL and this third party shall not become a party to the Second Control Agreement. The charge of additional shares of the control core of ORL (in addition to the Present Core Shares) shall be subject to the requirement that the exercise of the charge of the additional shares shall be carried out in a manner whereby at least 10% of ORL's share capital shall only be sold *en bloc* to a purchaser who has obtained a control permit and becomes a party to the Second Control Agreement.

The Sale of Direct or Indirect Control of Petrochemicals shall grant the Company the right to purchase from Petroleum the control core shares of ORL held by Petroleum at such time, to the extent that they constitute the main assets of Petrochemicals, i.e. Petrochemicals does not have other assets (other than the core control shares, cash and the cash value), the value of which according to the latest financial statements of Petrochemicals exceeds 200 million US Dollars, in consideration for the payment set forth in section 4.6 above.

Yours faithfully,  
Noga Yatziv.