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ISRAEL CORPORATION LIMITED

10th May, 2007

Securities Authority

Tel Aviv Stock Exchange

Dear Sirs,

Purchase of Shares of Oil Refineries

This Immediate Report is being filed further to previous Immediate Reports that the Company published relating to the binding Memorandum of Understanding (“**the Memorandum**”) dated 18th February 2007 between the Company and between Scailex (“**Scailex**”) and Petroleum Capital Holdings Ltd. (“**PCH**”), a company owned by Scailex, and relating to the purchase of shares in Oil Refineries Ltd. (“**Refineries**”) by the Company and by PCH, as follows:

1. As stated in the previous Immediate Reports, control and exercise of means of control in Refineries is subject to approval by the Prime Minister and by the Minister of Finance pursuant to the Government Corporations (Declaration of Interests in Oil Refineries Ltd. Crucial to the State) Order 2007 (“**the Ministers’ Approval**”) and agreement by the Antitrust Controller (“**the Controller’s Agreement**”) and together “**the Requisite Approvals**”). Since to date the Controller’s Agreement has been received but the process has not been completed because the Ministers’ Approval has not yet been received, and since the Company, Scailex and PCH are of the opinion that the best interest of Refineries necessitates control as quickly as possible and that the Company, which until February 2006 was a material shareholder of Refineries, is able to receive the Ministers’ Approval in a shorter period than the period in which PCH can receive such approval, the Company, Scailex and PCH have therefore agreed to revoke the Memorandum. Revocation of the Memorandum will enable the Company to submit a separate application for receipt of the Refineries Control permit.

2. Together with the revocation of the Memorandum, the Company has issued to Scailex and PCH an irrevocable undertaking (“**the Undertaking**”) the principles of which are detailed below, and PCH and Scailex have accepted such the Undertaking and have agreed to act in accordance therewith.

The following are the Principles of the Memorandum of Understanding

- 2.1 Should PCH and Scailex receive the Requisite Approvals inclusive of every approval or permit required by law not later than 15th May 2009 (“**the Determining Date**”), then in such event the Company will enter into an agreement with them for joint control of Refineries in accordance with the text agreed between the parties and the principles outlined in section 3 of this Immediate Report.
 - 2.2 Sale and transfer of shares of Refineries owned by PCH to a third party or sale of control of PCH by Scailex to a third party will confer upon the Company a right of first refusal to purchase all of the shares or the relevant securities of Refineries in accordance with the provisions of the Control Agreement.
 - 2.3 In the event that PCH should sell all of its shares in Refineries to a third party (and the Company does not exercise its right of first refusal), or should Scailex sell control of PCH to a third party, and should the third party receive all the Requisite Approvals not later than the Determining Date, then in such event the Company will enter into the Control Agreement with the third party and the third party will replace PCH and Scailex for all intents and purposes.
 - 2.4 Exercise of the Call Option (as provided in the Control Agreement – see paragraph 3.2 of this Immediate Report) may be made until the Determining Date or up to 120 days from receipt of the Requisite Approvals, whichever is the earlier.
 - 2.5 Together with the signature of the Memorandum, PCH signed an irrevocable authorization in accordance with which the Company may vote in the name and on behalf of PCH at general shareholders meetings of Refineries in respect of 100 million Refineries shares owned by PCH (“**the Authorization**”). The Authorization will expire at the time upon which the Control Agreement is executed or within six (6) months of signature of the Authorization, whichever is the earlier.
 - 2.6 Until signature of the Control Agreement, the Company will be entitled to exercise its control of Refineries (subject to receipt of the Ministers’ Approval) at its absolute discretion without limitation.
3. **Principles of the Control Agreement**

The following are the principles of the Control Agreement to be executed by the Company on the one part and by PCH and Scailex (together “the Scailex Group”) on the other part, upon receipt of the Requisite Approvals by the parties and which will enter into effect as from the date of signature -

- 3.1 Definition of Refineries Core of Control Shares – the core of control shares will constitute 50.2% of the issued paid up share capital of Refineries (“**the Control Core Shares**”). As of the time of this Immediate Report the Company owns 77.9% of the Control Core Shares and PCH owns 22.1% of the Control Core Shares. In addition to the Control Core Shares, as of the time of this Immediate Report the Company owns an additional 1.84% of the issued paid up share capital of Refineries and PCH owns an additional 1.51% of the issued paid up share capital of Refineries.
- 3.2 Call Option – in the frame of the Control Agreement, PCH will be granted a call option (“**the Call Option**”) to purchase and receive transfer from the Company of 230 million shares of Refineries (“**the Exercise Shares**”) in such manner that following exercise of the Call Option the internal ratio of holdings of the Control Core Shares in Refineries (that comprises 50.25% of the share capital of refineries) will be: the Company – 55%; PCH – 45%. The price of the Exercise Shares will be the cost price of the purchase of the Control Core Shares, namely NIS 3.3 per share plus linkage increments and linked interest at the rate of 5% per annum, calculated and paid half annually from the date of purchase less dividends distributed (if any) plus linkage increments to the Index and interest as aforesaid.
- 3.3 Block Period – the Agreement provides for a block period of 6 months starting from the date of signature of the Control Agreement during which no transfer of Control Core Shares will be permitted.
- 3.4 Right of First Refusal –
 - 3.4.1 Scailex Group will confer upon the Company a right of first refusal to purchase and receive transfer of all of the Control Core Shares offered for sale by Scailex Group to a third party starting from the date of signature of the Control Agreement onwards, and the Company will confer such a right upon Scailex Group as from the date of exercise of the Call Option. The right of first refusal will apply with certain changes also in the event of realization of a charge (if any) on the Control Core Shares by the owner of the charge on such shares.
 - 3.4.2 Transfer of control of PCH and Scailex (subject to various conditions) will be deemed as grounds for exercise of the right of first refusal of the Company, and in the case of change of control of PCH the Company will have the right to purchase all of the

securities that are the subject of the transaction of change of control of PCH, and in the case of change of control of Scailex or of a corporation that controls Scailex (other than Israel Petrochemical Industries Ltd. and its subsidiaries) the Company will have the right to purchase from PCH the shares in Refineries at the average market price during the 60 days preceding the notice of sale plus a premium of 15%.

- 3.4.3 It should be noted that a party to the Control Agreement may sell and/or transfer all of the Control Core Shares owned by it at such time – but not part thereof only.
- 3.5 Tag-along – each party shall have the right to tag along the sale of Control Core Shares by the other party, provided that the right of first refusal has not been exercised. The tag-along right of the Company will come into force only from such time as PCH has duly exercised the Call Option.
- 3.6 Buy Me Buy You – each party to the Agreement may exercise a BMBY right in respect of the Control Core Shares (starting from the end of the Block Period) in accordance with which the party may offer the other party to purchase all of the Control Core Shares owned by such party at a price specified in the offer or to sell to the other party all of the Control Core Shares owned by it at such price.
- 3.7 Appointment of Directors – The parties to the Control Agreement will undertake to exercise their voting rights at general meetings of Refineries for the election or appointment of members of the Board of Directors of Refineries, in the following manner:-
- 3.7.1 For so long as the Call Option has not been exercised, the Board of Refineries will comprise of 9 members (inclusive of 2 external directors) of whom the Company will nominate 5 directors, PCH will nominate 2 directors and the identity of the two external directors will be by agreement between the parties.
- 3.7.2 As from the time of exercise of the Call Option the Board of Refineries will comprise of 11 members (inclusive of 2 external directors) of whom the Company will nominate 5 directors and appointment of one external director, and PCH will nominate 4 directors and appointment of one external director.
- 3.8 Voting on Certain Matters – The Control Agreement specifies that if certain matters are brought for decision by a general meeting of shareholders of Refineries, the parties will agree in advance the manner in which they will vote on such matters, and in the absence of agreement the manner of their vote will be determined by an agreed adjudicator. It is also specified that the

parties will take steps for amendment of the Articles of Association of Refineries so as to provide that decision of those agreed matters that are in the authority of the Board of Refineries shall be transferred for decision by a general meeting of the shareholders of Refineries or that the decision thereon shall require a special majority of 75% of the directors present.

- 3.9 Dividend Policy – The parties to the Control agreement shall, subject to any provision of law, act in such manner that Refineries and its subsidiaries adopt a dividend policy in accordance with which at least 75% of the annual profit available for distribution shall be distributed annually.
- 3.10 Period of the Agreement – The Control Agreement shall come into force on the date of signature and shall expire (a) in accordance with the terms thereof, or (b) from such time as a party ceases to own at least 10% of the issued paid up share capital of Refineries, whichever is the earlier.
- 3.11 Additional Provisions – The Agreement contains additional provisions that are usual in agreements of this kind, including clauses of confidentiality, remedies, non-waiver of rights, arbitration, jurisdiction etc.
- 3.12 Guaranty by Scailex – Scailex guaranties all of the liabilities of PCH in accordance with Control Agreement.

Yours faithfully,

Noga Yatziv