

This is an English translation from the original Hebrew version. In case of any discrepancy, the binding version is the Hebrew original.

ISRAEL CORPORATION LIMITED

22nd September, 2005

Securities Authority

Tel Aviv Stock Exchange Ltd.

Dear Sirs,

Immediate Report

Further to the Immediate Report dated 2nd June 2005 and to previous Immediate Reports regarding to Oil Refineries Ltd. (“**ORL**”), notice is hereby given that the Company today sent a letter to the Government of the State of Israel (by means of the Ministry of Finance) relating to the matter of Refineries, the main points of which are as follows:

1. On 2nd December 2002 in reliance of the work of an Inter-ministerial Committee and based upon the principles agreed upon on 25th November 2002 by the Social and Economic Affairs Ministers’ Committee as well as by the Government, an agreement was entered into between the Government and Refineries (“**the Refineries Agreement**”), to which there was attached as Appendix 3 an agreement entered into between the Government and the Company (“**the Company Agreement**”). It is the view of the Company that the Government has **not** fulfilled its obligations pursuant either to the Refineries Agreement or to the Company Agreement.
2. During the intervening period, The Movement for Quality Government in Israel submitted a Petition to the High Court of Justice, in which the Movement petitioned, *inter alia*, for the revocation of the Refineries Agreement and the Company Agreement (“**the Petition**”). In the opinion of the Company, the State, instead of defending the Refineries Agreement and the Company Agreement, chose in the frame of the Petition to reopen the issue. On the basis of the recommendations of a new Inter-ministerial Committee, which recommendations were approved by an additional decision of the Social and Economic Affairs Ministers’ Committee, lengthy negotiations were conducted between the State and the Company during which the Company was compelled to give in to a “Governmental Dictate”, and notwithstanding its misgivings, the Company agreed to amend the Company Agreement and the parties reached the stage of an agreed final version for such new agreement (“**The**

Second Agreement”). Despite the aforesaid, the Second Agreement was not entered into due to further “second thoughts” on the part of the State.

3. In view of the retraction by the State of its readiness to enter into the Second Agreement, the Company had no option but to enter into further negotiations in which new principles were discussed for a new agreement between the State and the Company (“**the Third Agreement**”). The parties started to draft the Third Agreement on the basis of the principles discussed, and at the same time the Company was informed that the State had started to take steps for obtaining all of the approvals and permits that the State regarded as necessary for signature of the Third Agreement; however until now, notwithstanding the lengthy period that has elapsed, such approvals have not been received and as a result the Third Agreement (in which several matters have not yet been finalized) has not been entered into and is not binding.

4. In view, *inter alia*, of this position, on 21st September 2005 Board of Directors of the Company considered the matter exhaustively, including the turnarounds of the State and the manner in which the State’s representatives conducted the negotiations relating to carrying out the decisions of the State itself, as well as the interests of the Company and its shareholders; and the Board of Directors decided that: (A) there is no point in the continuation of negotiations between the Company and the State; (B) the Company does not regard itself as being obligated to sell its shares in Refineries to the State; (C) in view of the contentions and the criticism raised with regard to the rights of the Company in Refineries (and consequently to the rights of Refineries), and in view of the public repercussions involved, the standpoint of the Company is that it would be proper and correct that future decision on the matter should be referred for determination by a legal forum of competent jurisdiction; and (D) the Company wishes to make clear that, as a shareholder in Refineries, it will not place any obstacle in the way of privatization proceedings instituted by the Government and will assist to the best of its ability in the development and success of Refineries.

Yours faithfully,

Noga Yatziv