

The Government's sale of the Haifa refineries (Collected from newspaper reports 1n 2007-9)

Oil Refineries was privatized in early 2007. Israel Corporation, controlled by Sammy and Idan Ofer, had bought a 36.8% interest in the company, and PCH, a wholly owned subsidiary of Petrochemicals, had bought 9.2% in January 2007, paying NIS 2.43 billion together. Because of the state's objection to PCH being part of the controlling group, it entered into an options

agreement with Israel Corporation.
Now, as said, the obstacles are being overcome.

% of Haifa Oil Refineries in January 2007 from the state, for NIS 795 million.

A second part of the deal was the sale by Petrochemicals of its 50% stake in Carmel olefins to the Haifa Oil Refineries.

Oil Refineries already owned 50% of Carmel Olefins, and will buy the other 50%. Petrochemicals, which owns 15.6% of Oil Refineries,

would thus be increasing its stake to 33%. The deal will be done through a stock swap. Oil Refineries (also known as Bazan) will allocate 516 million shares to Petrochemicals, comprising 20.5% of Oil Refineries' stock after the allocation.

Also, Oil Refineries will sell 3.7 million Petrochemicals shares back to Petrochemicals for \$40 million. The stock comprises 12.3% of Petrochemicals' share capital.

The deal brings Oil Refineries,

which consists mainly of the Haifa oil refinery,
full control over Carmel Olefins.

In a sense, the deal between Oil Refineries and Petrochemicals closes a circle.

Ilan Ben-Dov's company Suny will buy a 50% controlling interest in Scailex (the remains of Scitex) from Petrochemicals.

Scailex owns 15.76% of Oil Refineries, through its subsidiary PCH.

Those shares will pass to Petrochemicals, leaving Suny with Scailex minus its Oil Refineries shares. Scailex will then consist of nothing but a stock market shell except for a giant kitty with NIS 430 million, plus whatever it gets for selling the Oil Refineries shares.

Despite that acquisition, the Government Companies Authority would not approve PCH's inclusion into Oil Refineries' group of

controlling shareholders - both due to the partial ownership of PCH by Glencore, the largest commodities trading company in the world (. Glencore had owned a 19% stake in PCH, a fully owned subsidiary of Petrochemical Enterprises that had been slated to take part in the Oil Refineries acquisition.) , and Nevzlin's indirect ownership, via Petrochemicals.

Petrochemical Enterprises solved the first hurdle by buying Glencore's shares in PCH for \$57.2 million in March 2008.

The Government Companies Authority made an merger contingent on Nevzlin's company Alder selling its shares in Modgal. The main obstacle had been businessman Leonid Nevzlin's participation in Petrochemical Enterprises' management. But as the Government Companies Authority has confirmed, no legal impediment exists to Petrochemical Enterprises gaining a controlling interest in Oil Refineries as long as Alder, the group controlled by

Nevzlin, exits the group controlling Petrochemical Enterprises.

The Authority has ruled that Petrochemical Enterprises may buy a controlling interest in Oil Refineries only if the Alder group's holding in Petrochemical Enterprises is less than 5%.

Nevzlin owns (71%) Menatep, which owns 26.8% of Modgal via Menatep's holding in Alder.

The deal for the purchase of Nevzlin's Modgal shares includes Petrochemicals' purchase of Alder

Finance, another Nevzlin asset. Alder Finance's main asset is a \$115-million loan extended to Modgal for the purchase of the controlling stake in Petrochemicals.

Petrochemical is controlled by engineering company Modgal. To remove the impediment, Modgal planned to buy out Alder's 25% stake in Modgal itself, and to acquire the subsidiary Alder Finance.

Alder Finance's main asset is a loan it extended to Modgal to acquire a

controlling interest in Petrochemical Enterprises. The deal will also involve Modgal giving Alder an option to buy up to 12% of Petrochemical Enterprises.

Modgal will also receive an option to sell 14.75% of Petrochemical Enterprises, a stake worth about NIS 100 million based on Petrochemical's current market capitalization on the Tel Aviv Stock Exchange.

Modgal will be entitled to cancel the options, in which case the Alder

group would receive Modgal shares instead of shares in Petrochemical Enterprises, but fewer than it holds today. The upshot of the deal is that Alder will cease to be part of the group controlling Modgal and will become a financial (not strategic) investor in Petrochemical Enterprises.

When the whole transaction pans out, Modgal will be held jointly by David Federman (50%) and Gima Investments (50%), which is an equal partnership between Jacob

Gottenstein and Alex Passal. Modgal gave Menatep an option to buy out Alder by 2015, and an option to buy Modgal's 10.7% stake in Petrochemicals. Menatep will only be able to exercise these options if doing so will not affect the legal status of Petrochemicals' controlling stake in Oil Refineries.

Petrochemicals announced that all the terms for obtaining approval of the agreements with Suny and Scailex

had been met and that execution could be expected shortly.

When the deal is complete, Petrochemical Enterprises will own 35% of Oil Refineries.

The Israel Corporation does and will own 45.08% of Oil Refineries.

In May 2009 the government companies regulator approved the deal.

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