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Israel Corp. Ltd

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Vice President
General Counsel and Company Secretary

November 27th, 2012

To:

The Israeli Securities Authority
Via the magna system

The Tel Aviv Stock Exchange Ltd.
Via The Magna System

Dear Sirs,

Re: Israel Corporation Ltd. (hereinafter: the "Company") – Immediate Report in Accordance with the Securities Regulations (Private Offering of Securities in a Listed Company), 5760-2000 (hereinafter: the "Private Offering Regulations") And the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (hereinafter: the "Reporting Regulations")

A. **Introduction**

1. Further to the discussions and approvals of the Compensation Committee held on November 20, 2012 and November 22, 2012¹, and of the Company's Audit Committee held on November 22, 2012 and November 26, 2012, in the matter of the compensation of the Company's senior officers, the Board of Directors of the Company approved, on November 26, 2012, the adoption of a stock option plan (hereinafter: the "**2012 Option Plan**") and also the private allocation of options convertible into shares of the Company, pursuant to the 2012 Option Plan, to the following senior officers of the Company: (a) the chairman of the Board of Directors of the Company, Mr. Amir Elstein – 35,000 option warrants for the purchase of shares of the Company; (b) the CEO of the company, Mr. Nir Gilad – 35,000 option warrants for the purchase of shares of the Company; (c) the CFO of the company, Mr. Avisar Paz – 18,800 option warrants for the purchase of shares of

¹ On November 18, 2012, the Board of Directors of the Company approved the composition of the Company's Compensation Committee in such a manner that effective from the said date, the members of the Compensation Committee are the Messrs. Ofer Termechi (outside director and Chairman of the Committee), Gideon Langholz (outside director) and Michael Bricker (independent director). This composition is consistent with the composition of the Compensation Committee as shall be required pursuant to Amendment 20 of the Companies Law, 5759 – 1999, upon its coming into effect.

the Company; (d) up to 15 employees, including officers and employees who are not officers – 44,160 option warrants for the purchase of shares of the Company.²

2. In addition, on November 26, 2012, the Board of Directors of the Company approved – after the approval and recommendation of the Compensation Committee and the approval of the Audit Committee – the extension of the term in office of the chairman of the Board of Directors and of the CEO of the Company³, the updating of the terms of office of the chairman of the Board of Directors of the Company, Mr. Amir Elstein, as set forth in section (b) below (hereinafter: the "**Updating of the Terms of Office of the Chairman**"), the terms of office of the CEO of the company, Mr. Nir Gilad, as set forth in section (c) of this Report (hereinafter: the "**Updating of the Terms of Office of the CEO**"), and also the terms of office of additional officers of the Company, as stated in section 21 of this Report.
3. The terms of office and employment of Mr. Amir Elstein, including his participation in the 2012 Option Plan, as specified in this Report, are subject to the approval of the general meeting which shall be convened in a separate report.

B. Updating of the Employment Agreement of the Chairman of the Board of Directors

4. On September 16, 2010, the Company's general meeting approved its engagement in an agreement with Mr. Amir Elstein, in connection with the terms of his office as the chairman of the Board of Directors of the Company (hereinafter: the "**Current Employment Agreement of the Chairman of the Board of Directors**"). In accordance with the Current Employment Agreement of the Chairman of the Board of Directors, the term of office of the chairman of the Board of Directors is for three years, up until June 30, 2013. For further details regarding the current terms of employment of the chairman of the Board of Directors, see the Company's reports dated August 31, 2010, September 13, 2010 and September 29, 2010 (Reference

² In addition, a decision was made regarding an amount of 8,000 option warrants under the said Plan, as a reserve.

³ The extension of the term in office of the chairman of the Board of Directors and of the Company's CEO was also recommended by the Company's Appointments Committee, at its meeting held on November 20, 2012.

Nos., respectively: 2010-01-606444, 2010-01-619053 and 2010-01-626433) which are included herein by way of reference, and also the details regarding Article 21 in Chapter D of the Company's Periodic Report for 2011, dated March 29, 2012 (Reference No.: 2012-01-084666), which is included herein by way of reference.

5. On November 26, 2012, the Board of Directors of the Company approved, further to the discussions and approval of the Compensation Committee and the Audit Committee of the Company, held on November 20, 2012, November 22, 2012 and November 26, 2012, updates to the Current Employment Agreement of the Chairman of the Board of Directors. Below are the main points of the update to the terms of office of the chairman of the Board of Directors:

- 5.1 The Period of Engagement: the period of engagement with the chairman of the Board of Directors shall be extended for a specified period of three additional years, from the date of termination of the Current Employment Agreement of the Chairman of the Board of Directors (i.e., effective from July 1, 2013) (hereinafter: the "**Specified Period**").

- 5.2 Advance Notice Period and Adjustment Period: in any event of the termination of the office of the chairman of the Board of Directors, except under certain circumstances in which it is determined in the agreement that severance pay may be denied, he shall be entitled to an advance notice period of six months and to an adjustment period of six months, and the Board of Directors of the Company shall be entitled to extend the adjustment period in its sole discretion.⁴

- 5.3 Severance Pay: in any event of the termination of the employment of the chairman of the Board of Directors, for any reason, except under certain circumstances in which it is determined in the agreement that severance pay may be denied, the chairman of the Board of Directors shall be entitled to

⁴ In accordance with the Current Employment Agreement of the Chairman of the Board of Directors, in the event of termination of the engagement at the Company's initiative, prior to the expiration of the Specified Period (as defined in the Current Employment Agreement), the chairman of the Board of Directors is entitled to an advance notice period and to an adjustment period of six months each. In the event of termination of the engagement prior to the expiration of the said Specified Period at the initiative of the chairman of the Board of Directors, the chairman of the Board of Directors shall be entitled to six months of adjustment only.

additional severance pay at a rate of 100% (in addition to the severance pay prescribed in the law). In addition, the Board of Directors of the Company shall consider the grant of an additional retirement bonus to the chairman of the Board of Directors, and the rate thereof, in accordance with such circumstances as it shall deem fit to take into account and in its sole discretion.⁵

5.4 Annual Bonus: the chairman of the Board of Directors shall be entitled to an annual bonus whose amount shall be determined, subject to any law, pursuant to the Company's compensation policy as shall apply with regard to the year in respect of which the bonus is granted, including the proportionate part of the bonus for the year in which his term in office came to an end.⁶ For details in connection with the Company's bonus policy, see section 8.3 of the Company's prospectus, bearing the date May 30, 2012 (Reference: 2012-01-139776) (hereinafter: the "**Prospectus**").

5.5 Early Vesting of Options: as part of the updating of the terms of the employment of the chairman of the Board of Directors, it was determined that in the event of the termination of office of the chairman of the Board of Directors at the Company's initiative, the chairman of the Board of Directors shall be entitled to the early vesting of options which were and/or shall be granted to him by the Company, as set forth below:⁷ (a) in the event where the notice regarding the termination of the employment of the chairman of the Board of Directors shall be given by the end of the first year of the Specified Period (i.e., by June 30, 2014) – the chairman of the Board of Directors shall be entitled to the early vesting or to the vesting on time (as the case may be) of the first tranche only: (b) in the event where the notice

⁵ The term of office of the chairman of the Board of Directors is from July 1, 2010 (i.e., he has been serving in his position for about two years and five months). It shall be noted that in accordance with the Current Employment Agreement with the Chairman of the Board of Directors, the chairman of the Board of Directors is entitled to the payment of severance pay at a rate of 200% (including provisions made by the Company) in the event that the retirement is not at the initiative of the chairman of the Board of Directors; and at a rate of 100% (including provisions made by the Company) in the event where the retirement is at the initiative of the chairman of the Board of Directors (however, the Board of Directors of the Company is authorized to increase same up to a rate of 200%).

⁶ Pursuant to his current employment agreement, both the entitlement of the chairman of the Board of Directors to a bonus and the rate of the bonus are in the absolute discretion of the Board of Directors.

regarding the termination of the employment of the chairman of the Board of Directors shall be given during the second or third year of the Specified Period – the chairman of the Board of Directors shall be entitled to the early vesting or to the vesting on time (as the case may be) of the second and third tranche; (c) in the event where the office of the chairman of the Board of Directors is terminated during the Specified Period following a change of control in the Company,⁸ the chairman of the Board of Directors shall be entitled to the immediate vesting of all the options granted to him by that time.

Notwithstanding the foregoing, with regard to the 2012 Option Plan, the early vesting as aforesaid in paragraphs (a) and (c) above shall not apply in the event where the occurrence entitling the holder of the options to the early vesting thereof took place prior to June 1, 2013.

The exercise period in the events specified in subsections (a) to (c) above shall be (subject to the limitations pursuant to the provisions of section 102 of the Income Tax Ordinance) commencing from the last day of the advance notice period (hereinafter, in this section: the "**Effective Date**") or commencing from the expiration of the lock-up period by virtue of section 102 of the Income Tax Ordinance (whichever is the later of the two dates) and up to the expiration of a period of 180 days.

It shall be clarified that in the rest of the terms of office of the chairman of the Board of Directors (including salary, expenses, social terms, etc.) – there has been no change. For further details regarding the current terms of office and employment of the chairman of the Board of Directors, see the Company's reports as specified above.

The Updating of the Terms of Office of the Chairman of the Board of Directors and the allocation of the options to the chairman in accordance with the 2012 Option

⁷ This is similar to the provisions determined with regard to the Company's CEO.

⁸ These provisions apply in the event where following a change of control in the Company, the chairman of the Board of Directors shall be requested to terminate his office during the Specified Period, and consequently, he shall terminate his office within a period of six months from the date of the change of the control, as aforesaid. For this purpose, "control" is as defined in the Securities Law, 5728-1968, including the ability to appoint the majority of the members of the Board of Directors.

Plan are subject, as aforesaid, to the approval of the general meeting of the shareholders of the Company, which shall be convened in a separate report. For details of the Audit Committee's and the Board of Directors' reasons regarding the Updating of the Terms of Office of the Chairman of the Board of Directors, see section 3 of this Report.

For details regarding the compensation of the chairman of the Board of Directors pursuant to the Sixth Schedule of the Reporting Regulations, see section 22 of the Report.

C. Updating of the Employment Agreement of the Company's CEO

6. On December 14, 2010, the Board of Directors of the Company approved the Company's engagement in an agreement with Mr. Nir Gilad, in connection with the terms of his office as the CEO of the Company (hereinafter: the "**Current Employment Agreement of the Company's CEO**"). In accordance with the Current Employment Agreement of the Company's CEO, his term of office is for three years, up until December 31, 2013. For further details regarding the current terms of office and employment of the Company's CEO, see the Company's report dated December 15, 2010 (Reference No.: 2010-01-718788), and also the details regarding Article 21 in Chapter D of the Company's Periodic Report for 2011, dated March 29, 2012 (Reference No.: 2012-01-084666), which are included herein by way of reference.

7. On November 26, 2012, the Board of Directors of the Company approved, further to the approvals and recommendations of the Company's Compensation Committee and the Audit Committee, held on November 20, 2012, November 22, 2012 and November 26, 2012, updates to the Current Employment Agreement of the Company's CEO. Below are the main updates that were approved for the Current Employment Agreement of the Company's CEO:

- 7.1 The Period of Engagement: the period of engagement with the Company's CEO shall be extended for a period of three years, commencing from July 1, 2013.⁹
- 7.2 Annual Bonus: the Company's CEO shall be entitled to an annual bonus whose amount shall be determined, subject to any law, pursuant to the Company's compensation policy as shall apply with regard to the year in which the bonus is granted, including the proportionate part of the bonus for the year in which his term in office came to an end.¹⁰
- 7.3 Advance Notice Period and Adjustment Period: in any event of the termination of the office of the Company's CEO, except under certain circumstances in which it is determined in the agreement that severance pay may be denied, he shall be entitled to an advance notice period of six months and to an adjustment period of six months.¹¹
- 7.4 Early Vesting of Options: the early vesting mechanism set forth in the Current Employment Agreement of the Company's CEO shall apply in respect of all the options which have been and/or shall be granted to the CEO,¹² and in the event where the notice regarding the termination of the employment of the Company's CEO shall be given by the end of the first year of the Specified Period – the Company's CEO shall be entitled to the

⁹ Pursuant to the Current Employment Agreement of the Company's CEO, the specified period of his employment terminates on December 31, 2013.

¹⁰ Pursuant to the Current Employment Agreement of the Company's CEO, after the expiration of each calendar year, the Company's institutions shall discuss the CEO's entitlement to a bonus in respect of the performances of the preceding year, and the rate of the said bonus, which shall be determined in accordance with the Company's remuneration policy as applicable in respect of the said year, and in the event of the termination of office during the period specified therein (i.e., prior to December 31, 2013), the CEO shall be entitled to a proportionate bonus in respect of the period during which he continued to perform his duties during the advance notice period in the year in which his term in office came to an end.

¹¹ In accordance with the Current Employment Agreement of the Company's CEO, in the event of termination of the employment at the expiration of the period specified therein, the CEO shall be entitled to an adjustment period as defined in the Agreement.

¹² The early vesting mechanism in the Current Employment Agreement with the Company's CEO applies in respect of the Company's 2010 Option Plan.

early vesting or to the vesting on time (as the case may be) of the first tranche¹³.

Notwithstanding the foregoing, with regard to the 2012 Option Plan, the early vesting as aforesaid in this section 7.4 above, as set forth in the Current Employment Agreement of the Company's CEO, shall not apply in the event where the occurrence entitling the holder of the options to the early vesting thereof took place prior to June 1, 2013.

It shall be clarified that in the rest of the terms of office of the Company's CEO (including salary, expenses, social terms, etc.) – there has been no change. For further details regarding the current terms of office and employment of the Company's CEO, see the Company's reports as specified above.

For details regarding the compensation of the Company's CEO pursuant to the Sixth Schedule of the Reporting Regulations, see section 22 of the Report.

D. Considerations and Reasons for the Updating of the Terms of Office of the Chairman of the Board of Directors and of the Company's CEO

As part of the processes for examining the compensation of the Company's officers, which have been conducted at the Company during 2012, and also as part of the meetings as stated above, at which it was decided to update the agreements for the term in office and the allocation of the options, examinations were conducted and discussions were held regarding the terms of office and employment of each one of the Company's officers (including the chairman of the Board of Directors and the CEO of the Company), the total compensation to each of them, the manner of his compliance with the requirements of his position and his contribution to the advancement of the Company's objectives and its strategic plan, with a long-term perspective, whilst taking into account the size of the Company and the complexity of its business. In addition, for this purpose, comparative background material

¹³ The reasons for the early vesting as contained in the Current Employment Agreement with the Company's CEO are set forth in section 5.5 above with regard to the updates proposed in the terms of employment of the chairman of the Board of Directors.

prepared by external consultants was presented regarding the compensation for the officers.

The Company's Compensation Committee, Audit Committee and Board of Directors discussed the issues brought for their approval, as specified in this Report, *inter alia*, in light of the fact that the Current Employment Agreement of the Chairman of the Board of Directors terminates in June 2013, and taking into consideration the six months' advance notice period. The Company's Compensation Committee, Audit Committee and Board of Directors requested to hold a comprehensive discussion of the extension of the term in office of the chairman of the Board of Directors and of the Company's CEO, and in addition, to update certain provisions in the terms of employment of the chairman of the Board of Directors and of the Company's CEO (which do not pertain to their salaries). Whilst taking into consideration the overall outlook of the said organs as regards the entirety of the compensation components of each of the officers, the said updates to the terms of employment were discussed and approved, alongside the adoption of the option plan, and this was whilst also taking into consideration the business challenges facing the Company. The directors also paid heed to the desire to guarantee, for the Company's benefit, appropriate terms of employment and compensation which, in the opinion of the Board of Directors, serve the purposes of the Company and of all of its shareholders, whilst also taking into consideration the fact that Amendment No. 20 to the Companies Law, and the approval processes required thereunder,¹⁴ is expected to come into effect.

Taking into consideration the great esteem held by the members of the Board of Directors for the activities, skills and experience of the chairman of the Board of Directors and of the Company's CEO, for their extensive contribution to the Company and to its shareholders, and also taking into consideration the aspiration to guarantee the continued term in office of the chairman of the Board of Directors and of the Company's CEO, and their contribution to the Company and to its shareholders, the Company's Compensation Committee, Audit Committee, and Board of Directors believe that the said updates to the employment agreements of

the chairman of the Board of Directors and the Company's CEO are reasonable, given the circumstances of the matter, and are consistent with the Company's purposes, from the long-term perspective:

- (1) Taking into consideration the Specified Period of office, of three years, of the chairman of the Board of Directors and of the Company's CEO, and in light of the experience acquired during their term in office, and taking into consideration the nature of the Company, its objectives and the nature of the assignments imposed on its management, the Company's Appointments Committee, Compensation Committee, Audit Committee and Board of Directors have found that it would be in the Company's best interests to proceed with the outline of the employment for an additional specified period of three years, whilst extending their term in office with the aim of preserving the continued term in office and the continued contribution of the chairman of the Board of Directors and of the Company's CEO (the extension of the term in office of the CEO is actually for two and a half years).
- (2) The updating of the terms of employment of the chairman of the Board of Directors and the Company's CEO shall not give rise to any material change in the Company's liabilities pursuant to the existing agreements.
- (3) Taking into consideration the willingness of the chairman of the Board of Directors and the Company's CEO to continue to serve in their positions, and taking into consideration the Company's aspiration to preserve the continued term in office and the continued contribution of the chairman of the Board of Directors and the Company's CEO, the Company's Compensation Committee, Audit Committee, and Board of Directors believe that certain provisions in the employment agreements of the chairman of the Board of Directors and the Company's CEO should be updated.

¹⁴ Needless to say, without derogating from the foregoing, upon the taking of effect of Amendment No. 20 to the Companies Law, 5759-1999, the Company shall act pursuant to the provisions of the Amendment.

Taking into account the considerations and reasons as set forth above, and whilst looking at the overall compensation structure for the Company's officers, the members of the Company's Compensation Committee, Audit Committee, and Board of Directors are of the opinion that the updating of the terms of office of the chairman of the Board of Directors of the Company and the Company's CEO is appropriate and reasonable, and advances the Company's best interests.

For further details regarding the considerations of the Company's Compensation Committee, Audit Committee, and Board of Directors with regard to the 2012 Option Plan, including the allocation of options to the chairman of the Board of Directors and the Company's CEO thereunder, see section 24 of this Report.

E. **Significant Private Offering to the Chairman of the Board of Directors and the Company's CEO, and a Private Offering Which is not Significant to Senior Officers**

8. **General**

8.1 The allocations which are the subject of this Report to the chairman of the Board of Directors and the Company's CEO may be deemed to be a "significant private offering"; the allocations which are the subject of this Report to offerees who are not the chairman of the Board of Directors or the Company's CEO are not deemed to be a "significant private offering" or an "exceptional private offering"; as these terms are defined in Regulation No. 1 of the Private Offering Regulations.

8.2 The Offerees do not include any employees who are interested parties in the Company by virtue of their holdings in the Company's shares, with the exception of the Company's CEO and the chairman of the Board of Directors who are interested parties who hold and/or shall hold, as the case may be, securities of the Company at a rate which is less than 5% of the Company's share capital.

8.3 All of the underlying shares allocated in accordance with this Report shall be fully paid-up shares.

- 8.4 All of the underlying shares allocated in accordance with this Report shall be registered in the name of the nominee company.
- 8.5 It is clarified that the option warrants allocated to the Offerees shall not be listed for trading on the Stock Exchange.
- 8.6 The option warrants shall be allocated to the Offerees, insofar as possible, in accordance with the provisions of section 102(b)(2) of the Income Tax Ordinance (New Version), 5721-1961, in the capital gains track, through a trustee.
- 8.7 The purpose of the grant of the options under the Option Plan, as determined by the Board of Directors, is to provide an incentive for the continued long-term employment of skilled and talented managers at the Company, and also to provide an incentive for the Offerees under the Plan to continue to contribute to the Company and to the Company's success in the future, by way of capital compensation which ties the officers' compensation to the creation of value for the shareholders of the Company, and whose economic value is related to the Company's long-term business results, and to the price of the Company's share on the Tel Aviv Stock Exchange Ltd. (hereinafter: the "**Stock Exchange**"), thus advancing the Company's best interests and maximizing its long-term profits. The Option Plan comes on the heels of previous incentive plans of the Company, and it guarantees the continuity of providing incentives for the senior members of the Company whom the Company wishes to incentivize and to retain. The grant of the options under the Option Plan is intended to provide a suitable incentive to the Offerees, in order to guarantee their continued employment with the Company, whilst taking into consideration the Company's wage policy, the position of each Offeree, his/her status, his/her abilities and his/her contribution to the Company, thus giving rise to the advancement of the Company's development and business.

9. **Identity of the Offerees**

As aforesaid, the option warrants which are the subject of this Report shall be allocated to the Company's officers (who are employed by a subsidiary of the Company, H.L. Management and Consulting (1986) Ltd.), as set forth below:

- 9.1 The chairman of the Board of Directors of the company, Mr. Amir Elstein (hereinafter: "**Offeree No. 1**").
- 9.2 The CEO of the Company, Mr. Nir Gilad (hereinafter: "**Offeree No. 2**").
- 9.3 The CFO of the Company, Mr. Avisar Paz (hereinafter: "**Offeree No. 3**").
- 9.4 Up to 15 employees, including officers and also senior employees who are not directors, interested parties or officers of the Company (hereinafter: the "**Additional Offerees**").

Offerees Nos. 1, 2 and 3 and the Additional Offerees shall hereinafter and hereinabove be collectively referred to as: the "**Offerees**"; and each one of them shall be referred to as the "**Offeree**".

10. **The Securities Being Offered**

Subject to receipt of the approvals specified in section 17 below, as the case may be, 132,960 (non-tradable) option warrants shall be allocated, which may be converted into up to 132,960 ordinary shares having a par value of NIS 1.00 of the Company, which constitute (assuming the issue thereof) approximately 1.7% of the Company's issued and paid-up share capital.

In accordance with the resolution of the Board of Directors of the Company, and subject to the approval of the general meeting with regard to Offeree No. 1, the option warrants as set forth below shall be allocated:

The Offeree	Position	No. of Option Warrants	Rate of holding in % , assuming full exercise of the options ¹⁵		Rate of holding in % , in full dilution (assuming full exercise of the options) ¹⁶	
Amir Elstein	Chairman of the Board of Directors	35,000	0.45	0.45	0.60	0.60
Nir Gilad	CEO	35,000	0.45	0.45	0.63	0.64
Avisar Paz	CFO	18,800	0.24	0.24	0.42	0.42
Up to 15 Additional Offerees	Officers and employees who are not officers	44,160	0.56	0.57	0.56	0.56

11. Terms of the Issued Securities

As aforesaid, the option warrants being offered to the Offerees are non-tradable option warrants, where, pursuant to each one of them, the Offeree shall be entitled to purchase from the Company one ordinary share having a par value of NIS 1.00 of the Company, upon such terms as set forth below (hereinafter: the "**Option Warrants**").

11.1 The Terms of the Option Warrants – Distribution into Tranches, Exercise Price, Exercise Periods, Non-Tradability and Non-Transferability

11.1.1 Entitlement to Receive the Option Warrants

The entitlement of each one of the Offerees to receive the option warrants currently being granted shall be accrued in three tranches:

11.1.1.1 On June 1, 2014, the Offerees' entitlement shall have accrued to receive one third of the total

¹⁵ The subject of this plan only.

¹⁶ The rate of the holdings described in the table is assuming the fact of the full exercise of the option warrants (including the options which are the subject of this plan, and the options which were granted in 2010, and whose exercise date has not yet expired). This assumption is theoretical only, because in actual fact, at the time of the exercise of the option warrants, the full shares arising therefrom will not have been allocated to the Offeree/s, but only shares in such quantity as reflects the financial bonus amount factored in the option warrants, that is to say, the difference between the rate of an ordinary share of the Company on the exercise date and the exercise price of the option (see section 11.4 below).

amount of the option warrants (hereinafter: the "**First Tranche**");

11.1.1.2 On June 1, 2015, the Offerees' entitlement shall have accrued to receive an additional third of the total amount of the option warrants (hereinafter: the "**Second Tranche**");

11.1.1.3 On June 1, 2016, the Offerees' entitlement shall have accrued to receive an additional third of the total amount of the option warrants (hereinafter: the "**Third Tranche**").

11.1.2 The Exercise Price

The exercise price of each option warrant shall be equal to an amount of NIS 2,500 per share. The exercise price has been determined based on the closing rate of the Company's share on the Stock Exchange on the date of approval, by the Board of Directors, of the allocations which are the subject of this Report, that is to say, the closing rate determined on November 26, 2012. The exercise price shall be linked to the Consumer Price Index known on November 26, 2012, and up to the exercise date.

11.1.3 The Exercise Periods of the Option Warrants

11.1.3.1 The option warrants included in the First Tranche shall be convertible (subject to the terms of the Plan) commencing from June 1, 2014, and up until November 25, 2015;

11.1.3.2 The option warrants included in the Second Tranche shall be convertible (subject to the terms of the Plan) commencing from June 1, 2015, and up until May 25, 2016;

11.1.3.3 The option warrants included in the Third Tranche shall be convertible (subject to the terms of the Plan) commencing from June 1, 2016, and up until May 25, 2017;

It is clarified that at the expiration of each exercise period as aforesaid (subject to the terms of the Plan), the relevant option warrants that have not been exercised shall automatically expire.

11.1.4 Non-Tradability and Non-Transferability

The option warrants allocated to the Offerees under the Option Plan shall not be listed for trading on the Stock Exchange. The underlying shares transferred by the Company to the Offeree upon the exercise of the option warrants (hereinafter: the "**Underlying Shares**") shall be listed for trading on the Stock Exchange immediately after the date of allocation thereof, and they shall rank *pari passu* as to their rights for all intents and purposes with the ordinary shares having a par value of NIS 1.00, which exist in the Company's share capital.

The option warrants and the rights by virtue thereof are a personal right and they may not be sold or transferred (including by way of a pledge), and they shall not be subject to a sale in the course of execution proceedings, attachment proceedings or any other similar proceedings, unless in the event of death or the transfer to a guardian pursuant to law, in the event of legal incapacitation, provided that in the event of such a transfer (and as a prerequisite for the perfecting thereof), the transferee shall undertake to comply with the provisions of the plan and the allocation agreement.

During the Offeree's life (and as long as he shall be competent to perform legal actions pursuant to the law), all of the Offeree's rights to purchase shares by virtue of the Plan may be exercised by the Offeree only, and any action in contravention of the foregoing, whether performed directly or indirectly, and whether it takes effect immediately or in the future, shall be null and void.

By the date on which the option warrants shall actually be exercised, if any, the Offerees shall not be granted any right attached to the Underlying Shares, and they shall not be deemed to be any kind of shareholder or creditor of the Company, including in all matters pertaining to the Companies Law, 5759-1999, and *inter alia*, with regard to participation in the general meetings of the Company and with regard to sections 350 and 351 of the said Law.

11.2 **The Terms of the Option Plan in the Event of the Termination of Employment or Office**

11.2.1 In the event of the termination of the employment relationship between the Company (or a wholly-owned subsidiary of the Company) and the Offeree (or the termination of the Offeree's office as an officer of the Company, as the case may be)¹⁷ for any reason, except under the circumstances set forth in section 11.2.3 below, and except under the circumstances set forth in section 11.3 below (in which case, that stated therein shall apply), the Offeree's right in connection with the option warrants

¹⁷ With regard to the Option Plan, the "**Termination of the Employment Relationship**" means – the date of termination of the employer-employee relationship between the Offeree and the Company, or the termination of the advance notice period, whichever is the later of the two. It is clarified that the termination of the employment relationship between the Company or a subsidiary following the Offeree's transfer, with the approval of the Board of Directors of the Company, to a position in a company which is controlled by the Company, shall not be deemed to be the Termination of the Employment Relationship for the purposes of the said Plan.

allocated to him shall be solely in respect of the option warrants where the Offeree's entitlement to receive same has accrued by the date of the termination of his employment or his office (as the case may be),¹⁸ and they may be exercised (subject to the limitations of the provisions of section 102 of the Income Tax Ordinance) only during a period of 180 days from the date of the Termination of the Employment Relationship, or, as the case may be, the termination of his office (except if the date of the expiration of the options falls due earlier, in which case, the last exercise date shall be brought forward to the said date of expiration). All of the other option warrants shall expire on the date of the termination of the employment or office of the Offeree.

It is hereby clarified that if the lock-up period pursuant to the provisions of section 102 of the Income Tax Ordinance has not yet expired, then the period of 180 days specified in this section shall expire upon the expiration of 180 days from the expiration of the aforesaid lock-up period. If the lock-up period pursuant to the provisions of section 102 of the Income Tax Ordinance has expired, then the said period of 180 days shall expire upon the expiration of 180 days from the termination of the employer-employee relationship or from the termination of the office, as the case may be.

11.2.2 In addition to the foregoing, the extension of the Offeree's entitlement in connection with the exercise of the option warrants shall be considered by the Compensation Committee (or the Audit Committee) and the Board of Directors of the Company, at the recommendation of the CEO and/or the

¹⁸ With regard to the early vesting mechanism in the event of the Termination of the Employment Relationship, in connection with the Company's CEO, see the Company's report dated December 15, 2010 (Reference No. 2010-01-718788), and also that stated above in relation to the early vesting mechanism which is proposed for the chairman of the Board of Directors, similar to that of the Company's CEO, as aforesaid (see section 5.5 above).

chairman of the Board of Directors (except in their own regard), as the case may be, in such a manner that the Offeree shall be entitled to exercise all or part of the option warrants included in the tranche whereof the right to exercise same would have accrued for the first time after the termination of the employment or the office (hereinafter: the "**Additional Quantity**"). It is clarified that the foregoing in this section shall not obligate the Company or any of the Company's organs to approve such an extension (or to recommend same) of the Offeree's entitlement to the exercise of option warrants where the entitlement to exercise same had not accrued by the date of the Termination of the Employment Relationship or the office, and that the decision in the above-mentioned matter rests solely with them, through their competent organs. In the event of such extension, which has been duly approved, the Offeree's right to exercise the Additional Quantity of the option warrants shall be in effect for a period of up to 180 days only, pursuant to the terms set forth in section 11.2.1 above, which shall also apply to the Additional Quantity. It is clarified that this section shall not apply in the circumstances of the Termination of the Employment Relationship or the office as set forth in section 11.2.3 below.

- 11.2.3 In the event of the termination of the employment/office of the Offeree in respect of his dismissal under circumstances which, in the Company's (or the subsidiary's) opinion, pursuant to law, confer on the Company the right to dismiss him without the payment of severance pay, all of the option warrants being offered to the Offeree under the option plan, including those which have accrued by the said date of the Offeree's right to exercise same, and which he has not yet actually exercised – shall immediately expire on the date of his dismissal.

11.3 **Early Vesting of the Options**

In the event of a change of control in the Company¹⁹, as a result of which an Offeree who is the chairman of the Board of Directors, the CEO of the Company or the Vice President of the Company, shall request to terminate his office at the Company, and consequently terminated his office within a period of six months from the date of the change of control, as aforesaid, all of the option warrants which shall be granted to the said Offerees (which have not yet been exercised and which have not yet expired) shall vest. Notwithstanding the foregoing, the early vesting shall not apply in respect of option warrants that were granted under the 2012 Option Plan in the event where the occurrence entitling the holder of the options to the early vesting thereof took place prior to June 1, 2013.

The exercise period, in the event stated in this section 11.3, shall be (subject to the limitations pursuant to the provisions of section 102 of the Income Tax Ordinance) commencing from the last day of the advance notice period (hereinafter, in this section: the "**Effective Date**") or commencing from the expiration of the lock-up period by virtue of section 102 of the Income Tax Ordinance (whichever is the later of the two dates) and up to the expiration of a period of 180 days.

11.4 **The Exercise Procedure**

11.4.1 Should an Offeree request to exercise an option warrant, subject to the satisfaction of the terms of the Option Plan, he shall give notice, in writing, to the Company of the exercise request (hereinafter: "**Exercise Notice**") not less than one business day prior to the date proposed for the exercise (hereinafter: the "**Exercise Date**"). At the time of the exercise, shares shall be transferred to the Offeree in the value of the

¹⁹ For the purpose of this section, "control" – as defined in the Securities Law, 5728 – 1968, including the ability to appoint the majority of the members of the Board of Directors.

benefit only, as set forth below, and accordingly, the exercise price specified in the allocation agreement is relevant solely for the purpose of determining the amount of the Underlying Shares to which the Offeree shall be entitled on the date of the exercise of the option warrants. Should an Exercise Notice be submitted by the Offeree, that stated below shall apply:

- 11.4.2 A calculation shall be made of the difference between:
- a. the closing rate of an ordinary share of the Company on the Stock Exchange on the date of the Exercise Notice (hereinafter: the "**Determining Rate**"), multiplied by the number of the Underlying Shares which are the subject of the option warrants in respect of which the Exercise Notice was given (adjusted as stated in section 11.5 below);

and:

- b. the exercise price of each option warrant (subject to the adjustments specified in section 11.5 below), multiplied by the number of option warrants in respect of which the Exercise Notice was given.

This difference shall constitute the amount of the financial benefit generated for the Offeree on the Exercise Date (hereinafter: the "**Amount of the Financial Benefit**").

- 11.4.3 The Company shall transfer to the Offeree that number of Underlying Shares whose market value, according to the Determining Rate, is equal to the Amount of the Financial Benefit only. Any fraction of a share received as a result of the above-mentioned calculation shall be rounded upwards into the nearest whole share.

- 11.4.4 In accordance with the foregoing, on the Exercise Date of the option warrants, the Offeree shall not make any actual payment to the Company of any amount in respect of the exercise of the option warrants.
- 11.4.5 It is hereby clarified that the exercise price shall include the par value of the shares to be allocated to the Offerees, insofar as they shall choose to exercise the option warrants. The Offerees shall not be required to pay the par value of the shares in addition to the exercise price, and the Company shall take the necessary measures for the purpose of payment of the par value of the Underlying Shares.
- 11.4.6 After receipt of an Exercise Notice in respect of option warrants in accordance with the above-mentioned terms and conditions, the Company shall transfer to the trustee, as set forth below, a share certificate or certificates in respect of the above-mentioned shares, in the name of the above-mentioned trustee, or it shall credit the trustee's securities account, as shall serve for this purpose, with the above-mentioned shares. If the Exercise Notice was submitted after the expiration of the lock-up period for the purposes of section 102 of the Income Tax Ordinance as set forth below, the Offeree shall be entitled, in his discretion, to order the Company either to transfer the shares into his own name or into the trustee's name, provided that if the Offeree opted for the shares to be transferred into his own name (the Offeree's name), the allocation will be subject to the payment of the applicable tax by the Offeree.

11.5 **Provisions for the Protection of the Offeree**

- 11.5.1 If, during the period after the grant of the option warrants to the Offeree (including through the trustee), the Company shall distribute bonus shares to its ordinary shareholders, the rights of the Offerees shall be protected in the following manner:

immediately after the record date for the distribution of the bonus shares (hereinafter: the "**Record Date**"), the number of the Underlying Shares which the Offeree is entitled to receive shall be increased, by the addition of such number and class of shares to which the Offeree would have been entitled, as bonus shares, had he exercised the option warrants (which he has not yet exercised) immediately prior to the Record Date. It is clarified that the said adjustment shall apply to all of the option warrants which, on the Record Date, have not yet been exercised (including with regard to such option warrants which the Offeree was not entitled to exercise on the Record Date). The Company shall retain ownership of a sufficient number of ordinary shares of the Company, so as to guarantee the right to exercise the option warrants being offered by it.

- 11.5.2 Should the Company be a party to an agreement or a share swap arrangement (such as a merger transaction or a reorganization) (hereinafter: the "**Swap Transaction**") in which it shall be proposed to the holders of the ordinary shares of the Company that they swap these shares for securities of some other corporation, the Company shall be entitled to require the Offeree, in respect of all of the option warrants held by him or for him and which have not yet been exercised, to take option warrants which are exercisable into the shares of the other corporation, in exchange for the option warrants of the Company which are held by him, in accordance with such swap rate as shall be determined for all of the ordinary shareholders of the Company, provided that the total of the exercise price in respect of all of the swappable option warrants to be allocated shall be equal to the total of the exercise price in respect of all of the said options which are held by the Offeree or for him, and which have not yet been exercised.

- 11.5.3 In the event of a rights issue by the Company to the ordinary shareholders during the period after the grant of the option warrants to the Offeree (including through the trustee), on the ex-rights date, the exercise price of each option warrant (which has not been exercised by that time) shall be reduced by such amount as is equal to the bonus component. It is hereby clarified that the said adjustment shall apply to all of the option warrants not yet exercised by the Record Date for the rights issue (including with regard to option warrants which the Offeree was not entitled to receive or to exercise on the Record Date for the rights issue). For this purpose, the "bonus component" means: the difference between the price of the share on the Stock Exchange which, pursuant to that stated in the prospectus of the rights issue, was used as the basis for the calculation of the ex-rights share price specified in the prospectus, and the ex-rights share price pursuant to the above-mentioned prospectus.
- 11.5.4 In any event of the payment of a cash dividend by the Company to the holders of its ordinary shares, during the period after the grant of the option warrants to the Offeree (including through the trustee), then on the ex-dividend date as determined by the Stock Exchange, the exercise price of the option warrants which have not yet been exercised and which have not yet expired by the said date shall be reduced by the amount of the dividend paid in respect of each share of the Company. Should it be determined in the allocation agreement that linkage differentials shall be added to the original exercise price, then linkage differentials shall also be added to the amount of the dividend subtracted from the exercise price as stated in this section (as shall be determined in the allocation agreement) commencing from the date of the distribution of the dividend and up to the Exercise Date. It is clarified that the said adjustment shall apply to all of the option warrants which,

on the Record Date for the payment of the dividend, have not yet been exercised (including with regard to option warrants which the Offeree was not entitled to receive or to exercise on the Record Date for the payment of the dividend).

11.5.5 Should the Company perform a consolidation or subdivision of its ordinary shares into shares having a different par value, the necessary adjustments shall apply on the date of the consolidation or subdivision (as the case may be) to the Underlying Shares.

11.5.6 It is clarified that all of the securities allocated to the Offeree in respect of the option warrants or the Underlying Shares and all of the rights by virtue thereof (such as bonus shares pursuant to section 11.5.1 above, option warrants and/or shares of another corporation pursuant to section 11.5.2 above and shares having a different par value pursuant to section 11.5.5 above), shall also be deposited with the trustee, and they shall also be subject to the same terms and conditions as applicable to the option warrants and the Underlying Shares, *mutatis mutandis*, and to the same taxation track.

For the avoidance of doubt, it is hereby clarified that the provisions of this section 11.5 shall apply with regard to each relevant Offeree, commencing from the date of the grant of the option warrant to the said Offeree (including, through the trustee).

It is clarified that in accordance with the directives of the Stock Exchange, an exercise of options for the purchase of shares of the Company shall not be performed on the Record Date for the distribution of bonus shares, for an offering by way of rights, for the distribution of a dividend, for the consolidation of capital, for the split of capital or for the reduction of capital (each one of the above-mentioned shall hereinafter be referred to as a: "**Company Event**"). It is further clarified that should the ex-date of the Company Event fall prior to the Record Date of the Company Event, then no exercise shall be performed on the said ex-date. For

this purpose, the ex-date shall be determined in accordance with the rules of the Stock Exchange.

12. **Escrow Arrangement Pursuant to the Provisions of Section 102 of the Income Tax Ordinance**

12.1 The Company shall apply to the Tax Assessor in order to receive his approval (or, at the expiration of 30 days from the submission of the Plan – the Company's application shall be deemed to have been approved), that the provisions of section 102 of the Income Tax Ordinance, in the capital track of an allocation through a trustee (the said section 102 and the regulations enacted thereunder and the rules determined by virtue thereof shall hereinafter be collectively referred to as: the "**Provisions of Section 102**") – shall apply to the allocation of the option warrants under the Option Plan.

12.2 In accordance with the Provisions of Section 102, the option warrants shall be allocated to a trustee for the Offerees, and the trustee shall act with regard to the option warrants and the Underlying Shares in accordance with the Provisions of Section 102, and also in accordance with the provisions of the trust and the procedures for the exercise of the option warrants and the sale of the Underlying Shares, as determined between the Company and the trustee.

12.3 In accordance with the Provisions of Section 102, and without derogating from the generality of the foregoing, the following provisions shall apply:

12.3.1 The trustee shall hold the option warrants and the shares arising from the exercise thereof for a period of 24 months from the date of allocation of the option warrants to the Offeree and the depositing thereof with the trustee (hereinafter: the "**Lock-Up Period**").

12.3.2 The Offeree shall not be entitled to sell or receive from the trustee, shares which were issued as a result of the exercise of the option warrants and/or other shares which were received

due to the making of adjustments, in accordance with section 11.6 above, including shares which were issued as a result of the exercise of rights and including bonus shares, prior to the expiration of the Lock-Up Period.

- 12.3.3 Notwithstanding the foregoing, should the said sale or transfer take place during the Lock-Up Period, the Offeree shall be subject to the provisions (including the sanctions) determined in this regard pursuant to section 102.
- 12.3.4 The trustee shall not transfer to the Offeree shares which have been issued as a result of the exercise of the option warrants, prior to the payment of the full tax liability arising from the option warrants allocated to the trustee for the Offeree and/or arising from the shares issued as a result of the exercise thereof, as aforesaid.
- 12.3.5 Subject to the Provisions of Section 102, no use shall be made of the voting power arising from the Underlying Shares during the period that the trustee shall hold the Underlying Shares for the Offeree.
- 12.3.6 The trustee shall not perform any transaction or action in the shares, he shall not transfer, assign, withdraw, attach or voluntarily pledge them, and he shall not give any power of attorney or letter of guarantee in respect thereof, whether the validity thereof shall be immediate or at a future time, with the exception of a transfer by virtue of a will or pursuant to law, except after the payment of the applicable tax in respect of the allocation thereof or after he has guaranteed the payment of the said applicable tax; should the shares be transferred by virtue of a will or pursuant to law, the Provisions of Section 102 and these general provisions shall apply to the heirs or to the transferees of the employee, as the case may be.

13. **Taxation**

The Offeree shall bear the tax imposed in respect of the allocation of the option warrants, in respect of the exercise thereof, and also in respect of the sale of the Underlying Shares, as well as in respect of any transaction or action in the option warrants or in the Underlying Shares under the Option Plan (including the swapping of the shares in a Swap Transaction as defined in section 11.6.2 above) should such tax apply. In this regard, the Offeree agrees and authorizes the Company and also the trustee to deduct at source (including, insofar as necessary – from the number of the Underlying Shares or from the proceeds in respect of the sale thereof) any such tax which shall apply in respect of the exercise of an option warrant and/or in respect of the sale of Underlying Shares, and the Offeree undertakes to make all of the arrangements as required so as to allow the said deduction of tax at source. In addition, the Offeree undertakes to release the Company and the trustee from liability, and to indemnify them in connection with any such tax liability (including in respect of linkage differentials or penalties), including in connection with the obligation of the deduction of tax at source. The Offeree undertakes to comply with the Provisions of Section 102, and also the provisions of the trust and the procedure for exercising the option warrants and the sale of the Underlying Shares, as shall be agreed between the Company and the trustee, and which constitute an integral part of the terms of the Option Plan and of the terms of any allocation agreement which shall be signed by virtue thereof. The Company shall not bear any tax payment in respect of the allocation of the option warrants under the Option Plan.

14. **Economic Value of the Securities Being Offered**

14.1 The economic value of each option warrant included in the First Tranche is: approximately NIS 597.9; the economic value of each option warrant included in the Second Tranche is: approximately NIS 629.2; the economic value of each option warrant included in the Third Tranche is: approximately NIS 895.3.

14.2 The aggregate economic value of all the option warrants to be granted to Offeree No. 1 is NIS 24,759,000.²⁰

The aggregate economic value of all the option warrants to be granted to Offeree No. 2 is NIS 24,759,000;

The aggregate economic value of all the option warrants to be granted to be granted to Offeree No. 3 is NIS 13,299,000;

The aggregate economic value of all the option warrants to be granted to the Additional Offerees is NIS 31,239,000.

14.3 The economic value of the said option warrants has been calculated according to Black-Scholes, taking into consideration the closing rate of the Company's share on the Stock Exchange on November 26, 2012, the date of the approval of the Board of Directors of the Company, which was NIS 2,500 per share, and the annual standard deviation of the share is: in connection with the First Tranche: 38.8%, in connection with the Second Tranche: 37.1%, and in connection with the Third Tranche, 46.1%. The annual capitalization rate in connection with the First Tranche is: -0.16%, in connection with the Second Tranche is: -0.05%, and in connection with the Third Tranche is: 0.22%.

14.4 In the above calculation of the economic value, the following assumptions were taken into account:

14.4.1 All of the option warrants will be exercised six months prior to the expiration of the exercise period;

14.4.2 The calculation of the economic value does not take into account the fact that the option warrants will not be listed for trading on the Stock Exchange, and it does not take into account the vesting period and the Lock-Up Period.

²⁰ The economic value of all of the option warrants granted to Offeree No. 1 shall be updated and reported upon the approval by the Company's general meeting of the said allocation.

15. Details Regarding the Company's Share Capital

The registered share capital as of the date of this Report (in nominal NIS) of the Company is NIS 160 million, divided into 160 million ordinary shares having a par value of NIS 1.00 each (hereinafter: the "**Ordinary Shares**"). Out of the said registered share capital, 7,698,467 Ordinary Shares have been issued and paid-up.

Below are details of the holdings of Offerees Nos. 1 and 2, the chairman of the Board of Directors and the Company's CEO, respectively, in the Company's share capital (voting rights and capital), the holdings of interested parties in the Company (by virtue of the holding of shares of the Company) and details of the holdings of the rest of the shareholders of the Company:

Shareholder	Number and rate of holdings in the issued and paid-up capital and in the voting rights of the Company		Number and rate of holdings in the issued and paid-up capital and in the voting rights of the Company, after the exercise of all of the option warrants which are the subject of this Report			
			Without dilution		In full dilution	
	Number of shares	Rate in % in the capital (in the voting rights)	Number of shares	Rate in % in the capital (and in the voting rights)	Number of shares	Rate in % in the capital (and in the voting rights)
Chairman of the Board of Directors			35,000	0.45 (0.45)	47,000	0.60 (0.60)
CEO of the Company			35,000	0.45 (0.45)	50,000	0.63 (0.64)
Millennium Investments Elad Ltd.	3,613,446	46.94 (47.38)	3,613,446	46.14 (46.57)	3,613,446	45.75(46.17)
Idan Ofer	189,181	2.46 (2.48)	189,181	2.42 (2.44)	189,181	2.40 (2.42)
Ofer Holdings Group Ltd.	95,472	1.24(1.25)	95,472	1.22 (1.23)	95,472	1.21(1.22)
KIRBY ENTERPRISES INC	57,054	0.74 (0.75)	57,054	0.73(0.74)	57,054	0.72 (0.73)
Bank Leumi LeIsrael Ltd.	1,382,802	17.96 (18.13)	1,382,802	17.66 (17.82)	1,382,802	17.51 (17.67)
H.L. Management and Consulting (1986) Ltd.	72,322	0.94	72,322	0.92	72,322	0.92
Amnon Leon	2,014	0.03 (0.03)	2,014	0.03 (0.03)	2,014	0.03 (0.03)
The Other Shareholders	2,286,176	29.70 (29.98)	2,286,176	30 (30.28)	2,389,502	30.25 (30.53)

16. **The Consideration of the Securities Being Offered, and the Way it Was Determined**

The option warrants are being granted to the Offerees without consideration, as part of the compensation at the Company.

17. **Approvals Required for the Allocation**

17.1 **The Approvals of the Compensation Committee, the Audit Committee and the Board of Directors of the Company**

Further to several meetings held by the Compensation Committee (on November 20, 2012 and on November 22, 2012), by the Audit Committee (on November 22, 2012 and on November 26, 2012), and by the Board of Directors of the Company (on November 25, 2012 and on November 26, 2012), in the matter:

17.1.1 On November 22, 2012, the Company's Compensation Committee approved the above-mentioned allocation to the Offerees.

17.1.2 On November 22 and 26, 2012, the Company's Audit Committee approved the above-mentioned allocation to the Offerees.

17.1.3 On November 26, 2012, the Board of Directors of the Company approved the above-mentioned allocation to the Offerees.

17.2 **General Meeting's Approval of the Allocation of the Options to the Chairman of the Board of Directors**

The approval of the allocation of the option warrants to Offeree No. 1, the chairman of the Board of Directors of the Company, is subject to the

approval of the Company's general meeting, which shall be convened in a separate report.

17.3 Approval of the Income Tax Authorities

The approval of the income tax authorities is necessary, as required for the purpose of the application of section 102 of the Income Tax Ordinance (New Version) to the allocation of the option warrants under the compensation plan in a capital track with a trustee.

17.4 Approval of the Tel Aviv Stock Exchange Ltd.

The approval of the allocation of the option warrants is subject to the approval of the Stock Exchange, for the listing for trading of the Underlying Shares which are the subject of the option warrants.

18. **Details of Agreements between the Offerees and Holders of Shares or Between the Offerees and Other Offerees in the Company**

To the best of the Company's knowledge, based on an examination conducted with the Offerees, there are no agreements between the Offerees and holders of the shares of the Company, or between the Offerees *inter se*, pertaining to the purchase or sale of the Company's securities or pertaining to the voting rights therein.

19. **Details of Impediments or Restrictions to the Performance of Transactions in the Securities Being Offered**

19.1 Pursuant to the Securities Law, 5728-1968, and the Securities Regulations (Details with regard to Sections 15A to 15C of the Law), 5760-2000, the limitations set forth below shall apply to a sale made in the course of the trading on the Stock Exchange of underlying shares which shall be transferred to the Offerees upon the exercise of the option warrants (in addition to the provisions regarding the vesting of the option warrants, as set forth in this Report):

19.1.1 A sale in an off-market transaction: limitations regarding dates or amounts shall not apply to such a sale, however, any person who purchased the securities from the Offeree, has stepped into his shoes.

19.1.2 A sale on the Stock Exchange:

(a) During one year, commencing on the date of the allocation of the option warrants to the Offeree, it is prohibited to effect an offering in the course of the trading of the Underlying Shares (hereinafter: the "**Absolute Lock-Up Period**").

(b) During the eight quarters after the Absolute Lock-Up Period, the securities being offered may be sold in the course of the trading, subject to the cumulative restrictions as set forth below:

(1) The amount of the Underlying Shares that may be sold on a single trading day shall not exceed the average daily trading turnover in the security being offered during the eight weeks preceding the said date.

(2) The amount of the Underlying Shares that may be sold in each quarter shall not exceed 1% of the issued and paid-up capital of the corporation whose securities are being offered (without taking into consideration convertible securities which have not yet been exercised or converted into shares).

19.2 With regard to the lock-up provisions by virtue of the agreement in the matter of the option warrants being granted pursuant to the Option Plan, see section 12.3 above.

20. **Date of Allocation of the Securities**

The option warrants shall be allocated after receipt of the approvals as stated in section 17 above (as the case may be), including after receipt of a pre-ruling from the Tax Assessor (or at the expiration of 30 days from the submission of the Plan)

that the Provisions of Section 102 of the Income Tax Ordinance, in the capital track of an allocation through a trustee, shall apply to the allocation of the option warrants pursuant to the Plan.

21. **The Updating of the Terms of Employment of the Offerees who are Officers:**

For the sake of caution, it shall be noted that on November 26, 2012, the Board of Directors of the Company approved, after the approvals of the Compensation Committee and the Audit Committee held on November 22, 2012 and on November 26, 2012, the updating of the terms of employment of additional officers of the Company, in the course of which provisions pertaining to the adjustment period, severance pay, and also to the early vesting of options were updated.

22. The table below presents condensed data, in accordance with the Sixth Schedule of the Reporting Regulations, regarding the terms of office and employment of the chairman of the Board of Directors, the Company's CEO and the CFO, in accordance with the Sixth Schedule of the Reporting Regulations, in respect of 2011*.

Details of the Recipients of the Compensation				Compensation for Services (in NIS thousands)			Total (in NIS thousands)
Name	Position	Scope of Position	Holding Percentage of Company's Capital ^[1]	Salary for 2011 ^[2]	Bonus for 2011 ^[3]	Share-Based Payment in Respect of the Option Plan	
Amir Elstein ^[4]	Chairman of the Board of Directors	^[4]	—	4,738	2,400 ^[5]	7,842 ^[6]	14,980
Nir Gilad ^[7]	CEO of the company	100%	—	4,561	3,000 ^[8]	13,567 ^[6] ^[9] ^[10]	21,128
Avisar Paz ^[11]	CFO of the Company	100%	—	2,760	1,149 ^[12]	8,557 ^[6] ^[9]	12,466

[1] The holding percentage which appears in the table is as of the date of the Report (without dilution). For further details regarding the holding percentages of the Company's capital, see section 15 above.

[2] The salary component specified above includes the following components: a monthly salary, social rights, social and related payments as per standard practice, the holding of a vehicle and the reimbursement of telephone expenses.

[3] On March 28, 2012, the Board of Directors of the Company approved, further to the recommendation of the Compensation Committee (at discussions held on January 11, 2012, February 16, 2012, March 13, 2012 and March 26, 2012) and the approval of the Audit Committee (in a discussion held on March 26, 2012), the payment of annual bonuses to the Company's officers, including the chairman of the Board of Directors (the chairman's bonus is subject to the approval of the general meeting, which was obtained on May 7, 2012), the Company's CEO and the Company's CFO, in respect of 2011, in accordance with the bonus policy approved by the Board of Directors of the Company on March 29, 2011 (hereinafter: the "**Bonus Policy**"). For details regarding the Bonus Policy, see Article 10(b)(4) of the Board of Directors' Report for 2011 and Article 21 of the chapter on the Additional Details in the Periodic Report for 2010. It shall be noted that the Bonus Policy was implemented for the first time in respect of the year 2011, and in light of the experience accumulated

in the implementation of the plan, the Company's organs are examining the possibility of updating the plan, and insofar as necessary, making changes thereto. In the course of determining the bonuses for 2011, the Company's Compensation Committee, Audit Committee and Board of Directors examined and determined that the prerequisites for the grant of an annual bonus have been satisfied, and a calculation was made, based on graduated profit formulas that were determined in relation to each of the officers of the Company (hereinafter: the "**Profit Formula**"). As a rule, the Profit Formulas are spread over eight profit levels, and limited by a maximum "ceiling", commencing from a minimum profit of US\$ 50 million, and in respect of each profit level, the amount of the bonus in relation to each of the officers was specified. In addition, in accordance with the Bonus Policy, specific discussions are held regarding the assessment of each of the officers in accordance with quantitative and qualitative parameters set in advance in respect of each one of the officers in accordance with the weights determined in relation to each parameter. Upon receipt of the weighted grade, as a result of the assessment process as described above for each officer, the weighted grade was multiplied by the amount received as the result of the application of the Profit Formula applicable to it. The amount obtained from the aforesaid process and the manner of the calculation thereof were brought for consideration and examination by the Compensation Committee, the Audit Committee and the Board of Directors, who discussed the said amount, and the entirety of the circumstances. For further details, including regarding the Audit Committee's and the Board of Directors' reasons for the approval of the annual bonuses for 2011, as aforesaid, also see the Immediate Report dated March 29, 2012, and Article 21 of the chapter entitled "Additional Details" of the Company's Periodic Report for 2011.

[4] Mr. Amir Elstein's terms of employment were approved for a specified period of three years from the date of his appointment to the position (July 1, 2010), whereby the scope of his position was to be determined as a result of the Company's needs, and it was assessed as being a full-time position, and in addition, he would reserve the right to continue to serve in his position as the chairman of the Board of Directors of Tower Semiconductors Ltd. and as a director of Teva Pharmaceutical Industries Ltd. The terms of his employment comprise a monthly wage of NIS 174,000, linked to the Consumer Price Index, social terms including senior employees' insurance, a continuing education fund, vehicle expenses, telephone expenses, a thirteenth salary, 22 vacation days, 20 sick days and the reimbursement of expenses against reporting and receipts. The chairman of the Board of Directors is entitled to participate in the Company's Employee Stock Option Plan, if determined, and in addition, each year, the Board of Directors shall discuss the grant of an annual bonus to the chairman of the Board of Directors, subject to the Board of Directors' discretion, and to the approvals required pursuant to law. In addition, the terms of his employment include arrangements in the event of termination of the engagement. For further details, see the Company's Immediate Reports dated August 31, 2010 (Reference No. 2010-01-619053 and 2010-01-607053), September 16, 2010 (Reference No. 2010-01-623115), September 3, 2010 (Reference No. 2010-01-619053), and September 20, 2010 (Reference No. 2010-01-626433), which are included herein by way of reference. The consideration to which Amir Elstein is entitled in accordance with the engagement agreement does not derogate from the chairman's entitlement to exercise options of Tower which were granted prior to the engagement in the said agreement. For details regarding the terms of employment of the chairman of the Board of Directors, see section 8.3.3A of the Prospectus.

[5] In accordance with that stated in Note [3] above, the bonus for the year 2011 to Mr. Amir Elstein was approved by the Audit Committee and the Board of Directors and by the general meeting of the Company on May 7, 2012. The bonus for 2011 to the chairman of the Board of Directors of the Company was determined by the Company's Compensation Committee, Audit Committee and Board of Directors, after they discussed the manner of his compliance with the quantitative and qualitative parameters, as assessed by the chairman of the Compensation Committee (an assessment which was examined and approved by the said organs), and after a calculation of the Profit Formula in respect of the chairman of the Board of Directors in accordance with the Bonus Policy. The relevant Profit Formula for the chairman of the Board of Directors is spread over eight profit levels, commencing from a profit level ranging between US\$ 50 – 100 million in respect of which a bonus was specified of up to NIS 1 million, and seven additional profit levels of US\$ 100 million each, in respect of which an additional bonus amount was specified of up to NIS 1 million, for each level. The quantitative and qualitative parameters (and alongside them, the weight which was given to each one) determined in respect of the chairman of the Board of Directors include compliance with the net profit targets (a weight of 20%), compliance with the strategic plan (40%), contribution to the Company's long-term development (20%) and a personal assessment (20%). In connection with the

examination of his compliance with the quantitative and qualitative parameters, the weights specified in Article 10(b)(4) of the Board of Directors' Report for 2011, *inter alia*, were specified. In addition, the amounts of the annual bonuses granted to the chairman of the Board of Directors in the past were also reviewed. The said organs discussed the weighted amount of the bonus obtained from the multiplication of the grade of his compliance with the qualitative and quantitative parameters in the Profit Formula, they exercised their discretion in accordance with the Bonus Policy, and they determined that in light of their assessment of the performance of the chairman of the Board of Directors, his contribution to the Company in the year 2011, out of a long-term perspective, and including in his directing of the Company's strategic plan and the complexity of his position, it would be reasonable and appropriate to add to the amount of the bonus obtained as a result of the Bonus Policy formula, an additional amount in such a manner that the amount of the bonus for 2011 would be the amount specified in the above table. For further details, see Article 21 of the chapter entitled "Additional Details" in the Periodic Report for 2011.

The annual bonus in respect of 2011 to the chairman of the Board of Directors was approved by the Company's Audit Committee and Board of Directors at meetings held on March 26, 2012 and on March 28, 2012 (respectively), and it was also approved by the Company's general meeting held on May 7, 2012 (and for details, see the Company's reports dated March 29, 2012 (Reference No.: 2012-01-084843) and May 8, 2012 (Reference No. 2012-01-119934), which are included herein by way of reference.

[6] On August 30, 2010, the Board of Directors of the Company resolved to adopt an option plan and also a private allocation, by virtue of the plan, of 65,600 options which are convertible into shares of the Company in three tranches, of which 15,000 are to Mr. Nir Gilad, 14,000 are to Mr. Avisar Paz and 12,000 are to Mr. Amir Elstein. The economic value of each option warrant on August 30, 2010, which is calculated according to the Black-Scholes formula, is approximately NIS 1,207.5 for the first tranche and for the second tranche, and approximately NIS 1,274.1 for the third tranche. For further details, see the Company's Immediate Reports dated August 31, 2010 (Reference No. 2010-01-606381), September 13, 2010 (Reference No. 2010-01-619053), September 16, 2010 (Reference No. 2010-01-623115), and September 20, 2010 (Reference No. 2010-01-626433), which are included herein by way of reference.

The amounts registered in the column entitled "Share-Based Payment" represent the expense recorded in the Company's books in 2011, according to the economic value of the plan.

[7] Pursuant to the terms of employment of the Company's CEO, the period of employment of the CEO shall be specified for a period of three years, commencing from January 1, 2011, and the terms of his employment include a monthly salary of NIS 196,600 linked to the Consumer Price Index, social terms, including senior employees' insurance, a continuing education fund, vehicle expenses, telephone expenses, a thirteenth salary, 26 vacation days, 22 sick days, and so on and so forth. The CEO is entitled to an annual bonus in the Board of Directors' discretion, and in accordance with the Company's Bonus Policy as shall apply in respect of the relevant year and subject to the approvals as required pursuant to law. With regard to the options granted to the CEO pursuant to the Company's 2010 Option Plan (which is described below and in the Immediate Report dated September 13, 2010), it was determined that in the event where the CEO's term of office is terminated at the Company's initiative (as defined in the updating of the terms of employment of the CEO) during the Specified Period, the CEO shall be entitled to the early vesting of options granted to him by the Company in accordance with the date and/or the circumstances in which the notice was given of the termination of the CEO's employment. In addition, the CEO's terms of employment include arrangements regarding a retirement grant, severance pay and the rate thereof, an advance notice period and an adjustment period. For further details and an elaboration, see the Company's Immediate Report dated December 15, 2010 (Reference No. 2010-01-718788) which is included herein by way of reference. For further details regarding the terms of employment of the Company's CEO, see section 8.3.3B of the Prospectus.

[8] In accordance with that stated in Note [3] above, the bonus for 2011 to the Company's CEO was determined by the Company's Compensation Committee, Audit Committee and Board of Directors, after discussing the manner of his compliance with the quantitative and qualitative parameters set for him in advance, as assessed by the chairman of the Board of Directors (an assessment which was examined and approved by the said organs), and after a calculation of the Profit Formula in respect of the CEO in accordance with the Bonus Policy. The Profit Formula which is relevant for the

Company's CEO is spread over eight profit levels, commencing from a profit level ranging between US\$ 50 – 100 million, in respect of which a bonus was specified of up to NIS 1 million, a second profit level of US\$ 100 – 200 million in respect of which an additional bonus amount was specified of up to NIS 2 million, and additional profit levels of US\$ 100 million each, in respect of which an additional bonus amount was specified of up to NIS 1 million, for each level. The quantitative and qualitative parameters (and alongside them, the weight which was given to each one) which were determined in respect of the CEO included compliance with the net profit targets (40%), compliance with the strategic plan (20%), contribution to the Company's long-term development (20%) and a personal assessment (20%). In connection with the examination of his compliance with the quantitative and qualitative parameters, the weights specified in Article 10(b)(4) of the Board of Directors' Report for 2011, *inter alia*, were specified. In addition, the amounts of the annual bonuses granted to the Company's CEO in the past were also reviewed. The said organs discussed the weighted amount of the bonus obtained from the multiplication of the grade of his compliance with the qualitative and quantitative parameters in the Profit Formula, they exercised their discretion in accordance with the Bonus Policy, and they determined that in light of their assessment of the performance of the CEO and his talents, his commendable efforts in the year 2011 to maximize the profits of the Company and the held companies, both as CEO of the Company and also as the chairman of Israel Chemicals and as the chairman of ZIM, his contribution to the advancement of the Company's strategic plan based on a long-term perspective, and paying heed to the complexity of his position, it would be reasonable and appropriate to add to the amount of the bonus obtained as a result of the Bonus Policy formula, an additional amount in such a manner that the amount of the bonus for 2011 would be the amount specified in the above table. For further details, see the Company's Immediate Report dated March 29, 2012 (Reference No. 2012-01-084720) and Article 21 of the chapter entitled "Additional Details" in the Company's Periodic Report for 2011.

[9] On June 25, 2007, the Board of Directors of the Company resolved to adopt a compensation plan for the employees and officers of the Company, for the allocation of 60,000 options convertible into shares of the Company. The economic value of each option warrant on June 25, 2007, calculated according to the Black-Scholes formula, is approximately NIS 600 for the first tranche, approximately NIS 710.5 for the second tranche, and approximately NIS 810 for the third tranche. For further details, see the Company's Immediate Report dated June 26, 2007 (Reference No. 2007-01-305395), which is included herein by way of reference.

The amounts registered in the column entitled "Share-Based Payment" represent the expense recorded in the Company's books in 2011, according to the economic value of the plan.

[10] The Company's CEO is entitled to participate in the option plan at Israel Chemicals, in respect of his term in office as the chairman of the Board of Directors of Israel Chemicals. For further details and an elaboration, see Article 21 of the chapter entitled "Additional Details" of the Company's Periodic Report for 2011 and the reports of Israel Chemicals dated January 7, 2010 and February 15, 2010, *inter alia*, on the MAGNA site of the Israel Securities Authority (www.magna.isa.gov.il).

[11] Pursuant to the terms of engagement with him, the CFO, Avisar Paz, is entitled to an annual bonus subject to the Board of Directors' discretion in accordance with the CEO's recommendation, and in the engagement agreement with him, arrangements are included regarding the payments to a continuing education fund, senior employees' insurance and/or a pension fund, and also with regard to an advance notice period and an adjustment period. For further details, see section 8.3.3 of the Prospectus.

[12] In accordance with that stated in Note [3] above, the bonus for 2011 to the Company's CFO was determined by the Company's Compensation Committee, Audit Committee and Board of Directors, after discussing the manner of the compliance by the Company's CFO with the quantitative and qualitative parameters, as assessed by the Company's CEO (an assessment which was examined and approved by the said organs), and after a calculation of the Profit Formula in respect of the officers subordinate to the CEO in accordance with the Bonus Policy. The Profit Formula which is relevant for the Company's CFO is spread over eight profit levels, commencing from a profit level ranging between US\$ 50 – 100 million, in respect of which a bonus was specified of up to NIS 0.4 million, a second profit level of US\$ 100 – 200 million in respect of which an additional bonus amount was specified of up to NIS 0.8 million, and additional profit levels of US\$ 100 million each, in respect of which an additional bonus amount was specified of up to NIS 0.3 million, for each level. The quantitative and qualitative parameters (and alongside them, the weight which was given to each

one) which were determined in respect of the CFO include compliance with the net profit targets (a weight of 40%), compliance with the cash flow targets, including capital raising and debt refinancing (20%), contribution to the Company's long-term development (20%) and a personal assessment (20%). In connection with the examination of his compliance with the quantitative and qualitative parameters, the weights specified in Article 10(b)(4) of the Board of Directors' Report for 2011, *inter alia*, were specified. In addition, the amounts of the annual bonuses granted to the Company's CFO in the past were also reviewed. The said organs discussed the weighted amount of the bonus obtained from the process described above, they exercised their discretion in accordance with the Bonus Policy, and they determined that this amount is reasonable and appropriate. For further details, see the Company's Immediate Report dated March 29, 2012 (Reference No. 2012-01-084720) and Article 21 of the chapter entitled "Additional Details" in the Company's Periodic Report for 2012.

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Below is the Company's assessment with regard to the salary components and the share-based compensation of the chairman of the Board of Directors, the CEO of the Company and the CFO of the Company, in the coming year²¹, where in respect of the salary component, the current salary terms have been assumed for the said officers (as updated, as stated in this Report, and with regard to the chairman – assuming that they will be approved by the Company's general meeting) and in respect of the share-based compensation component – assuming that the Company's general meeting will approve the allocation of the option warrants to the chairman of the Board of Directors of the Company, and the share price at that time shall be the closing rate of the Company's share on November 26, 2012. Given that the bonus component is derived from the Company's Bonus Policy, which is based, *inter alia*, on the Company's results during the relevant period, it cannot be estimated.

Name	Position	Salary (in NIS thousands)	Share-Based Payment in Respect of the 2010 Option Plan (in NIS thousands)	Share-Based Payment in Respect of the 2012 Option Plan (in NIS thousands)	Total Compensation Without Annual Bonus (in NIS thousands)
Amir Elstein	Chairman of the Board of Directors	3,733	1,254	10,570	15,557
Nir Gilad	CEO of the Company	3,923	1,416	10,570	15,909
Avisar Paz	CFO of the Company	2,642	1,321	5,678	9,641

23. Manner of Determining the Terms of the Allocation to the Offerees and the Compensation for the Chairman of the Board of Directors, the Company's CEO and Additional Officers of the Company

23.1 Approval Procedure

- a. In the course of devising the 2012 Option Plan and the updating of the terms of office of the Company's officers, discussions were held at the Company's Compensation Committee, Audit Committee and

²¹ That stated in this paragraph and the data contained herein include forward-looking information, which is based on the Company's assessments regarding the projected expenditure for the Company during the coming year and on the assumptions stated in the paragraph. The actual data may differ from that stated in this paragraph, *inter alia*, in the event that any of the assumptions fail to materialize, in whole or in part.

Board of Directors, in which various clarifications and data were requested and obtained in the said matters. In addition, at the Company's request, comparative research was conducted by external consultants in the matter of the compensation of senior officers in the Israeli economy, and also an economic appraisal was conducted, in accordance with the Generally Accepted Accounting Principles, of the fair value of the options to be allocated to the officers.

- b. Based on the aforesaid discussions, the Company's Compensation Committee, Audit Committee and Board of Directors approved the 2012 Option Plan and the grant of the options to the Offerees pursuant thereto, and also the terms of office of the chairman of the Board of Directors, the CEO of the Company and the Company's officers, based on the parameters, considerations and reasons as set forth below.

23.2 **Parameters for Compensation**

For the purpose of determining the compensation for the Offerees (including the chairman of the Board of Directors) as set forth in this report, the Company's Compensation Committee, Audit Committee and Board of Directors examined and took into account in the course of their discussions held in these matters, *inter alia*, the following parameters:

- a. The Company's position regarding the retention of talented and skilled managers of the Company, and providing them with incentives for their continued long-term employment, including the chairman of the Board of Directors and the Company's CEO, *inter alia*, by way of capital compensation through the allocation of options, which constitutes an appropriate incentive for the Company's officers, taking into consideration the compensation structure at the Company, the position of each of the officers and his/her contribution to the Company.

- b. As aforesaid, as per standard practice at the Company for many years, the compensation of the Company's officers comprises the base salary, an annual bonus and capital compensation (hereinafter: the "**Total Compensation**"). The capital compensation, which provides a benefit in respect of the maximization of the value of the Company's share, ties the officers' compensation to the creation of value for the shareholders of the Company, and provides an incentive to the officers to continue contributing to the Company and to the Company's success in the future, thus advancing the best interests of the Company and of its shareholders and maximizing its long-term profits. The capital compensation constitutes an important and central layer in the standard compensation structure for the Company's officers, and it is commensurate with the Company's standard compensation practices, whilst placing an emphasis on performance-based compensation and on the creation of value for the shareholders of the Company.
- c. The standard compensation components for senior officers in Israel and comparative data regarding the entirety of the compensation components (including salary, bonuses and capital compensation) of the chairmen of Boards of Directors, CEOs and equivalent officers of public companies, most of which are included in the Tel Aviv 25 Index on the Tel Aviv Stock Exchange Ltd. – were presented to the Compensation Committee, the Audit Committee and the Board of Directors. The comparative data were collected and prepared by external consultants, according to public data published by the said companies, and the Board of Directors expressed its opinion that the comparative benchmark which is relevant for the Company are companies from the highest echelon of the public companies that were examined.
- d. The economic value of the options to be allocated pursuant to the Option Plan in accordance with the Generally Accepted Accounting Principles and with the Black-Scholes formula, as calculated by

external consultants, was presented to the Compensation Committee, the Audit Committee and the Board of Directors.

- e. Data regarding the scope of the Total Compensation of the chairman of the Board of Directors, the CEO and the officers, including relevant data regarding the scope of the capital compensation given to the Company's officers, and the value thereof – were presented to the Compensation Committee, the Audit Committee and the Board of Directors.
- f. Data in connection with the Company's previous option plans, and the fact that the Company's CEO, who serves as the chairman of the Board of Directors of Israel Chemicals, was previously an offeree also pursuant to the option plan at Israel Chemicals, and now the Company's CEO will be an offeree solely pursuant to the Company's option plan – were presented to the Compensation Committee, the Audit Committee and the Board of Directors.
- g. Based on the comparative data regarding the entirety of the compensation components of public companies and based on the option plans adopted by the Company in the past, and taking into consideration the scope of the Company's activities and the challenges it faces, the Compensation Committee, the Audit Committee and the Board of Directors approved that the chairman of the Board of Directors, the CEO of the Company, Vice Presidents and other senior employees of the Company will be included under the Option Plan, based on a case-by-case examination of each manager and each employee, and his contribution to the Company and to the companies held by the Company.
- h. As part of the specific decision regarding the terms of the Option Plan, the number of the option warrants, the vesting dates and the concrete terms of the allocation, the Compensation Committee, the Audit Committee and the Board of Directors assessed the actions

and contribution of each of the Offerees to the Company's and the subsidiaries' performance, and also the ability of each one of the Offerees to contribute to the achievement of the Company's long-term objectives, and the Company's desire to retain his experience and know-how, and to guarantee his continued term in office at the Company in the coming years.

- i. The Compensation Committee, the Audit Committee and the Board of Directors examined the main, standard allocation tracks for the allocation of options to employees (the equity track and the capital track) and chose to perform the allocation of the options to the employees in the capital track, in keeping with the Company's previous option plans and in accordance with the provisions of section 102 of the Income Tax Ordinance, paying heed to the Company's expenses in the allocation of the options in the capital track, which are negligible for the Company, as compared with an allocation not in the capital track.
- j. The Compensation Committee, the Audit Committee and the Board of Directors took into consideration the uniqueness of the Company within the Israeli economy, the geographical complexity of the Company which operates all around the world, the broad range of areas in which the Company operates, the Company's business development plans and the expansion of its areas of activities and the range of its business in recent years, and the managerial input required for the purpose of the dynamic management of a holding company of the size of the Company, and particularly, paying attention to the Company's development in the past few years (including the handling of mature companies and also the advancement of young companies and new technological ideas) and the business challenges and the possibilities for advancing its business, with the ongoing and active involvement of the Company's management.

24. **Concise Overview of the Reasons of the Compensation Committee, the Audit Committee and the Board of Directors for the Terms of the Allocation to the Offerees**

24.1 The directors examined and considered the allocations set forth above, whilst bearing in mind the parameters specified in the section above, and they approved them, *inter alia*, primarily based on the following considerations:

- a. Among the members of the Compensation Committee, the Audit Committee and the Board of Directors, great esteem is held for the activities, skills and experience of the chairman of the Board of Directors, the Company's CEO and the other Offerees, and for their contribution to the Company and to its shareholders, and also, there is an expectation of their continued contribution to achieving the Company's long-term objectives and to maximizing the return on the share price.
- b. The compensation of the Company's officers, including the capital compensation, constitutes a managerial tool held by the Board of Directors of the Company for tying the compensation of the Company's officers to the shareholders' return and to the creation of a compensation mechanism, based for the most part on the Company's performance and on the creation of value for the Company's shareholders.
- c. The terms of the Option Plan, the number of the option warrants and the concrete terms of the allocation for each of the Offerees are consistent with the actions and the contribution of each of the Offerees to the Company's and the subsidiaries' performance, and they reflect the Company's assessment of the ability of each of the Offerees to contribute to the achievement of the Company's long-term objectives, and the Company's desire to guarantee the continued term in office of the Offerees at the Company in the

coming years, and to provide an incentive for the Offerees to continue to work for the Company's benefit in the long-term.

- d. The Compensation Committee, the Audit Committee and the Board of Directors examined the compensation components of counterpart officers at public companies in Israel of the size of the Company, which were included in the comparative research conducted by the external consultants, and they reached the opinion that taking into consideration the Total Compensation of the senior officers of the Company, it would be reasonable and appropriate to grant the option warrants even if they are over and above that which is common practice at the public companies which were examined, which are not similar to the Company in terms of their nature, character or complexity, and this is taking into consideration, *inter alia*, the following reasons: (a) the Company's uniqueness within the Israeli economy, the geographical complexity of the Company, which operates all around the world and the broad range of areas in which the Company operates; (b) the Company's development in the past few years, by taking business initiatives in new fields, thus creating the situation whereby the Company is not just a holding company, but a company which is also engaged in entrepreneurship, the management and development of a broad and new range of business sectors, with the ongoing and active involvement of the Company's management; (c) the challenges facing the Company, and the managerial input required for the purpose of the dynamic management of a holding company of the size of the Company; (d) the complex position of the leaders of the Company and its senior officers, in view of the Company's complexity and uniqueness, and also in view of the Company's objectives which include, *inter alia*, the expansion of the areas of the Company's activities and the increased involvement of the Company's management in the development of new investments, in the promotion of original and innovative technologies, in the betterment of existing investments and in the creation of synergy

between the Company's investments; (e) basing the Company on a small executive team and on the unique skills of the members of that team, and the Company's desire to preserve their continued term in office and their continued contribution to the Company and to its shareholders, for the long term; (f) the involvement of the Company's management in the companies held by the Company, as expressed in the contribution to the improvement of their business results, and in recruiting them to assist the held companies during periods of crisis; (g) at the public companies which were examined, the cash compensation (salary and bonuses) constitutes the significant component, whilst at the Company, the capital compensation component is the significant component, so that the Total Compensation (the salary, bonus and capital compensation) for the Company's officers does not deviate from public companies of the size of the Company ranking among the upper echelon that was presented.

- (e) In addition, the members of the Company's Compensation Committee, Audit Committee, and Board of Directors noted that the share-based payment constitutes the most significant component of the Total Compensation of the Company's officers. This component was determined in accordance with the Black-Scholes formula, which is based on the Company's share rate, and it does not reflect a payment which is actually made to the officers, and by its nature, this component contains an element of uncertainty with regard to the possibility of the officers benefiting from it, and with regard to the degree of the said benefit. In addition, the Compensation Committee, the Audit Committee and the Board of Directors took into consideration the fact that the accounting leads to a non-linear spread of the expenses in respect of the allocation of the options, so that most of the expense is recorded in the first year from the date of the allocation.

- (f) Out of all of the compensation components of the officers, the significant part in the Total Compensation is attributed to result-dependent remuneration (a share-based payment and an annual bonus), and it does not constitute the guaranteed, current remuneration. The members of the Compensation Committee, the Audit Committee and the Board of Directors noted that this mix is the correct and appropriate mix of compensation in such a manner that a significant part of the officers' compensation is based on the creation of value for all of the shareholders, and it is underpinned by long-term policy and the perspective of the multi-year business plan, whilst taking into account the contribution of each one of the Offerees to the achievement of the Company's long-term objectives, as aforesaid.
- (g) The terms of the 2012 Option Plan regarding the vesting periods, the exercise period and the manner of determining the exercise price, as well as the rate of the capital and of the voting rights at the Company, which shall be conferred by the shares arising from the exercise of the option warrants of all of the Offerees pursuant to the Plan, do not deviate from common practice at public companies in Israel of the size of the Company, which were included in the comparative research conducted by the external consultants.
- (h) The members of the Company's Compensation Committee, Audit Committee and Board of Directors took into account, as part of the considerations, the Company's desire to guarantee the continued leading of the Company by the chairman of the Board of Directors, the CEO and the senior managerial team in the next few years, for the purpose of achieving the Company's strategic targets, the Company's business development, the maximization of the Company's profits in the coming years, and preserving the Company's managerial stability.

- (i) The current option plan is pursuant to those principles and considerations which form the basis for the Company's previous option plans, and it is consistent with standard and common practice at the Company, taking into consideration the Company's strategic plan and the business challenges facing it.

- (j) Taking into consideration the entirety of the parameters, considerations and reasons as specified above, the members of the Company's Compensation Committee, Audit Committee and Board of Directors are of the opinion that the capital compensation for the chairman of the Board of Directors, the Company's CEO, the Company's CFO and the other Offerees, as set forth above, is the appropriate and reasonable consideration under the circumstances of the matter, which is intended to provide them with the optimal incentive to act to maximize the Company's profits and to achieve its long-term objectives, and that the capital compensation advances the Company's best interests, its shareholders' best interests and the maximization of its long-term profits.