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**Israel Corporation Ltd.**

Registrar Number: 520028010

**Form 121**

Securities of the Corporation are listed in the Tel Aviv Stock Exchange

**Public**

Sort name: Israel Corporation

Address: P.O.B. 20456, Tel Aviv 61204

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Date of Transmission: 21/10/2009

Reference: 2009-01-261027

To:

The Securities Authority

www.isa.gov.il

To:

The Tel Aviv Stock Exchange

www.tase.co.il

**Immediate Report**

The Event: Letter of the Israel Securities Authority

Israel Corporation Ltd. hereby reports that it received a letter from the Israel Securities Authority regarding "Personal Interest of Institutional Entities – Voting at the Company Meeting in Light of their Holdings of Debentures of Zim" which is attached herewith.

{Attached PDF}

The date when the event first became known to the corporation: 20/10/2009, time: 18:00.

Reference of former documents in this regard (referring does not constitute incorporation by reference):

Former name of reporting entity:

The Israel Corporation Ltd.

Form structure updated 18/10/2009

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Name of Electronic Reporter: Noga Yatziv. Position: Company's Secretary.  
Aranha 23, Millennium Tower, Tel Aviv 61204. Phone – 03-6844517, Fax: 03-6844587, e-mail – nogay@israelcorp.com

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{Emblem of the State of Israel}

ISRAEL SECURITIES AUTHORITY

Corporations Division  
22 Kanfei Nesharim Street, Jerusalem 95464  
Tel: 02-6556444; Fax: 02-6513160  
[www.isa.gov.il](http://www.isa.gov.il)

2<sup>nd</sup> of Cheshvan 5770  
20<sup>th</sup> of October 2009

Mr. Nir Gilad, CEO

Israel Corporation Ltd. (hereinafter – “**the Company**”)

23 Aranha Street

Tel Aviv 61204

By Facsimile

No.: 03-6844587

**Re: Personal Interest of Institutional Entities – Voting at the Company Meeting in Light of their Holdings of Debentures of Zim**

In the discussions held between the staff of the Securities Authority (hereinafter – “**the Authority Staff**”) and the management of the Company and its legal counsel, relating to the injection<sup>1</sup> transaction by the Company into Zim Integrated Shipping Services Ltd. (hereinafter – “**Zim**”) to be brought for the approval of the Company's shareholders at the meeting to be convened on the 1<sup>st</sup> of November, 2009 (hereinafter – “**the Meeting**”), the Authority Staff has been asked, by you, to examine whether rules can be created, upon the fulfillment of which, the Authority Staff will not intervene in the classification of an institutional entity as someone who has no personal interest in the approval of the transaction.

In this matter, an Institutional Entity is a body which manages the monies of others – mutual fund, provident fund, advance study fund, etc. (hereinafter “**the Institutional Entity**” or the “**Managed Portfolio**”).

The personal interest which we have been asked to examine arises from the holding by a shareholder of the Company of debentures of Zim also, a Company which is almost wholly owned (99%) by the Company.

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<sup>1</sup> The transaction described in the Company's immediate report of September 9, 2009 (Reference 2009-01-227802) and in three supplementary reports to this report published on September 24, 2009, October 7, 2009 and October 19, 2009 (hereinafter – the “**Transaction**”).

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The underlying assumption of our examination is that the Institutional Entities fulfill their duty under the Companies Law, 5759 – 1999 (hereinafter – “**the Companies Law**”), to examine their personal interests in the approval of the Transaction. This duty follows from the express requirement of the Companies Law, according to which a shareholder must notify the Company whether it has a personal interest, and if it does not file such notice, then it will not vote and its vote will not be taken into account (Section 276 of the Companies Law).

After examination of all the circumstances of the case, we hereby inform you, that the Authority Staff will not intervene in the declaration of an Institutional Entity made upon voting with its shares in favour of the approval of the Transaction, that it has no personal interest in the approval of the Transaction, so far as its excess interest over the other shareholders arises from the fact that such body or other Institutional Entity from the same investment house holds debentures issued by Zim as well, **provided that none of the following exists:**

1. **The decisive consideration in its decision** – The decisive consideration in the decision of the Institutional Entity to vote with its shares in favour of the approval of the Transaction will be decided based on the holdings of the Institutional Entity, or the holdings of an Institutional Entity related to it, in the debentures of Zim.

**For this purpose the splitting of the votes may constitute an indication that the Institutional Entity has voted due to its holdings of debentures of Zim** – If, despite the voting of the Institutional Entity in favour of approving the Transaction, another Institutional Entity in the same investment house has voted against the Transaction, and these entities usually act in tandem or in coordination in connection with the analysis of the economic viability of a transaction. An example of such coordination is the fact that these entities have joint investment committees, or that the officers in the investment committees of these entities are the same individuals, or that, even though the investment committees in the same investment house are different, they usually have joint meetings in order to make voting decisions and to vote in the same way so far as the interests represented in their managed portfolios are similar.

To the extent that Institutional Entities in the same investment house usually act in tandem after having jointly analysed a transaction, and one of them has voted against

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the transaction, such may be indicative of the fact that the decision of the other entity to vote in favour of the transaction has been decided due to its consideration of its holding of debentures of Zim. Such cooperation may characterise different portfolios in the same area of funds management (e.g., cooperation between different provident funds in the same investment house), but also between different areas of funds management (e.g., the provident funds' area and the advanced study funds' area or the pension fund and the insurance area.)

2. **The Institutional Entity has not found that its interest as a creditor is significantly lower than its interest as a shareholder** – if, after examination by the Institutional Entity, of its excess interest, it has not found, that the interests of the Institutional Entity as a creditor in the Managed Portfolio is lower by 30% or more than its interest as a shareholder in the same portfolio. For this purpose –

**Managed Portfolio** – one or a number of Managed Portfolios so far as the management thereof is done jointly;

**Interest as a shareholder** – the mathematical product of the rate of holdings in the Company's capital, included in the Managed Portfolio, multiplied by the amount injected from the Company into Zim; For this purpose, in accordance with the Amended Transaction Report of October 19, 2009, the injection which is approved by the Company is in the sum of \$400 million (\$300 million, including reserve, which are to be injected into Zim, should the Transaction be approved at the meeting, and a further \$100 million which indeed were injected into Zim during the course of August 2009, but are fully secured and therefore, they will be returned to the Company should the Transaction not be approved at the meeting). It will be noted that examinations of the interest as a shareholder may also be made under economic models, however these are much more complex and require countless assumptions.

**Interest as a creditor** – the amount "salvageable" in the arrangement. For this purpose, the salvageable amount is the amount which the Institutional Entity sees at the time of voting at the debenture holders' meeting of Zim, as the amount by which the Institutional Entity improves its situation on the assumption that there will be an arrangement, relative to its situation in the absence of an arrangement (i.e. – dissolution). In other words, this amount is the difference between the present value of the amounts to be received for Zim's debentures in the Managed Portfolio on the

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assumption that the arrangement will be fulfilled, and the estimated amount expected to be received for these debentures upon dissolution.

It is to be clarified in this matter that the Authority Staff will not accept a position according to which the “salvageable” amount which the Institutional Entity sees before it when voting on Zim’s debenture arrangement, is different from its interest as a creditor when the Institutional Entity seeks to examine its personal interest in voting with the Company shares.

**Additional Comments:**

In accordance with the amendment to the Transaction Report of October 19, 2009, the general meeting of the Company which will be held on November 1, 2009 is also being asked to approve a “safety net”, at the rate of \$ 75 million, the injection of which is not certain, but rather dependant on the fulfilment of the circumstances and the conditions detailed in the said Transaction Report (including the “going concern” warning for Zim, breach of the conditions of the trust deed, etc. and other conditions). An Institutional Entity which has added part of the safety net amount to its interest as a shareholder, by reason that it has found, wearing its shareholder’s cap, that despite the arrangement, the conditions that trigger the safety net may be fulfilled and therefore it is exposed to its injection, is required to weigh the influence of the injected amount of the safety net also on its interest as a creditor.

**Our position relates only to the issue of the classification of the personal interest arising from the holding of debentures of Zim by a Company shareholder, and no interpretation is to be drawn from this on other legal issues, which may arise in connection with the said circumstances.**

We ask that you publish the contents of this letter in the Transaction Report by no later than the 21<sup>st</sup> of October 2009 before the opening of trade (i.e. before 09.30).

Yours Faithfully,

(Signed)

Eli Daniel, Adv.