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**Israel Corporation Ltd.**

Registrar Number: 520028010

**Form 121  
Public**

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

Short name: Israel Corporation

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Date of Transmission: July 6, 2014

Reference: 2014-01-106971

To:

The Securities Authority

www.isa.gov.il

To:

The Tel Aviv Stock Exchange

www.tase.co.il

**Immediate Report**

The Event: Zim - Update of Arrangement

See the Attached report.

The date when the event first became known to the corporation: July 3, 2014

Time: 14:00

The name of the authorized signatory to the report and the name of the authorized electronic signatory: Maya Alcheh-Kaplan

Position: Vice President, General Counsel and Company Secretary

Date of signing: July 6, 2014

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**Israel Corporation Ltd.**

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**Attorney Maya Alcheh-Kaplan**

Vice President

General Counsel and Company Secretary

## **ISRAEL CORPORATION**

July 6, 2014

TO:

THE SECURITIES AUTHORITY

[www.isa.gov.il](http://www.isa.gov.il)

THE TEL AVIV STOCK EXCHANGE LTD.

[www.tase.co.il](http://www.tase.co.il)

Re: **The Company's resolution regarding the Court's Decision in the Matter of the State's Special Share in ZIM Integrated Shipping Services Ltd. (hereinafter: "ZIM") and the Postponement of the Dates in Connection with the Completion of the ZIM Arrangement**

Further to the immediate report dated July 2, 2014 (Reference No. 2014-01-105141), regarding the conditions precedent for the Company's participation in the ZIM Arrangement as set forth in section 3.3.10 of the Amended Transaction Report, which was published on June 20, 2014 (Reference No. 2014-01-095184) (hereinafter: the "**Transaction Report**"), and further to the Immediate Report dated July 2, 2014 (Reference No. 2014-01-105696) regarding the Court's decision dated July 2, 2014, in respect of the updating of the terms of the State's Special Share (hereinafter: the "**Court's Decision**"), the Company hereby announces the following:

- (a) The Company has decided (through the Special Committee and with the approval of the Board of Directors) to agree to modifications in the terms of transferability of the Company's shares, which arise from the Court's Decision, after examining the implications of the Court's Decision, and the Company has reached the conclusion that the Court's Decision essentially satisfies the terms of transferability in connection with the shares of ZIM which shall be owned by the Company after completion of the Arrangement, as set forth in section 3.3.10

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(b) and section 3.1.12 of the Transaction Report (hereinafter: the "**Terms of the Transferability**"), and in any event, in accordance with the authority which allows the Company's management, with the approval of the Special Committee, to agree to a modification of the terms of the Arrangement (in accordance with section 2.1 of the Transaction Report – the "**Authority to Modify Terms**").

- (b) In view of the Company's decision, as stated in subsection (a) above, and taking into consideration the rest of the circumstances, including the making of the Court's Decision after July 1, 2014 (the date determined in the Arrangement for the satisfaction of the conditions precedent – "**the Target Date**"), and at ZIM's request, it has been decided to postpone the Target Date, as well as the date for completion of the Arrangement, including all of the procedural and technical matters (as determined, originally, for July 8, 2014 – the "**Performance Date**"), so that it shall occur not later than July 15, 2014 (hereinafter: the "**Postponed Date**").

The Company has informed and clarified to ZIM that its approval to extend the dates as aforesaid, and the performance of its part in the Arrangement, is contingent upon the satisfaction and completion of all of the terms and conditions which have been determined for performance of the Arrangement, and also, that there shall not be, on the Performance Date, any significant impediment whatsoever, as far as the Company is concerned, to the completion of the Arrangement, including any matter or event which adversely affects or which could significantly adversely affect the terms and conditions of the Arrangement as far as the Company is concerned (including the Terms of Transferability), or the value of ZIM, in the Company's discretion.

In this regard, it shall be noted that in the Court's Decision, the Court ordered, *inter alia*, a stay of performance up until July 7, 2014, at 14:00, in order to allow the State, should it so wish, to contest the Court's Decision before the Supreme Court, without any irreversible measures being taken, in the meantime, by ZIM.

The Court's decisions, as stated above, were made, *inter alia*, based on the concise reasons as set forth below:

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1. Satisfaction of the Terms of Transferability –

As stated above, on July 2, 2014, the Court's decision was made in which it was determined, in a concise manner, that the State's Special Share in ZIM would be updated in such a manner that the State's consent to the transfer of the shares in ZIM would be required in the event that such a transfer confers on the holders thereof a holding at a rate of 35% and above of ZIM's share capital (hereinafter: the "**Transfer Threshold**"), instead of a threshold of 24%, as had been the case to date. It was also determined that in any event of a transfer of shares which confers on the holders thereof a holding at a rate which exceeds 24%, but which does not exceed 35%, prior notice to the State shall be necessary, and the State shall be entitled to give notice that it objects to the transfer within 21 days, only on the grounds that the said transfer could adversely affect the State's security or any of its vital interests. In such an event, the transfer shall only be made with the Court's approval (hereinafter: the "**Security Reason**"). It was also determined, in this regard, that no modification would be made to the terms of the State's Special Share in connection with the acquisition of control, that is to say, that the State's consent would be required also in the event of the acquisition of control in ZIM (hereinafter: the "**Consent to a Change in Control**").

Section 3.3.10 of the Transaction Report specified that the Company's approval of the Arrangement was contingent, *inter alia*, upon the Terms of Transferability, pursuant to which the terms and conditions of the State's Special Share would be updated whilst converting it in alternative arrangements, which would not restrict the Company from performing transactions in shares of ZIM. The Special Committee examined the Court's decision, and, *inter alia*, the Transfer Threshold, and the Consent to a Change in Control. The Company's management and the Special Committee reached the opinion that given that the Company is expected to hold, after the Arrangement, 32% of the shares of ZIM only, a rate of holding which falls below the Transfer Threshold which was determined in the Court's Decision; and given that the Company is not expected to hold the control of ZIM; then the Terms of Transferability have, essentially, been satisfied. In this respect, the Company's management and the Committee related to the Security Reason, and

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reached the opinion that the transfer, in contrast to the Security Reason, would, in any event, appear to be irrelevant as far as the Company is concerned. In addition, the procedure determined by the Court, with regard to the resolution of disputes in connection with the existence of the Security Reason, demarcates the approval proceeding in such a manner that it is reasonable that it will allow the making of a decision within a reasonable period of time, insofar as this issue shall be relevant.

In addition, the Company's management and the Special Committee approved – in accordance with the Authority to Modify Terms – that in any event, the terms and conditions for the transferability of shares of ZIM, as arise from the Court's Decision, do not constitute a modification of the terms of the Arrangement, which could have a material adverse effect on the terms of the Arrangement pertaining to the Company, or which could have a material adverse effect on the results of the independent opinion. This conclusion is supported, *inter alia*, also in the opinion of the legal advisors of the Committee and the independent economic consultant of the Committee, who determines that insofar as the transferability threshold shall be 35%, and shall not be cancelled at all, then this will not adversely affect his opinion.

2. Extension of the Date for Performance of the Arrangement –

As is well known, the Honorable Court's decision pertaining to the satisfaction of the Terms of Transferability (which is a condition precedent, as stated above), was published only on July 2, 2014 [i.e., after the Target Date].

As of the Target Date (and as of the date of the publication of this Immediate Report), the Court's approval for the arrangement of the shareholders and the holders of options of ZIM has not yet been obtained (and the decision with regard to the State's Special Share constitutes part thereof; and it constitutes part of the total arrangement at ZIM) and ZIM has announced that it intends to file an additional motion in this matter, as well as in relation to a number of other matters which are relevant in connection with the completion of the Arrangement. In addition, as of the Target Date, a number of specific understandings of creditors and, *inter alia*, the resolutions of the meetings of the Israeli bondholders, have not been completed. This arises, *inter alia*, from

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the complexity of the proceeding, the lack of certainty regarding the updating of the Terms of Transferability, and the many entities which are involved, local and international entities alike.

In view of the foregoing, ZIM has contacted the Company to obtain its consent to extend the last date for the performance of the Arrangement, so that all of the approvals and the understandings as stated above shall be obtained by July 15, 2014 (i.e., the Postponed Date).

The Company's management, with the approval of the Special Committee and the Board of Directors, has reached the conclusion that it would be appropriate to extend the dates for the performance and implementation of the ZIM Arrangement, so that they shall occur by (and inclusively) the Postponed Date, in accordance with the Authority to Modify Terms, for the following reasons: (a) the Court's Decision was given further to a hearing held on June 29, 2014, according to which the parties were requested to inform the Court by June 30, 2014 whether they had reached an understanding, because otherwise, it was determined that a decision would be handed down in the matter. The fact that the Court's Decision – which actually satisfies the conditions precedent, as set forth above – was published only one day after the Target Date, is essentially technical, and in any event, we are talking about a minor delay, which is not attributable to the parties to the Arrangement, and it should not be deemed to be a reason not to perform the terms and conditions for an arrangement of such a broad scope and of such great importance, in which such significant efforts have been invested to date; (b) the rest of the understandings and the terms and conditions whereof the completion has been delayed, do not pertain to matters which go to the root of the matter, and therefore, they may be deemed to be procedural and technical matters only, in respect of which, in any event, it was determined in the Transaction Report that they may be completed up to 7 days after the satisfaction of the conditions precedent.

The Company's management and the Committee believe that it would not be reasonable to cause the Arrangement to expire, upon satisfaction of the essential terms and conditions for the performance thereof, due to a tiny deviation in the date for satisfaction of the conditions precedent and the

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creation of the need for a few extra days for the purpose of the completion and implementation thereof; and this is taking into consideration the extensive scope of the said Arrangement, its extremely unusual complexity, and whilst noting that for the purpose of matters of this nature, the Authority to Modify Terms has been granted.

**Sincerely yours,**

**Israel Corporation Ltd.**

The name of the authorized signatory to the report and the name of the authorized electronic signatory: Maya Alcheh-Kaplan.

Position: Vice President, General Counsel & Company Secretary.

Date of signature: July 6, 2014.