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**Israel Corporation Ltd.**

Registrar Number: 520028010

**Form 136**

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

**Public**

Sort name: Israel Corporation

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Date of Transmission: 30/04/2009

Reference: 2009-01-098166

To:  
The Securities Authority  
www.isa.gov.il

To:  
The Tel Aviv Stock Exchange  
www.tase.co.il

**Immediate Report as to a Transaction with a Holder of Control or with a Director  
Which Does not Require Approval of the General Meeting**

Regulation 37A (5) of the Securities Regulations (Periodic and Immediate Reports),  
5767 -2006

1. A report is hereby filed on the approval of a transaction pursuant to Regulation 1 of the Companies Regulations (Relief in Transactions with Interested Parties), 5760 – 2000.
2. Approval date of the transaction by the Board of Directors – 27/04/2009.
3. Summary of the main points of the transaction and summary of the reasons for approval of the transaction by the Audit Committee and the Board of Directors.

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5. Below is the wording of Regulation 1C of the Companies Regulations (Relief in Transactions with Interested Parties), 5760 – 2000: (a) The relief under Regulations 1 to 1B shall not apply to a public company if one or more shareholders holding at least one percent of the issued capital or the voting rights in the Company, have made notice of their objection to the granting of the said relief, provided that the objection has been submitted to the Company in writing by no later than fourteen days from the date on which the public company submitted the report pursuant to the Securities Law regarding the adopting of the resolution or from the date on which the amended report was submitted for the said report. (b) Where an objection has been field as stated in Sub Regulation (a), the transaction requires approval pursuant to that set out in Section 273 or 275, as the case may be.

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 15/03/2009

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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

**ISRAEL CORPORATION**

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**Adv. Noga Yatziv**

Company Secretary and Assistant to the President

April 30, 2009

To:  
The Securities Authority  
3 Canfei Nesharim st.  
Jerusalem  
via MAGNA

To:  
The Tel Aviv Stock Exchange Ltd.  
54 Ahad Haam st.  
Tal Aviv  
via MAGNA

Dear Sir/Madam,

Re: **Immediate Report - Cancellation of Charter Agreements**

Pursuant to the Companies Regulations (Relief in Transactions with Interested Parties), 5760 - 2000 (hereinafter: the "**Relief Regulations**"), Israel Corporation Ltd. (hereinafter: the "**Company**"), hereby reports as follows:

1. **Introduction**

- 1.1 Pursuant to the immediate report (transaction report) provided by the Company on March 26, 2006 and the immediate report of May 1, 2006 (hereinafter jointly: the "**Transaction Report**"), the General Meeting of the Company approved on 11.5.2006 the Framework Transaction (as such is defined in the above said reports) dealing with a multi-year cooperation agreement between Zim Integrated Shipping Services Ltd. (a company controlled by the Company) (hereinafter: "**Zim**") and Ofer (Ships Holding) Ltd., Ofer Maritime Ltd. and companies under their control (hereinafter jointly: "**Ofer Shipping**") (hereinafter: the "**Framework Transaction**"). For further details and expansion see the Transaction Report.
- 1.2 Under the Framework Transaction, on 5.11.2007 an immediate report was published according to which, *inter alia*, on July 12, 2007 Zim contracted with a Taiwanese shipyard and signed on construction and purchase contracts for 4 container ships with a capacity of 1,700 containers (TEU) each and received an option to purchase an additional 2 ships subject to identical price and conditions, an option which was realized on October 9, 2007 (hereinafter: the "**6 Ships**"). The price of each one of the ships is approximately 36.75 Million United States Dollars (hereinafter: "**Dollar**") and their delivery date was set for the years 2010-2011. In the immediate report of 5.11.2007 it was reported that Zim will transfer to Ofer Shipping, by novation of the construction and purchase contracts, its rights and obligations under the contract between it and the Taiwanese shipyard in all matters relating to the purchase of the 6 Ships, under equal conditions ("back to back"), in such a matter so that upon the signing of the novation contracts, Ofer Shipping would return to Zim the payments made to the shipyard on account of the purchase price for the 6 Ships, plus interest at a rate of 12% per annum and also that Zim would be released from its guarantees and undertakings to the shipyard in all matters relating to the purchase of the 6 Ships. At the same time, it was reported in the said immediate

report that Zim would enter into a charter transaction with Ofer Shipping under which Zim would charter the 6 Ships for a period of 12 years at a price of 17,500 Dollars per day per ship (hereinafter: the "**Charter Agreements**"). The charter fees for the ship shall include the Ships' management and operation fees (including crews, maintenance, overheads, insurance, oils, repairs, etc.). Zim was given an option to purchase 50% of each ship, from the 6 Ships, at the end of the charter period in consideration for 14.75 Million Dollars for each ship (hereinafter: the "**Purchase Option**"). For further details and expansion, see the immediate report of 5.11.2007. The arrangements which were detailed in the said immediate report were executed by Zim.

1.3 As stated in the immediate report of 5.2.2009 and in the previous and last periodic report of the Company, a number of negative developments have occurred in the international shipping market, which have continued to deepen in recent times, that include among other developments a high rate of supply of ships relative to a moderate demand rate, a fact which has led to an increasing decline in utilizing ships and transportation fees. The continuation of the difficult conditions in the international shipping market has had a negative influence on Zim including, *inter alia*, on its business results, its compliance with financial covenants and its ability to raise capital as well as its financing terms. As part of this, Zim has and is currently taking various measures aimed at coping with the changes in market conditions, including returning chartered ships to their owners. For details and expansion, see the said reports.

1.4 This report concerns the request of Zim from Ofer Shipping in connection with the cancellation of the Charter Agreements relating to the 6 Ships as well as the agreements and understandings reached with Ofer Shipping in connection with such. In this regard, it will be noted that (as is the usual practice in the shipping field) the said Charter Agreements do not contain a provision that Zim can cancel them for a certain penalty. It is standard practice and custom in the shipping market that should a charterer seek to cancel a charter agreement it must pay the full charter fees until the end of the charter period less the operating fees (in this matter, see also Section 3 below).

## 2. **The Main Points of the Transaction or Engagement**

2.1 Zim is interested in cancelling the Charter Agreements for the said 6 Ships. The cancellation of the Charter Agreements would have required that Zim, in accordance with what is customary in the shipping field, pay the ship owners (Ofer Shipping) the charter fees for the 6 Ships for the full charter period, less the operating fees (see Section 3 below). Namely, a total amount of approximately 289.1 Million Dollars (in nominal terms).

2.2 After negotiations between the parties, understandings were reached under which Ofer Shipping was willing to compromise with Zim as detailed below (hereinafter: the "**Arrangement**"):

a. In order to reduce the damage for Zim, and at the request of Zim, Ofer Shipping informed the Shipyard on 31.3.2009<sup>1</sup> about its intention to cancel the construction agreements for the 6 Ships, and this was made following negotiations conducted with the Shipyard constructing the 6 Ships, at the end of which the Shipyard agreed to place the cancellation fees at the amount of 17.5% only of the purchase price for the 6 Ships.

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<sup>1</sup> The last date on which the Shipyard was prepared to receive notice of cancellation under the conditions agreed upon with the Shipyard as stated below.

That is to say the cancellation price stands at a total sum (for the 6 Ships) of approximately 38.6 Million Dollars (hereinafter: the "**Cancellation Fees**")

- b. Under the Arrangement, Zim will pay 75% (seventy-five percent) of the Cancellation Fees amount, namely a sum of approximately 28.9 Million Dollars (in accordance with the instalment payments arrangement as detailed below); and Ofer Shipping will pay 25% (twenty-five percent) of the Cancellation Fees, that is to say the sum of approximately 9.6 Million Dollars.
- c. The Cancellation Fee amount will be paid by Zim at the following dates:
  - (a) a sum of approximately 16.5 Million Dollars will be paid to the Shipyard in September 2010; in order to enable the postponement of the payment of the said amount to September 2010, Ofer Shipping has agreed to provide, at its expense (without any further consideration from Zim) a bank guarantee in favour of the Shipyard in the sum of approximately 16.5 Million Dollars, up until September 30<sup>th</sup>, 2010, (the date at which the above said sum of 16.5 Million Dollars will be paid by Zim to the Shipyard).
  - (b) The balance of Zim's share in the Cancellation Fees in the sum of approximately 12.4 Million Dollars will be paid starting from March 15, 2012 and during a period of 8 quarters, as detailed below -

As Ofer Shipping has already paid, at the date of the transfer of the rights from Zim to it, 10% of the consideration for the 6 Ships (namely, the sum of approximately 22 Million Dollars) (see Section 1.2 above), setoff from the amount for the Cancellation Fee paid to the Shipyard, Zim will repay Ofer Shipping the balance of Zim's share in the Cancellation Fee constituting, as stated above, the sum of approximately 12.4 Million Dollars (hereinafter: the "**Repayment Amount**").

Ofer Shipping agreed to assist Zim in such a manner so that the payment of the Repayment Amount (which will bear annual interest at the rate of LIBOR for three months plus 2%, starting from the date at which the amount will be paid by Ofer Shipping) will be postponed and paid by Zim to Ofer Shipping in 8 equal quarterly payments, with the first payment occurring on March 15, 2012. It will be noted that in accordance with the checks made by Zim, the said interest rate is consistent with the customary rate in the market.
- d. Upon the Arrangement coming into force, the Charter Agreements for the 6 Ships will be cancelled and Zim will have no further liability in connection with the said 6 Ships (in this regard, see Section 2.1 above). The Arrangement will come into force after 14 days have elapsed from the date at which this report was filed as stated in Section 5.1 below or if an objection is received for the relief as set forth in Section 5.1 below, then with the approval of the General Meeting of the Company.

**It will be clarified that, if, for any reason whatsoever, the above said Arrangement does not come into force for reasons which are not dependent upon the parties (that is to say, if an objection to the said**

relief is received and the General Meeting does not approve the Arrangement), Ofer Shipping will reserve all the rights relating to the Charter Agreements, including to keep intact the obligations of Zim to charter from Ofer Shipping, in accordance with the existing Charter Agreements, six similar ships (with similar specifications) to the said 6 Ships under market conditions, plus Cancellation Fees (so that Ofer Shipping is not harmed); and in any event, the Charter Fees plus the Cancellation Fees will not exceed the existing Charter Fees. Furthermore, Zim will reserve its right for the purchase option in consideration of the above said.

3. **Explanations Regarding the Way the Arrangement Details Were Determined**

3.1 It will be noted that in the Framework Transaction, as approved by the General Meeting of the Company as stated above, a detailed and independent mechanism was set out determining what "market conditions" are. This mechanism includes, *inter alia*, referring to two of the three largest brokerage companies in the international shipping field in order to receive their position regarding the proposed transaction conditions.

3.2 Accordingly, before the approval of the Arrangement set forth in this report, and in order to properly examine the feasibility and fairness of the Arrangement, as well as the *market conditions*, evaluations of two international brokerage companies included in the "three largest brokerage companies" (as defined in the Transaction Report) were placed before the Directors of ZIM and the Company, according to which:

- a. The Cancellation Fee rate (17.5% of the price of each ship) agreed upon between Ofer Shipping and the Shipyard, is very reasonable. As far as is known, the rate of 17.5% is lower than the rates reported in reference to cancellations of other series of ships. From accumulated experience, the Shipyards usually object to the cancellation of construction contracts and demand and will demand higher rates of compensation.
- b. It is not known under present market conditions of chartering transactions of similar new ships for a charter period of twelve years, but it is reasonable that the present charter fees for similar ships chartered for such long period will be significantly lower than the price set out in the existing Charter Agreements, and this, if the present market conditions enable, at all, chartering for such long periods. The Charter Fees at the present market prices for ships of similar capacity (most probably, ships already in service) for short periods, that is to say up to two years, are significantly lower (approximately 5,750 Dollars per day for each ship).
- c. Under these circumstances, when a charterer asks a ship owner to cancel an order for ships from a Shipyard, it is reasonable that the charterer will bear all the resulting expenses caused to the ship owner. When the charterer seeks to cancel the charter agreement, it is logical and reasonable that he will bear the Cancellation Fees of the order for the ships from the Shipyard. The alternative available to the charterer is to continue the construction of the ship and to bear the full Charter Fees (including where the ship is placed in drydocking, at the request of the charterer, due to market conditions), save for those expenses which the ship owner will save due to the drydocking. The charterer will also be required to bear all the expenses involved in the placement of the ship in

drydocking and in returning it to service. It is unconceivable to envisage a scenario whereby a ship owner agrees to lose a long-term charter agreement and also to bear the payment of the cancellation fees for the ships to the Shipyard. It will be noted that the Company believes, that in light of the above said, the payment of the said Cancellation Fees by Zim, under the said circumstances, is consistent with the market conditions.

- d. In light of recent developments in the shipping market, the Arrangement between Zim and Ofer Shipping seems logical and balanced, and will exempt Zim from high charter fees for a long period, considering the present cargo market situation.
  - e. Likewise, this may enable Zim to charter ships of a similar capacity for short periods at a significantly lower price, whilst utilizing the advantages of the present and future market conditions.
  - f. One of the brokerage companies added and found that the conditions of the proposed Arrangement do not need to be considered as exceptional (and, in effect, they are considered as customary) and comply with the present market conditions and are beneficial to Zim. It will be noted that the other brokerage company expressed a position (as detailed in subsection c. above) and it transpires from its evaluation that the existing market conditions reflect, in effect, a similar conclusion.
- 3.3 In light of the above said, it transpires that the rate of the Cancellation Fees set with the Shipyard is consistent with the existing and prevailing market conditions in this period, and is even lower than such, and that the Arrangement under which Zim will pay 75% only of the Cancellation Fees amount is beneficial with Zim and grants it a considerable discount.
- 3.4 Without the Arrangement as detailed above, and considering what Zim is asking in light of its circumstances and the state of the international shipping market, not to charter these 6 Ships under its obligations in the Charter Agreements, the cancellation of the Charter Agreements would have obligated Zim, as is customary in the shipping field, to pay the ship owners (Ofer Shipping) the following amount: (a) Charter fees which Zim must pay to Ofer Shipping for 6 Ships for the full charter period, less operating fees. That is to say, a total amount of approximately 289.1 Million Dollars (in nominal terms); or (b) Should Ofer Shipping was successful in chartering out the 6 Ships to a third party at present market conditions, an amount equivalent to the difference between the present market prices for each ship and the charter fees set out in the existing Charter Agreements (17,500 Dollars per day for each one of the 6 Ships) – whichever is the lower. It will be noted that in accordance with the evaluations of the said brokerage companies there is no certainty that under the present shipping market conditions Ofer Shipping would have succeeded in chartering out all or any of the 6 Ships, for a long period, and also that there is no certainty relating to extent of charter fees which it could have received.
- 3.5 In light of the willingness of Ofer Shipping to reach the said arrangement with Zim, and in light of the consent of the Shipyard to cancel the order of the 6 Ships in consideration for cancellation fees at a rate of 17.5% of the price for each one of the 6 Ships, therefore, under the Arrangement, Zim will pay approximately 75% only of the Cancellation Fees, an amount of approximately 28.9 Million Dollars. This amount is substantially lower than the amounts which Zim would be required to bear had it not reached the Arrangement.

- 3.6 Namely, the Arrangement is expected to benefit Zim and it will save it an amount of approximately 260 Million Dollars (in nominal terms) or a lower amount considering that stated in Section 3.4(b) above. Moreover, if Zim chooses, according to its needs, following the cancellation of the Charter Agreements, to charter similar ships for a short period, then the resulting saving will be more significant with regard to the charter fees set out in the existing Charter Agreements, and this is also considering the share of Zim in the Cancellation Fee amount.
- 3.7 Moreover, Ofer Shipping has also agreed to assist Zim in such a manner that the payment of the Repayment Amount by Zim (a sum of approximately 12.4 Million Dollars) will be postponed and repaid to Ofer Shipping in 8 equal quarterly instalments starting from March 15, 2012, as detailed above.
- 3.8 Furthermore, Ofer Shipping is willing to provide (at its expense and without consideration from Zim) a bank guarantee in favor of the Shipyard in an amount of approximately 16.5 Million Dollars, up until September 30<sup>th</sup>, 2010 (the date at which the sum of 16.5 Million Dollars will be paid by Zim to the Shipyard). In this matter, it will be noted that usually, in the shipping market, it is not customary to postpone payment of Cancellation Fees in the said circumstances, however, *inter alia*, due to the bank guarantee provided by Ofer Shipping, this has become possible.

4. **A Summary of the Reasons of the Audit Committee and the Board of Directors for the Approval of the Arrangement**

The Company's Audit Committee and the Board of Directors, after being persuaded that Zim's management, Audit Committee and the Board of Directors, have examined the various aspects of the Arrangement and its viability for Zim and following the recommendation of the Company's management, they examined the Arrangement and approved it, based on the recommendation of the management of Zim and the Audit Committee and the Board of Directors at Zim and also, *inter alia*, considering the stated in Section 3 above and based on the following main considerations:

- 4.1 In accordance with the outlines of the original transaction, the ships were purchased by Zim and that time, at Zim's request, considering the economic considerations, including financing considerations, the rights for which were purchased from it by Ofer Shipping, along with the agreement that Zim would charter these ships for a period of 12 years.
- 4.2 The request to cancel the chartering of the 6 Ships came from Zim as part of the measures it takes in order to contend with the changes in the market situation.
- 4.3 It transpires that in accordance with accepted practices, Zim must pay for the cancellation of the charter of 6 Ships the charter fees for the 6 Ships for the entire charter period, less operating fees - an amount of approximately 289.1 Million Dollars (in nominal terms).
- 4.4 Alternatively, and if the ship owner succeeds in chartering out the 6 Ships to a third party for a long period at present market conditions, Zim would be required to pay the difference between the present market prices of the charter fees per day for each ship and the sum of 17,500 Dollars (the daily charter fees under the Charter Agreements for each ship).
- 4.5 Therefore, the proposed Arrangement is likely to save Zim an amount evaluated at approximately 260 Million Dollars (in nominal terms), an amount constituting the difference between the payment of Zim's share in the Cancellation Fees and the payments which ought to have been paid to the ship owner as stated in Section 4.3 above. Alternatively, the proposed Arrangement

is likely to save Zim a lower sum reflecting the difference between the payment of Zim's share in the cancellation fees and the payments which Zim was required to pay to the ship owner as stated in Section 4.4 above. In any event, it transpires that the amount saved by Zim is very significant.

- 4.6 The consent of Ofer Shipping to assist Zim in such a manner so that the payment of the repayment amount by Zim (the sum of approximately 12.4 Million Dollars plus interest as stated) will be postponed and returned to Ofer Shipping in 8 equal quarterly instalments starting from March 15, 2012 - is beneficial for Zim, eases its cash flow and is advantageous to it.
- 4.7 Moreover, the consent of Ofer Shipping to provide, at its expense (and without consideration from Zim) a bank guarantee in favour of the Shipyard in the sum of approximately 16.5 Million Dollars, up until September 30<sup>th</sup>, 2010 (the date at which the sum of 16.5 Million Dollars will be paid by Zim to the Shipyard), is also beneficial to Zim, eases its cash flow and advantageous to it.
- 4.8 Likewise, the Board of Directors has been satisfied that the amounts and the practices in the market have been verified and ascertained by two of the companies included in the "three largest brokerage companies" (as defined in the Transaction Report) which have provided their evaluations as stated above.
- 4.9 It has also been taken into account that the Cancellation Fees will be paid, in effect, to the benefit of an unrelated third party (the Shipyard).
- 4.10 In light of all the above said, the Arrangement which is the subject matter of this report, considering the entirety of its details, is in the ordinary course of business of Zim, at the present time, under market conditions, and is beneficial to Zim.

The above said Arrangement has been unanimously approved by all the Directors participating at the said meetings.

5. **Additional Comments**

- 5.1 Under Regulation 1C of the Relief Regulations: (a) The relief under Regulation 1 of the Relief Regulations will not apply to the company if one or more shareholders holding at least 1% of the issued capital or the voting rights in the company has given notice of objection to the providing of the said relief, provided that the objection has been submitted to the Company in writing by no later than 14 days from the date at which this report is filed or from the date at which the amended report for this report is submitted, if such has been submitted; (b) If an objection has been submitted as stated in subsection (a) above, the said engagement will require approval pursuant to that set out in Section 275 of the Companies Law, 5759 - 1999.  
In case there is an objection for the said relief and the general meeting of the Company does not approve the said Arrangement, then, as stated above, Ofer Shipping will reserve all its rights relating to the Charter Agreements, including leaving intact the undertakings of Zim to charter from Ofer Shipping, in accordance with the terms of the existing Charter Agreements, six similar ships (of similar specifications) to the said 6 Ships, under market conditions, plus cancellation fees (so that Ofer Shipping is not harmed); In any event, the charter fees plus the Cancellation Fees will not exceed the existing charter fees. Furthermore, Zim will reserve its right to the purchase option, considering the above said.
- 5.2 If no such objection is submitted for the providing of the relief under pursuant to this report, the said Arrangement will come into full force whilst being relied upon by the relevant parties for its validity.

- 5.3 The engagements included in the above said Arrangement have been approved: on April 20, 2009 by the Audit Committee of Zim; on April 20, 2009 by the Board of Directors of Zim; on April 27, 2009 by the Audit Committee of the Company; on April 27, 2009 by the Board of Directors of the Company (a resolution which came into force on April 30, 2009).

Sincerely,  
Israel Corporation Ltd.