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THE ISRAEL CORPORATION

The Israel Corporation Ltd.

Millennium Tower, 23 Aranya Street, P.O. Box 20456, Tel Aviv 61204
Tel: 03-6844517; Fax: 03-6844587

Adv. Maya Alchek-Kaplan

General Counsel (In house) & Company Secretary

August 31, 2010

To:
The Securities Authority
Through MAGNA

To:
The Tel Aviv Stock Exchange Ltd.
Through MAGNA

Dear Sir/Madam:

Re: **The Israel Corporation Ltd. (the "Company") - Immediate Report
Regarding a Substantial Private Offering and a Private Offering which Is Not a
Substantial Private Offering and Regarding the Terms of Tenure and Employment
of the Chairman of the Board of Directors**

Pursuant to the Securities Regulations (Periodical and Immediate Reports), 5730 - 1970 (the "**Reporting Regulations**"), pursuant to the Securities Regulations (Private Offering of Securities in a Listed Company), 5760 - 2000 (the "**Private Offering Regulations**"), the Company respectfully reports as follows:

1. **Introduction**

1.1 Further to a number of meetings held at the compensation committee and the audit committee of the Company regarding the compensation of the Company's senior executives, the Company's board of directors has approved, on the 30th of August, 2010, after the approval of the audit committee and after receiving the recommendation of the compensation committee, the adopting of an options plan (the "**Options Plan**") and the private allocation of options exercisable into shares of the Company in accordance with the Options Plan, for ten of the Company's senior executives as detailed below: (a) to the chairman of the Company's board

of directors, Mr. Amir Elstein - 12,000 Option Warrants for the purchase of Company shares; **(b)** to the Company's CEO Mr. Nir Gilad - 15,000 Option Warrants for the purchase of Company shares; **(c)** to the CFO of the Company, Mr. Avisar Paz - 14,000 Option Warrants for the purchase of Company shares; **(d)** to the Vice President of Business Development and Strategy of the Company, Mr. Eran Sarig - 6,500 Option Warrants for the purchase of Company shares; **(e)** to the Company's General Counsel (In house) and Company Secretary, Adv. Maya Alcheh-Kaplan - 6,500 Option Warrants for the purchase of Company shares; **(f)** to the Vice President of Communications and Regulation of the Company, Mr. Eli Goldsmith - 4,000 Option Warrants for the purchase of Company shares;¹ **(g)** to 4 senior employees who are not directors, or interested parties or office holders in the Company - 7,600 Option Warrants for the purchase of Company shares.

- 1.2 Furthermore, the board of directors approved, after the approval of the audit committee, and after receiving the recommendation of the compensation committee, that up to 19,400 additional Option Warrants for the purchase of Company shares may be allocated in the future to other office holders in the Company in accordance with the Option Plan and subject to the approval of the concrete allocations, in accordance with law.
- 1.3 Moreover, on the 30th of August, 2010, the Company's board of directors approved, after approval of the audit committee and after receiving the recommendation of the compensation committee, the terms of tenure of the chairman of the Company's board of directors, Mr. Amir Elstein, in effect from the date of commencement of his tenure as chairman of board of directors on July 1, 2010, as detailed in Section 16 below.

¹ Mr. Goldsmith holds options allocated to him under a previous plan; Mr. Goldsmith is not yet entitled to exercise such options. Accordingly, the Options which will be allocated to Mr. Goldsmith under this Plan and the dates of his entitlement to them, are as follows: half at the end of two years from the allocation date and half three years after the allocation date.

1.4 The terms of tenure and employment of Mr. Amir Elstein, including his participation in the Options Plan of the Company, as detailed in this report, are subject to the approval of the general meeting which will be convened within the framework of a separate report.

2. **General**

2.1 The allocations, which are the subject matter of this report, to the chairman of the board of directors and to the Company's CEO fall within the ambit of a "Substantial Private Offering"; the allocations, which are the subject matter of this report to Offerees other than the chairman of the board of directors and the CEO of the Company do not fall within the ambit of a "Substantial Private Offering" or an "Exceptional Private Offering"; as such terms are defined in Regulation 1 of the Private Offering Regulations.

2.2 The Offerees do not include employees who are interested parties in the Company by virtue of their holdings of shares in the Company, save for the Company's CEO and the chairman of the board of directors who are interested parties holding and/or who shall hold, as the case may be, securities of the Company at a rate of less than 5% of the Company's share capital.

2.3 All the Exercise Shares to be allocated in accordance with this report shall be fully paid-up shares.

2.4 All the Exercise Shares to be allocated in accordance with this report will be registered in the name of the nominee company.

2.5 It is clarified that the Option Warrants to be allocated to the Offerees will not be listed.

2.6 The Option Warrants will be allocated to the Offerees, where possible, pursuant to the provisions of Section 102(b)(2) of the Income Tax Ordinance (New Version), 5721 - 1961, on the capital gains track, through a trustee.

2.7 The purpose of granting the options under the Options Plan, as determined by the board of directors, is to provide an incentive for the further long-term employment of talented and skilled executives in the Company and to provide an incentive to the Offerees in accordance with the Plan to continue to contribute to the Company and its success in the future by means of capital compensation linking the remuneration of the office holders to the creation of value for the Company's shareholders, the economic value of which is related to the business results of the Company in the long term and the Company's share price on the Tel Aviv Stock Exchange Ltd. (the "**Stock Exchange**"), and by so doing to advance the best interests of the Company and to maximize its profits in the long term. The Options Plan is further to previous incentive plans of the Company and ensures the continuation of the incentive to Company's senior executives for whom the Company wishes to provide incentive and to retain in the employ of the Company. The granting of the Options under the Plan is intended to grant the Offerees an appropriate incentive to secure their absorption and/or continued employment in the Company, considering the wage policy of the Company, the duties of each Offeree, his/her position, ability and contribution to the Company, and in so doing to bring about the advancement and development of the Company's business.

3. **The Identity of the Offerees**

As stated, the Option Warrants which are the subject matter of this report will be allocated to office holders in the Company (employed by a subsidiary of the Company, I.C. Management and Consulting (1986) Ltd.), as follows:

- 3.1 The chairman of the Company's board of directors, Mr. Amir Elstein ("**Offeree 1**").
- 3.2 The Company's CEO, Mr. Nir Gilad ("**Offeree 2**").
- 3.3 The Company's CFO, Mr. Avisar Paz ("**Offeree 3**").

- 3.4 The Vice President for Business Development and Strategy of the Company, Mr. Eran Sarig ("**Offeree 4**").
- 3.5 The General Counsel (In house) and Company Secretary, Mrs. Maya Alcheh-Kaplan ("**Offeree 5**").
- 3.6 The Vice President of Communications and Regulation of the Company, Mr. Eli Goldsmith ("**Offeree 6**").
- 3.7 Four senior employees who are not directors or interested parties or office holders in the Company ("**the Additional Offerees**").

Offerees 1, 2, 3, 4, 5, 6 and the Additional Offerees will be hereinabove and hereinafter jointly referred to as: "**the Offerees**"; and each one of them will be referred to as "**the Offeree**".

4. **The Offered Securities**

Subject to the receiving of all the approvals as stated in Section 11 below, 65,600 (non-tradable) Option Warrants , convertible to up to 65,600 ordinary shares of NIS 1 par value each of the Company, constituting approximately 0.84% of the issued and paid-up share capital of the Company, will be allocated.

Pursuant to the resolution of the Company's board of directors and subject to the approval of the general meeting with respect of Offeree 1, the following Option Warrants will be allocated: ²

The Offeree	Position	No. of Option Warrants	Rate of Holdings in % on the Assumption of Full Exercise of the Options ³		Fully Diluted Rate of Holdings in % (on the Assumption of Full Exercise of the Options)	
			In Capital	In Voting	In Capital	In Voting
Amir Elstein	Chairman of the Board of Directors	12,000	0.15	0.16	0.15	0.16
Nir Gilad	CEO	15,000	0.19	0.20	0.36	0.37

² The rate of holdings set forth in the table is assuming the full exercise of the option warrants. This is a theoretical assumption only, because in effect, upon exercising of the Option Warrants, the full shares arising from such will not be allocated to the Offeree/s, but rather only shares in a quantity reflecting the amount of the monetary benefit embodied in the Option Warrants, that is to say, the difference between the rate of the ordinary share of the Company at the time of the exercising and the exercise price of the Option (see Section 5.3 below).

³ Subject of this Plan only.

Avisar Paz	CFO	14,000	0.18	0.18	0.30	0.30
Eran Sarig	VP Business Development & Strategy	6,500	0.08	0.08	0.08	0.08
Maya Alcheh-Kaplan	General Counsel (In house) and Company Secretary	6,500	0.08	0.08	0.08	0.08
Eli Goldsmith	VP Communications & Regulation	4,000	0.05	0.05	0.12	0.12
Four Additional Offerees	Employees who are not Office Holders	7,600	0.10	0.10	0.13	0.13

5. The Terms of the Issued Securities

As stated, the Option Warrants offered to the Offerees are non-tradable and according to each one of them, the Offeree will be entitled to purchase, from the Company, one ordinary share of the Company at par value of NIS 1 under the terms set forth below ("**Option Warrants**").

5.1 The Terms of the Option Warrants - Division into Tranches, Exercise Price, Exercise Periods, Non Tradability and Transferability

5.1.1 The Entitlement to Receive Option Warrants

The entitlement of each one of the Offerees to receive the Option Warrants currently grated will be crystallized in three tranches:⁴

- a. On the 31st of August, 2011 the entitlement of the Offerees to receive one-third of the total quantity of the Option Warrants will be crystallized (the "**First Tranche**");
- b. On the 31st of August, 2012, the entitlement of the Offerees to receive another third of the total quantity of the Option Warrants will be crystallized (the "**Second Tranche**");
- c. On the 31st of August, 2013, the entitlement of the Offerees to receive a further third of the total quantity of the Option Warrants will be crystallized (the "**Third Tranche**").

5.1.2 The Exercise Price

⁴ Regarding the entitlement date of Mr. Goldsmith, see Footnote No. 1.

The exercise price of each Option Warrant will be equivalent to the amount of NIS 3,119 per share. The exercise price has been determined on the basis of the closing rate known for the Company's share on the Stock Exchange at the date of the approval by the board of directors for the allocations which are the subject of this report, that is to say, the closing rate set on the 29th of August, 2010. The exercise price will be linked to the Consumer Price Index known on the 30st of August and up until the exercise date.

5.1.3 The Exercise Periods of the Option Warrants

- a. The Option Warrants included in the First Tranche may be exercised (subject to the terms of the Plan) starting from the 30th of September, 2012 and up until the 31st of August, 2013;
- b. The Option Warrants included in the Second Tranche may be exercised (subject to the terms of the Plan) starting from the 30th of September, 2012 and up until the 31st of August, 2013;
- c. The Option Warrants included in the Third Tranche may be exercised (subject to the terms of the Plan) starting from the 31st of August, 2013 and up until the 31st of August, 2014.

It is clarified that at the end of each exercise period as stated above (subject to the terms of the Plan), the relevant Option Warrants, which have not been exercised, will automatically expire.

5.1.4 Non Tradability and Transferability

The Option Warrants to be allocated to the Offerees under the Options Plan will not be listed for trade on the Stock Exchange. The Exercise Shares transferred by the Company to the Offeree upon the exercise of the Option Warrants (the "**Exercise Shares**")

will be listed on the Stock Exchange shortly after the date of their allocation and they shall be equivalent in rights, for all intents and purposes, to the ordinary shares at par value of NIS 1, existing in the Company's capital.

The Option Warrants and the rights thereunder are a personal right and cannot be sold or transferred (including by way of charge), and shall not be subject to sale in execution proceedings, attachment or similar proceedings, save in the case of death or transfer to a guardian in accordance with law in the case of legal incapacity, provided that in the case of such transfer (and as a condition for its perfection) the transferee undertakes to fulfill the provisions of the Plan and the allocation agreement.

During the Offeree's lifetime (and so long as the Offeree has legal capacity under the law), all the rights of the Offeree to acquire shares under the Plan may be exercised by the Offeree only, and any action made contrary to the above said, whether directly or indirectly, with immediate or future effect, shall be void.

Up until the date at which the Option Warrants will actually be exercised, if exercised, the Offerees will not be vested with any right attached to the Exercise Shares and they will not be deemed to be a class of shareholders or creditors of the Company, including in regards to any matter related to the Companies Law, 5759 - 1999, including in the matter of participation in general meetings of the Company and in the matter of Sections 350 and 351 of the said Law.

5.2 **The Terms of the Option Plan in the Case of Termination of Employment or Tenure**

5.2.1 In the case of termination of labor relations between the Company (or a wholly owned subsidiary) and the Offeree (or the end of the tenure of the Offeree as an office holder in the Company, as the

case may be)⁵ for any reason whatsoever, save for the circumstances set forth in Section 5.2.3 below, the right of the Offeree in connection with the Option Warrants to be allocated to him/her shall only be in respect of Option Warrants for which the entitlement of the Offeree to receive them was crystallized prior to the termination or end date of his employment or tenure (as the case may be), and they may be exercised (subject to the restrictions of the provisions of Section 102 of the Income Tax Ordinance) only for a period of 180 days from the date of the termination of the labor relations, or, as the case may be, the end of his/her tenure (unless the expiry date of the Options occurs earlier, then the last exercise date will be brought forward to the above said expiry date). All other Option Warrants will expire at the termination or end date of the employment or tenure of the Offeree.

It is hereby clarified that if the lockout period has not yet ended pursuant to the provisions of Section 102 of the Income Tax Ordinance, then the period of 180 days mentioned in this Section will end 180 days after the end of the above said lockout period. If the lockout period has ended in accordance with Section 102 of the Income Tax Ordinance, such 180 days period will end 180 days after the end of the employer/employee relations or the end of the tenure, as the case may be.

5.2.2 In addition to the above said, the audit committee and the Company's board of directors, with the recommendation of the CEO and/or the chairman of the board of directors, as the case may be, shall consider an expansion of the Offeree's entitlement in connection with the exercise of the Option Warrants so that the

⁵ In regards to the Options Plan, "**termination of labor relations**" shall mean - the termination date of employer/employee relations between the Offeree and the Company, or expiry of the prior notice period, according to the later. It is clarified that the termination of the labor relations between the Company or a subsidiary due to the move of the Offeree, with the approval of the Company's board of directors, to a position in a company under the control of the Company, will not be deemed to be termination of labor relations for the purpose of such Plan.

Offeree will be entitled to exercise all or part of the Option Warrants included in the Tranche for which the right of exercise would have first crystallized after the end of the employment or tenure (the "**Additional Amount**"). It is clarified that nothing stated in this Section shall obligate the Company or any of its organs to approve (or recommend) such expansion of the Offeree's entitlement to exercise the Option Warrants for which his exercise entitlement has not yet crystallized at the date of termination of the labor relations or the tenure and that the decision in this matter is exclusively held by them, through their competent organs. In the case of such expansion, which has been duly approved, the right of the Offeree to exercise the Additional Amount of the Option Warrants will be available for a period of up to 180 days only in accordance with the terms set forth in Section 5.2.1 above which will also apply to the Additional Amount. It is clarified that this Section shall not apply in the circumstances of termination of labor relations or tenure set forth in Section 5.2.3. below.

5.2.3 In the case of termination of employment/tenure of the Offeree due to his dismissal under circumstances which, in the view of the Company (or the subsidiary), under law, confer the Company with the right of dismissal without severance pay, all the Option Warrants offered to the Offeree under the Option Plan will immediately expire at the dismissal date, including those which he was duly entitled to exercise by that date and which he has not actually exercised.

5.3 **The Exercise Procedure**

5.3.1 If an Offeree wishes to exercise an Option Warrant, subject to the fulfillment of the terms of the Option Plan, he will notify the Company in writing about the demand for exercise (the "**Exercise Notice**") by no less than one business day before the proposed

exercise date (the "**Exercise Date**"). At the time of the exercise, shares will be transferred to the Offeree in the value of the benefit only, as detailed below, and accordingly the Exercise Price stipulated in the allocation agreement is relevant only for the purpose of determining the quantity of Exercise Shares to which the Offeree will be entitled at the Exercise Date of the Option Warrants. Where Exercise Notice has been delivered by the Offeree, the following shall apply:

5.3.2 A calculation will be carried out of the difference between:

A. The closing rate of the ordinary share of the Company on the Stock Exchange on the date of the Exercise Notice (the "**Effective Date**"), multiplied by the number of Exercise Share which are the subject of the Option Warrants for which the Exercise Notice was given (adjusted as stated in Section 5.4 below).

and:

B. The Exercise Price of each Option Warrant (subject to the adjustments set forth in Section 5.4 below), multiplied by the number of Option Warrants for which the Exercise Notice was given.

This difference will constitute the financial bonus amount due to the Offeree at the Exercise Date (the "**Monetary Bonus Amount**").

5.3.3 The Company will transfer to the Offeree an amount of Exercise Shares whose market value, according to the Effective Rate, is equivalent to the Monetary Bonus Amount only. Any share fraction received from the above said calculation will be rounded off upwards to the nearest whole share.

- 5.3.4 In accordance with the above said, at the Exercise Date of the Option Warrants, the Offeree will not actually pay the Company any amount for the exercise of the Option Warrants.
- 5.3.5 It is clarified that the Exercise Price will include the nominal value of the shares allocated to the Offerees, should they choose to exercise the Option Warrants. The Offerees will not be required to pay the nominal value of the shares in addition to the Exercise Price and the Company will take the measures required for the payment of the nominal value of the Exercise Shares.
- 5.3.6 After receiving the Exercise Notice for the Option Warrants in accordance with the above said terms, the Company will forward to the trustee <below> share certificate/s for the above said shares, in the name of the above said Trustee, or will credit the above said shares to the securities account of the Trustee to serve for this purpose. In the case where the Exercise Notice is delivered after the expiry of the lockout period for the purpose of Section 102 of the Income Tax Ordinance as set forth below, the Offeree may, at his discretion, order the Company whether to transfer the shares into his name or into the Trustee's name, provided that if the Offeree chooses that the shares be transferred into his name (the Offeree's name), the allocation will be subject to the tax applicable to the Offeree.

5.4 **Provisions for the Protection of the Offeree**

- 5.4.1 If during the period following the granting of the Option Warrants to the Offeree (including through the Trustee) the Company distributes bonus shares to its ordinary share holders, the rights of the Offeree will be reserved in the following manner: Immediately after the effective date for distribution of the bonus shares (the "**Effective Date**"), the number of Exercise Shares, which the Offeree is entitled to receive, will be increased by the adding of the

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 yet to exercise) immediately prior to the Effective Date. It is clarified that such adjustment shall apply to all the Option Warrants which have not yet been exercised by the Effective Date (including with respect of such Option Warrants which the Offeree was not entitled to exercise at the Effective Date). The Company will hold a sufficient amount of ordinary shares of the Company to secure the exercise right of the Option Warrants offered by it.

5.4.2 If the Company is a party to an agreement or arrangement of shares exchange (such as a merger or reorganization transaction) (hereinafter: the "**Exchange Transaction**") in which the holders of the ordinary shares of the Company are offered to exchange these shares with securities of any other corporation, the Company may obligate the Offeree, for all the Option Warrants held by him or for him and which have not yet been exercised, to receive option warrants exercisable into shares of the other corporation, instead of the Option Warrants of the Company held by him, and this in accordance with the exchange ratio that shall be determined for all the holders of ordinary shares of the Company, provided that the total Exercise Price for all the exchanged option warrants to be allocated will be equivalent to the total Exercise Price for all those Option Warrants held by the Offeree or for him and which have not yet been exercised.

5.4.3 In the case of issuance of rights by the Company to the holders of ordinary shares during the period after the granting of the Option Warrants to the Offeree (including through the Trustee), on the "ex rights" date, the Exercise Price of each Option Warrant (which up until that time has not been exercised) will be reduced by an amount equivalent to the bonus component. It is clarified that the

said adjustment will apply to all the Option Warrants which, by the Effective Date for the issuance of the rights, have not yet been exercised (including with respect of Option Warrants which the Offeree was not entitled to receive or exercise at the Effective Date for the issuance of the rights). In this matter, "the bonus component" shall mean: the difference between the share price on the Stock Exchange which, in accordance with that stated in the prospectus for the issuance of the rights, served as a basis for calculation of the "ex rights" share price which was stipulated in the prospectus, and the "ex rights" share price in accordance with the above said prospectus.

5.4.4 In any event of cash payment of a dividend by the Company to the holders of its ordinary shares, in the period after the granting of the Option Warrants to the Offeree (including through the Trustee), on the "ex dividend" date determined by the Stock Exchange, the Exercise Price of the Option Warrants which have not yet been exercised and which have not expired by that date will be reduced by the amount of the dividend paid for each share of the Company. Should it be determined, in the allocation agreement, that linkage differentials are to be added to the original Exercise Price, then linkage differentials will also be added to the dividend amount reduced from the Exercise Price as stated in this Section (as to be determined in the allocation agreement) starting from the date of the distribution of the dividend and up until the Exercise Date. It is clarified that such adjustment will apply to all the Option Warrants which at the Effective Date for the payment of the dividend, have not yet been exercised (including with respect of Option Warrants which the Offeree was not entitled to receive or exercise at the Effective Date for the payment of the dividend).

5.4.5 If the Company carries out a consolidation or division of its ordinary shares into shares of a different nominal value, the

required adjustments shall apply at the consolidation or division date (as the case may be) for the Exercise Shares.

5.4.6 It is clarified that all the securities to be allocated to the Offeree for the Option Warrants or the Exercise Shares and all rights thereunder (such as bonus shares pursuant to Section 5.4.1 above, Option Warrants and/or shares of another corporation pursuant to Section 5.4.2 above and shares of a different nominal value pursuant to Section 5.4.5 above) will also be deposited with the Trustee, and the same terms applicable to the Option Warrants and Exercise Shares shall apply to them, *mutatis mutandis*, and the same taxation track.

For the avoidance of doubt, it is clarified that that stipulated in this Section 5.4 will apply with respect of any relevant Offeree, starting from the date of the granting of the Option Warrant to that Offeree (including through the Trustee).

6. **Trust Arrangement within the Framework of the Provisions of Section 102 of the Income Tax Ordinance**

6.1 The Company will approach the assessing officer to receive his approval (or, 30 days after the filing of the Plan - its request will be deemed as approved), that the provisions of Section 102 of the Income Tax Ordinance apply to the allocation of the Option Warrants under the Plan, in the capital gains track of allocation through a trustee (the said Section 102 and the rules and regulations promulgated thereunder shall hereinafter be jointly referred to as: the "**Provisions of Section 102**").

6.2 Under the Provisions of Section 102, the Option Warrants will be allocated to the Trustee for the Offerees, and the Trustee will act vis-à-vis the Option Warrants and the Exercise Shares pursuant to the Provisions of Section 102 and also in accordance with the trust instructions and the exercise procedure of the Option Warrants and the sale of the Exercise Shares, as shall be determined between the Company and the Trustee.

- 6.3 Pursuant to the Provisions of Section 102, and without derogating from the above said, the following provisions shall apply:
- 6.3.1 The Trustee will hold the Option Warrants and the shares arising from the exercise thereof for a period of 24 months from the allocation date of the Option Warrants to the Offeree and their deposit with the Trustee (the "**Lockout Period**").
- 6.3.2 The Offeree will not be entitled to sell or receive, from the Trustee, shares which have been issued as a result of the exercise of the Option Warrants and/or other shares which have been issued due to the execution of the adjustments, pursuant to Section 5.4 above, including shares which have been issued as a result of the exercise of rights, including bonus shares, before the Lockout Period has elapsed.
- 6.3.3 Notwithstanding the above said, if the said sale or transfer occurs during the course of the Lockout Period, the provisions (including the sanctions) set forth in this matter under Section 102 shall apply to the Offeree.
- 6.3.4 The Trustee will not transfer shares to the Offeree which have been issued as a result of the exercise of the Option Warrants, before the full payment of the tax liability arising from the Option Warrants allocated to the Trustee for the Offeree and/or from the shares to be issued as a result of the exercise thereof, as stated.
- 6.3.5 Subject to the terms of Section 102, no use shall be made of the voting power arising from the Exercise Shares during the period in which the Trustee shall hold the Exercise Shares for the Offeree.
- 6.3.6 The Trustee shall not undertake any transaction or act in the shares, shall not transfer, assign, withdraw, foreclose them or willingly charge them and will not give any power of attorney or deed of transfer for them, whether immediately valid or valid at a future

date, save for transfer pursuant to a will or in accordance with law, unless until after the payment of the applicable tax for the allocation thereof or after the payment of the said tax has been secured; where shares have been transferred pursuant to a will or in accordance with law, the Provisions of Section 102 shall apply and the provisions of these rules shall apply to the heirs or transferees of the employee, as the case may be.

6.4 The Trustee, for the purpose of this plan, will be the accountant Ilan Ezra. The Company shall be entitled to determine, at its discretion, from time to time, another trustee, subject to the Provisions of Section 102.

7. **Taxation**

The Offeree will bear the relevant tax for the allocation of the Option Warrants, for the exercise thereof, and also for the sale of the Exercise Shares, as well as for any transaction or action in the Option Warrants or the Exercise Shares in accordance with the Options Plan (including the exchange of the shares in an Exchange Transaction as defined in Section 5.4.2 above) if such tax applies. In this context, the Offeree agrees and authorizes the Company and the Trustee to withhold, at source (including, if required, from a number of Exercise Shares or from the consideration for the sale thereof) any such tax which shall be applicable for the exercise of an Option Warrant and/or for the sale of the Exercise Shares, and the Offeree undertakes to make all arrangements required in order to enable such tax withholding. Moreover, the Offeree undertakes to exempt the Company and the Trustee from liability, and to indemnify them, in connection with any such tax liability (including for linkage differences or fines), including in connection with the duty to withhold tax at source. The Offeree undertakes to fulfill the Provisions of Section 102 and the trust instructions and the exercise procedure of the Option Warrants and the sale of the Exercise Shares, as shall be agreed upon between the Company and the Trustee and which constitute an integral part of the terms of the Options Plan and the terms of any allocation

agreement to be signed thereunder. The Company will not be liable to pay any tax payment for the allocation of the Option Warrants under the Option Plan.

8. **The Economic Value of the Offered Securities**

8.1 The economic value of each Option Warrant included in the first Tranche is as follows: approximately NIS 1,207.5; the economic value of each Option Warrant included in the second Tranche is: approximately NIS 1,207.5; the economic value of each Option Warrant included in the third Tranche is: approximately NIS 1,274.1.

The aggregate economic value of all the Option Warrants to be granted to Offeree 1 is NIS thousand 14,754.;⁶

The aggregate economic value of all the Option Warrants to be granted to Offeree 2 is NIS thousand 18,443 ;

The aggregate economic value of all the Option Warrants to be granted to Offeree 3 is NIS thousand 17,213;

The aggregate economic value of all the Option Warrants to be granted to Offeree 4 is NIS thousand 7,992;

The aggregate economic value of all the Option Warrants to be granted to Offeree 5 is NIS thousand 7,992;

The aggregate economic value of all the Option Warrants to be granted to Offeree 6 is NIS thousand 4,963;

The aggregate economic value of all the Option Warrants to be granted to the Additional Offerees is NIS thousand 9,344.

8.2 The economic value of such Option Warrants has been calculated in accordance with the "Black and Scholes" formula, taking into account the closing rate of the Company's shares on the Stock Exchange on the 29th of August, 2010, the closing rate known at the date of the approval by the

⁶ The economic value of all the Option Warrants to be granted to Offeree 1 will be updated and reported upon the approval of the general meeting of the Company of the said allocation.

Company's board of directors, which was NIS 3,119 per share, with the annual standard deviation of the share being: in connection with the first Tranche and the second Tranche: 64.05%, and in connection with the third Tranche: 56.97%. The annual capitalization rate with respect of the first and second Tranche: -0.03% and with respect of the third Tranche: 0.25%.

8.3 In calculating the above economic value, the following assumptions were taken into account:

8.3.1 All the Option Warrants will be exercised half a year before the end of the Exercise Period;

8.3.2 The calculation of the economic value does not take into account the fact that the Option Warrants will not be listed, and does not take into account the vesting period and the Lockout Period.

9. Details regarding the Company's Share Capital

The authorized share capital as of the date of this report (in nominal New Israel Sheqels) of the Company is NIS 160,000,000, divided into 160,000,000 ordinary shares at par value of NIS 1.00 each (the "**Ordinary Shares**"). Out of such authorized share capital 7,698,467 Ordinary Shares have been issued and paid up.

The following table sets forth the holdings of Offeree 1 and 2, the chairman of the board of directors and the Company CEO, in the Company's share capital (voting rights and capital), the holdings of interested parties in the Company (by virtue of holdings in the Company shares, and the holdings of the other shareholders in the Company:

Shareholder	Amount & Rate of Holdings in the Issued & Paid Up Capital and Voting Rights in the Company		Amount & Rate of Holdings in the Issued & Paid Up Capital and Voting Rights in the Company, After the Exercise of all the Option Warrants which are the Subject Matter of this Report			
			Without Dilution		Fully Diluted	
	No. of Shares	Rate in % in the Capital (Voting)	No. of Shares	Rate in % in the Capital (& In Voting)	No. of Shares	Rate in % in the Capital (& In Voting)
Chairman of the Board of Directors	-	-	12000	0.15(0.16)	12000	0.15(0.15)
The Company CEO	-	-	15000	0.19(0.20)	28333	0.36(0.37)
Millennium Elad Investments Ltd.	3613446	46.94 (47.42)	3613446	46.54(47.01)	3613446	46.28(46.74)

Idan Ofer	296597	3.85(3.89)	296597	3.82(3.86)	296597	3.80(3.84)
Ofer Holdings Group Ltd.	225472	2.93(2.96)	225472	2.90(2.93)	225472	2.89(2.92)
Kirby Investments Inc.	57054	0.74(0.75)	57054	0.73(0.74)	57054	0.73(0.74)
Bank Leumi Israel Ltd.	1382802	17.96(18.14)	1382802	17.81(17.99)	1382802	17.71(17.89)
I.C. Management & Consulting (1986) Ltd.	77609	1.01 (0)	77609	1.00 (0)	77609	0.99(0)
Amnon Leon	1479	0.02(0.02)	1479	0.02(0.02)	1479	0.02(0.02)
Yaakov Amidror	9	0(0)	9	0(0)	9	0(0)
The Other Shareholders	2043999	26.55(26.82)	2082599	26.82(27.09)	2112699	27.06(27.33)

10. **The Consideration for the Offered Securities and the Means by Which It Is Determined**

The Option Warrants are granted to the Offerees without consideration, as part of the compensation from the Company.

11. **The Approvals Required for the Allocation**

11.1 **Approvals of the Audit Committee and the Board of Directors of the Company**

Further to a number of meetings held by the compensation committee, the audit committee and the board of directors of the Company in this matter:

11.1.1 On the 30th of August, 2010, the Company's audit committee (with the participation of all the external directors, including Mr. Termechi) approved the said allocation to the Offerees.

11.1.2 On the 30th of August, 2010, the Company's board of directors (with the participation of all the external directors, including Mr. Termechi) approved the said allocation to the Offerees.

11.1.3 It will be noted that Mr. Ofer Termechi, who was appointed on the 30th of August, 2010, as an external director of the Company, participated as an observer, before his appointment as an external director, at the meetings of the Company's organs which discussed the said matter, as follows: at the meeting of the compensation

committee of the Company on the 3rd of August, 2010; at the meeting of the compensation committee of the Company on the 23rd of August, 2010; at the meetings of the audit committee of the Company on the 24th and 25th of August, 2010; and at the meeting of the Company's board of directors of August 25, 2010. Moreover, the Company's management saw to it that before Mr. Termechi could make a decision on the matter, that he have all the relevant information, as held by the other directors of the Company.

11.2 Approval of the General Meeting for the Allocation of Options to the Chairman of the Board of Directors

Approval for the allocation of the Option Warrants to Offeree 1, the chairman of the Company's board of directors, is subject to the approval of the general meeting of the Company, which will be convened in a separate immediate report.

11.3 Income Tax Approval

Income tax approval is required as necessary for the purpose of applying Section 102 of the Income Tax Ordinance [New Version] on the allocation of the Option Warrants in accordance with the incentive plan on the capital gains track with a trustee.

11.4 Approval of the Tel Aviv Stock Exchange Ltd.

Approval for the allocation of the Option Warrants is subject to the approval of the Stock Exchange for the listing of the Exercise Shares underlying the Option Warrants.

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

To the best knowledge of the Company, based on an examination carried out with the Offerees, there are no agreements between the Offerees and the holders of

shares in the Company or amongst themselves, relating to the purchase or sale of securities of the Company or relating to voting rights therein.

13. **Details Regarding any Prevention or Restriction on Execution of Actions in the Offered Securities**

13.1 Under the Securities Law, 5728 - 1968 and the Securities Regulations (Details Regarding Sections 15A to 15C of the Law), 5760 - 2000, the restrictions set forth below will apply to the sale by trade on the Stock Exchange of the Exercise Shares to be transferred to the Offerees upon exercise of the Option Warrants (in addition to the provisions regarding vesting of the Option Warrants as set forth in this report):

13.1.1 Sale in a transaction outside of the Stock Exchange: No restrictions regarding dates or quantities shall apply to such a sale, however any person who has purchased the securities from the Offeree, will step into the Offeree's shoes.

13.1.2 Sale on the Stock Exchange:

(a) During the course of a year, starting on the allocation date of the Option Warrants to the Offeree, there is a prohibition on an offering during trading of the Exercise Shares (the "**Absolute Lockout Period**").

(b) In the eight quarters following the Absolute Lockout Period, the offered securities may be sold during the course of trade, subject to the following accumulative reservations:

(1) The amount of Exercise Shares permitted for sale on one trading day will not exceed the average daily volume of trade in the offered securities in the eight weeks preceding that date;

(2) The amount of Exercise Shares permitted for sale in every quarter will not exceed 1% of the issued and paid-up capital of the corporation whose securities

are offered (without taking into account convertible securities which have not yet been exercised or converted into shares).

13.2 For the lockout provisions under the agreement in the matter of the Option Warrants granted pursuant to the Options Plan, see Section 5.1.3 above.

14. **Allocation Date of the Securities**

The Option Warrants will be allocated after receiving the approvals set forth in Section 11 above, including after receiving prior approval from the assessing officer (or 30 days after the filing of the Plan) that the Provisions of Section 102 of the Income Tax Ordinance shall apply to the allocation of the Option Warrants under the Plan, on the capital gains track of the allocation, through a trustee.

15. **Details Regarding the Compensation of the Company's CEO Pursuant to the Sixth Schedule of the Reporting Regulations**

Below is a brief summary of data pursuant to the Sixth Schedule of the Reporting Regulations regarding the terms of tenure and employment of Mr. Nir Gilad for 2009:

Details of the Receivers of Compensation				Past Compensation for Services (in NIS thousands)			Total (in NIS Thou.)
Name	Position	Job Scope	Rate of Holdings in the Company's Capital	Salary ^[1]	Bonus	Share Based Payment for the Options Plan	
Nir Gilad (*)	The Company CEO	100%	--	2,930	4,500 ^[2]	2,984 ^[3]	10,414

(*) It will be noted that in accordance with the immediate report of the 1st of January, 2009 as published by the Company, quoted here by reference, the Company's CEO (similar to other office holders in the Company) announced that until the end of 2009 he is waiving 10% of the compensation to which he is entitled (save for the matter of provisions and fringe benefits) and this is on the background of the events in the global economy and their implications on the Israeli economy.

[1] The compensation component stipulated above also includes the following components: monthly salary, social benefits, ordinary provisions for social and fringe benefits, car and reimbursement of telephone expenses.

[2] The above stipulated bonus represents the bonus for profits for 2008 paid in 2009. The bonus for 2009, in the sum of NIS 2.7 million, was approved by the organs of the Company in March 2010, as detailed in the immediate report of the Company of 25.3.2010 (ref. No. 2010-01-429207), hereby quoted by reference.

[3]

(a) On the 25th of June, 2007, the Company's board of directors decided on an incentive plan for employees and office holders of the Company for the allocation of 60,000 options exercisable into shares of the Company. The economic value of each Option Warrant as of the 25th of June, 2007, calculated in accordance with the Black and Scholes formula is approximately NIS 600 for the first Tranche and approximately NIS 710.5 for the second Tranche and approximately NIS 810 for the third Tranche. The amounts set forth in the share-based compensation column represent the expense recorded in the Company's books for 2009 in accordance with the economic value of the plan.

(b) The total aggregate economic value of the options which are the subject matter of this report in accordance with the Black and Scholes formula is approximately NIS thousand 18,443, as described in Section 8 above.

(c) Furthermore, the CEO of the Company is entitled to participate in the Options Plan of Israel Chemicals in accordance with which the Company's CEO was allocated, for his tenure as chairman of the board of directors of Israel Chemicals, 800,000 non-tradable Option Warrants, without consideration, which may be exercised for up to 800,000 ordinary shares of Israel Chemicals at par value

of NIS 1 each, constituting up to approximately 0.063% of the issued capital and the voting rights in Israel Chemicals as of the 7th of January, 2010 (up to approximately 0.062% fully diluted). The economic value of the Option Warrants allocated to Mr. Gilad, as calculated in accordance with the Black and Scholes model shortly after the date of the decision of the board of directors of Israel Chemicals, is in the amount of NIS thousand 14,800. The above description, quoted in brief, is based on the immediate reports of Israel Chemicals, which is a listed company on the Tel Aviv Stock Exchange. For further details and expansion, see the reports of Israel Chemicals of 7.1.2010 and 15.2.2010, *inter alia* on the "MAGNA" website of the Israel Securities Authority (www.magna.isa.gov.il).

16. **Terms of Tenure of the Chairman of the Board of Directors**

In addition to the Option Warrants to which the chairman of the board of directors of the Company is entitled as detailed in this report, between the Company and the chairman of the board of directors, an agreement will apply regarding the terms of tenure of Mr. Elstein as the chairman of the Company's board of directors, and as follows is a summary of the main points of these terms:

- 16.1 **Position:** Active chairman of the Company's board of directors.
- 16.2 **Scope of the Job:** The scope of the job of the chairman will be a result of the Company's needs and is evaluated as being a full-time job; the chairman will be entitled to continue in his position as chairman of a company held by the Company, Tower Semiconductors Ltd. (a position which he assumed not within the framework of his position as a director in the Company nor within the framework of his position as chairman of the board of directors), and will also continue to serve as a director in Teva Pharmaceutical Industries Ltd. and in voluntary positions in nonprofit organizations, in a manner which will enable him to devote the time required for his activities in the Company.

- 16.3 Monthly Salary: NIS 174,000, linked to the Consumer Price Index.
- 16.4 Options Plan: Should any options plan be prepared for the Company's employees, the chairman will be a party to such plan, as shall be determined in the plan, subject to the obtaining of the approvals required by law.
- 16.5 Annual Bonus: After publication of the business results for the previous year, the Company's board of directors will discuss the payment of a special annual bonus to the chairman. The decision is at the absolute discretion of the board of directors and subject to the approvals required in law.
- 16.6 Social benefits: The chairman will be entitled to social benefits as customary for executives in the Company including executives' insurance, advance study fund, car, telephone, 13th salary, 22 days vacation, 20 days sick leave and a reimbursement of expenses incidental to the fulfillment of his duties against reports and receipts and subject to the Company's procedures.
- 16.7 Insurance, Exemption and Indemnification: Subject to the receiving of the approvals in accordance with any law, throughout the duration of the tenure of Mr. Elstein as chairman of the Company's board of directors, all the arrangements regarding insurance, exemption and indemnification customary with reference to all the directors in the Company will also apply to Mr. Elstein, including as detailed in the immediate reports of the Company for 22.3.2001, 11.9.2007 and 25.9.2008.
- 16.8 Period of Engagement: For a fixed period of three years from the date of appointment. The termination of employment of the chairman during the course of the fixed period will be done (by each one of the parties) by a prior notice of six months.
- 16.9 The Rights of the Chairman in the Case of Termination of the Period of Engagement: In the case of the termination of engagement at the initiative

of the Company before the end of the fixed period, the chairman will be entitled to payment of a total monthly salary during the prior notice period (six months) and payment of a total monthly salary for the period of six months adaptation. In the case of the termination of the engagement at the initiative of the chairman, before the end of the fixed period, and in the case where the tenure of the chairman terminates at the end of the fixed period, the chairman will be entitled to six months adaptation only. Furthermore, upon termination of employment, for any reason, the chairman will be entitled to retirement compensation at a rate of 100% of his last monthly salary multiplied by the number of years of his service (as provided in the law), and also to additional retirement compensation at the rate of 100% as stated above (except in the case of termination of engagement at the initiative of the chairman during the course of the fixed period in which the entitlement of the chairman to the said additional retirement compensation is subject to the approval of the board of directors only).

- 16.10 Coming into force: It is clarified that Mr. Elstein will be entitled to his terms of tenure and employment as stated above from the date of the start of his tenure as chairman of the board of directors on 1.7.2010.
- 16.11 Total Consideration: The consideration to which the chairman is entitled includes all tasks to be executed by the chairman by virtue of his position in the Company and in any corporation held by the Company. Should any consideration be paid for any of his positions, such as: "remuneration to a director" in a company held by the Company, this consideration will be assigned to the Company (subject to the receiving of the approval of the tax authorities that by so doing no tax liability is created for the chairman), however, the above said shall not prejudice the entitlement of the chairman to exercise options of Tower Semiconductors Ltd. ("**Tower**") granted to him by Tower in the past. It is clarified that starting from the date at which Mr. Elstein was appointed as chairman of the Company's board of directors, that is to say from 1.7.2010, Mr. Elstein will not be

entitled to directors' remuneration and to "additional compensation" approved to Mr. Elstein within the framework of the decision of the Company's general meeting of 12.4.2010. For further details and expansion regarding the "additional compensation", see the immediate reports of 11.3.2010 and 12.4.2010, ref. No. 2010-01-411336 and 2010-01-46811 (respectively), quoted here by reference.

16.12 Below is a brief summary of data in accordance with the Sixth Schedule of the Reporting Regulations regarding the terms of tenure and employment of Mr. Amir Elstein for 2009:

Details of Receiver of the Compensation				Past Compensation for Services in Terms of Cost (in NIS thousands)				Other Remuneration	Total (in NIS thousands)
Name	Position	Job Scope	Rate of Holdings in the Corporation's Capital	Compensation ^[2]	Bonus	Share Based Payment	Management/ Consultation Fees or Other		
Amir Elstein	Director ^[1]	-	0%	262.4	-	^[3]	-	-	262.4 (Directors' Remuneration)

[1] Mr. Elstein was appointed as a director of the Company on 5.2.2009 and during the course of 2009 served as an ordinary director. On the 31.8.2009 Mr. Elstein was appointed as the deputy chairman of the Company's board of directors and on 1.7.2010 he was appointed as the chairman of the Company's board of directors.

[2] The above compensation component is made up of directors' remuneration paid to Mr. Elstein for his tenure as a director of the Company.

[3] The total aggregate economic value of the options which are the subject matter of this report, to be granted to the chairman of the board of directors, in accordance with the Black and Scholes formula is approximately NIS thousand 14,754, as detailed in Section 8 above, (the aggregate economic value will be updated and reported upon the approval of the Company's general meeting).

For the avoidance of doubt, it will be noted that in accordance with the information published by Tower Semiconductors Ltd. ("**Tower**"), on 15.11.2009 the general meeting of Tower approved the allocation of options in Tower to Mr. Elstein, for his tenure as chairman of the board of directors of Tower (following the approval of the board of directors of Tower on 17.6.2009), under which Mr. Elstein was allocated with 11,500,000 non-tradable, without consideration, option warrants exercisable to up to 11,500,000 ordinary shares of Tower, constituting up to approx. 1.47% of the (fully diluted) issued capital and voting rights in Tower as of 17.6.2009. According to information published by Tower, Mr. Elstein started serving as a director in Tower in September 2008, he served as the acting chairman of Tower's board of directors starting from January 2009 and was appointed as chairman of the board of directors of Tower in April 2009. The

allocation of the said option warrants was done by Tower, which is a company held by the Company, unrelated to Mr. Elstein's tenure in the Company. According to information published by Tower, the aggregate economic value of the option warrants granted to Mr. Elstein in Tower, as calculated in accordance with the Black and Scholes model, as of 4.10.2009, is in the sum of approx. 8.1 million US dollars.

17. **The Manner of Determining the Terms of Allocation to the Offerees and Also the Determining of the Compensation for the Chairman of the Board of Directors**

17.1 **Approvals' Procedure**

- A. On the backdrop of the anticipated conclusion of the previous options plan of the Company, the Company began preparing itself for the formulating of an options plan in the Company, aimed at providing an incentive for senior executives of the Company and to create a correct mix between the various compensation components - salary, bonus and options - and this further to that as has been customary in the Company for years.
- B. In this framework, consultations have been held by the chairman of the compensation committee in cooperation with the company management and with the knowledge of the members of the compensation committee and the members of the audit committee, with legal consultants and accountants, in which various clarifications and data was requested and received in the matter of the Options Plan for the Company. Moreover, at the request of the Company, a comparative research was carried out by external consultants on the subject of the compensation of senior executives in the Israeli economy as well as an economic valuation in accordance with generally accepted accounting principles of the fair value of the Options to be allocated to the office holders.
- C. On the backdrop of these preliminary preparations and checks, the compensation committee of the Company held meetings on the 3rd

and 23rd of August, 2010 (with the participation of the external consultants and Mr. Ofer Termechi, who was appointed as an external director in the Company on the 30.8.2010), in the framework of which discussions were held on the Options Plan and the granting of Options to the Offerees thereunder, and the terms of employment of the chairman of the board of directors. Based on such discussions of the compensation committee, the compensation committee made a recommendation to the audit committee and to the board of directors of the Company to approve the Options Plan and to grant the Options to the Offerees in accordance with the Options Plan and also approved the terms of tenure of the chairman of the board of directors.

- D. Based on the recommendations of the compensation committee of the Company, the audit committee of the Company held meetings on 3.8.2010 and also on 24.8.2010, 25.8.2010 and 30.8.2010 (with the participation of external consultants and Mr. Ofer Termechi, who was appointed as an external director in the Company on 30.8.2010), in the framework of which the Options Plan and the granting of options thereunder and the terms of tenure of the chairman of the board of directors, were discussed, as well as discussions being held on the parameters, considerations and reasons for approving the Options Plan and the granting of the options to the Offerees in accordance with the Plan and also the terms of tenure of the chairman of the board of directors.
- E. On the basis of the recommendations of the audit committee of the Company, the board of directors of the Company held meetings on 25.8.2010 and 30.8.2010 (with the participation of external consultants and Mr. Ofer Termechi, who was appointed as an external director in the Company on 30.8.2010), in which they discussed the Options Plan and the granting of the options in accordance with the Plan and also the terms of tenure of the

chairman of the board of directors. The Company's board of directors examined the recommendations of the audit committee, and based on the discussions held, decided to approve the Options Plan and the granting of the options to the Offerees in accordance with the Options Plan and to approve the terms of tenure of the chairman of the board of directors, and this based on the parameters, considerations and reasons detailed below.

17.2 The Compensation Parameters

For the purpose of determining the compensation for the Offerees (including the chairman of the board of directors) as detailed in this report, the audit committee and the board of directors of the Company examined and took into account, in the discussions held on these subjects, *inter alia*, the following parameters:

- A. The Company's view regarding the need to retain and provide an incentive for the continued long-term employment of skilled and talented directors in the Company, including the chairman of the board of directors and the Company's CEO, *inter alia*, by way of capital remuneration through the allocation of options, which constitutes an appropriate incentive for the office holders in the Company, considering the compensation structure in the Company, the position of each office holder and his/her contribution to the Company.
- B. As has been customary in the Company for many years, compensation of office holders in the Company is made up of a basic salary, an annual bonus and capital compensation (the "**Total Compensation**"). The capital compensation, yielding benefits against the maximization of the Company's share value, links the remuneration of office holders to the creation of value for the shareholders of the Company and provides an incentive for the office holders to continue to contribute to the Company and to its

success in the future and by so doing advances the best interests of the Company and its shareholders and the maximization of its profits in the long term. The capital compensation constitutes an important and central layer in the customary compensation structure of the office holders in the Company and fits in with the compensation perception of the Company, whilst placing an emphasis on performance based compensation and the creation of value for the Company's shareholders (so that the senior executives of the Company will not enjoy any financial benefit for the options granted to them in the event that the share price does not improve).

- C. A presentation was made before the audit committee and the board of directors describing the compensation components customary for senior executives in Israel and comparative data regarding the Total Compensation components (including salary, bonuses and capital compensation) of the chairman of the board of directors, CEO's and parallel office holders in public companies, the majority of whom belong to the Tel Aviv 25 Index on the Tel Aviv Stock Exchange Ltd. The comparative data was gathered and prepared by external consultants in accordance with public data published by those companies.
- D. A presentation was made before the audit committee and the board of directors of the economic value of the options to be allocated under the Options Plan in accordance with generally accepted accounting principles and the "Black and Scholes" model, as executed by the external consultants.
- E. Data was presented before the audit committee and the board of directors regarding the scope of the Total Compensation of the chairman of the board of directors, the CEO and the office holders, including relevant data regarding the scope of capital compensation given to the office holders of the Company. The

amount of options to be allocated to the office holders under the Options Plan is similar to the amounts of options allocated to office holders in the relevant positions (to the extent office holders did serve in the relevant positions) in the framework of previous options plans adopted by the Company (except for the allocation to the chairman of the board of directors, by reason that the outgoing chairman of the board of directors, Mr. Idan Ofer, waived the allocation of options in the Company for being a substantial shareholder in the Company).

- F. Based on the comparative data regarding the Total compensation components in public companies and option plans adopted by the Company in the past, the audit committee and the board of directors approved that within the framework of the Options Plan the chairman of the board of directors, the CEO of the Company, the vice presidents and other senior employees of the Company will be included, and that this is on the basis of a case-by-case examination of each director and employee and his/her contribution to the Company and to the companies held by it.
- G. Within the framework of the specific decision regarding the terms of the Option Plan, the amount of Option Warrants, the vesting dates and the concrete terms of allocation, the audit committee and the board of directors evaluated the action and contribution of each one of the Offerees for the performance of the Company and its subsidiaries, and the ability of each one of the Offerees to contribute to reaching the Company's long-term goals and the Company's desire to ensure the continued service in the Company over the next few years.
- H. The audit committee and the board of directors examined the main customary allocation tracks for options to employees (income track and capital track) and chose to carry out the allocation of

options to employees on the capital track, as was customary in previous options plans of the Company and pursuant to the Provisions of Section 102 of the Income Tax Ordinance, and this whilst noting the Company's expenses in the allocation of options on the capital track which are negligible for the Company in comparison to expenses incurred in allocation on a non capital track.

- I. The audit committee and the board of directors took into account that the Exercise Price of the options would be determined in accordance with the closing price of the Company's share known on the date of the approval by the board of directors for the Options Plan and therefore examined the average price of the Company's share over the last five years and found that the share price, at the date of approval of the Plan according to which the Exercise Date is to be determined, is higher than the average share price of the Company's share over the last five years.
- J. The audit committee and the board of directors considered the unique nature of the Company in the Israeli economy, the geographical complexity of the Company acting throughout the world, the wide range of areas in which the Company engages, the business development plans of the Company and the expansion of its areas of activities and the range of its business in recent years and the managerial input required for dynamically managing a holding Company of the scope of the Company, and especially considering the development of the Company in recent years (including both the handling of mature companies and the advancing of young companies and new technological ideas), in which the Company undertook business initiatives in new and innovative fields, with the proactive and ongoing involvement of the Company's management.

18. **Summary of the Reasons Found by the Audit Committee and the Board of Directors in Support of the Allocation Conditions to the Offerees and Determining the Compensation of the Chairman of the Board of Directors**

18.1 The directors examined and seriously considered the above detailed allocations, whilst considering the parameters detailed in the above Section, and approved them, *inter alia*, on the basis of the following main considerations:

- A. Amongst the members of the audit committee and the board of directors, there is a great deal of appreciation for the actions, talents 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 its shareholders and also in anticipation for their continued contribution for obtaining the Company's long-term goals and maximizing the return of the share price.
- B. The remuneration of the office holders in the Company, including the capital compensation, is a managerial tool available to the board of directors of the Company to tie the compensation of office holders in the Company to the value added for its shareholders and to create a remuneration mechanism, the majority of which is based on the performance of the Company and the creation of value for the Company's shareholders.
- C. The terms of the Options Plan, the amount of Option Warrants and the concrete terms of allocation of each one of the Offerees, are appropriate for the actions and contribution of each one of the Offerees for the performance of the Company and its subsidiaries and reflect the esteem the Company has for the ability of each one of the Offerees to contribute to obtaining the goals of the Company on the long term and its desire to ensure the continued service of the Offerees in the Company over the next few years and to

provide an incentive for the Offerees to continue to act in the best interests of the Company in the long term.

- D. The audit committee and the board of directors of the Company have examined the compensation components of parallel office holders in public companies in Israel of a size such as that of the Company, which were included within the framework of the comparative research carried out by the external consultants, and came to the conclusion that at the time of the determining of the scope of the Total Compensation of the senior office holders in the Company (the CEO and the CFO), it would be reasonable and proper to grant, beyond that which is acceptable in the public companies which were examined, which are not similar to the Company in terms of their nature, characteristics and complexity, and this considering, *inter alia*, the following reasons: **(a)** the uniqueness of the Company in the Israeli economy, the geographical complexity of company operating throughout the world in a wide range of areas in which the Company engages; **(b)** the development of the Company in recent years in which the Company undertook business initiatives in new areas, which have led to the Company not merely being a holding company but rather a company also engaging in enterprise, management and development of new and varied fields of business, with the proactive and ongoing involvement of the Company's management; **(c)** the challenges faced by the Company and the managerial input required for the dynamic management of a holding company of the size of the Company; **(d)** the complex duties of the Company's leaders and senior executives in light of the complexity and unique nature of the Company and also in light of the Company's overall goals, *inter alia*, the expansion of its areas of activity and the increasing involvement of the Company's management in the development of new investments, in the

advancing of innovative and original technologies, in the improvement of existing investments and in the creation of synergy among the Company's investments; (e) the reliance of the Company on a limited headquarters of the senior management and the unique skills of those belonging to it and the desire of the Company to retain their continued service and contribution for the Company and its shareholders in the long term; (f) the involvement of the Company's management in the held companies as expressed, *inter alia*, in its contribution to the improvement of their business results and its endeavors to assist the held companies during times of crisis (such as the Company's management involvement in the reorganization plan of Zim).

- E. The members of the audit committee and the board of directors considered that the fair value of the options under the "Black and Scholes" model is higher than the fair value of the options allocated to the Offerees in accordance with previous options plans of the Company, and this, as clarified by the external consultants, especially due to the high rate of volatility of the Company's share price over the last three years; in particular, during a period of a number of months towards the end of 2008 and at the beginning of 2009, in which most of the impact of the economic crisis and the recovery of the capital markets have influenced the Company's share, significantly influencing the fair value of the options in accordance with the Black and Scholes model. The members of the audit committee and the board of directors considered that, but for the exceptional volatility of the Company's share price during the above said period and considering the volatility rate of the Company's share price by neutralizing the said period, the fair value of the options was lower by about 30% than their present value. Moreover, they considered various alternatives for

calculating the potential economic value of the financial benefit embodied in exercising the options.

- F. The members of the audit committee and the board of directors have taken into account in their considerations the fact that the terms of this Options Plan in subjects such as vesting periods, the exercise period and the manner of determining the exercise price, as well as the portion of the capital and the voting rights in the Company which the shares will confer arising from the exercise of the Option Warrants of all the Offerees under the Plan, do not deviate from what is acceptable in public companies in Israel of a size such as that of the Company, as included in the comparative research carried out by the external consultants.
- G. The members of the audit committee and the board of directors have taken into account in their considerations the wish of the Company to ensure the continued leading of the Company by the chairman of the board of directors, the CEO and the senior management staff over the next years for the obtaining of the strategic goals of the Company, the development of the Company's business, maximizing its profits over the next years and maintaining the managerial stability of the Company.
- H. The present Options Plan is a continuation of the principles and considerations underlying the previous options plans of the Company and is consistent with that which is acceptable and customary in the Company.
- I. Considering all the parameters, considerations and reasons detailed above, the members of the audit committee and the board of directors are of the view that the capital compensation for the chairman of the board of directors, the CEO of the Company and additional senior executives, as detailed above, is appropriate and reasonable compensation, under the circumstances of the matter,

which is intended to grant them the optimal incentive to act to maximize profits for the Company and to achieve its long-term goals and that the capital compensation advances the best interests of the Company and the interests of the shareholders to maximize its long-term profits.

- 18.2 Additional Reasons for Approving the Terms of Tenure of the Chairman of the Board of Directors: In addition to all the parameters, considerations and reasons detailed above, relating, *inter alia*, to the capital compensation for the chairman of the board of directors (as the active chairman), the members of the audit committee and the board of directors are of the view that the overall conditions of tenure of the chairman of the board of directors are appropriate and reasonable under the circumstances of the matter and are appropriate and consistent with the appreciation and esteem for him in light of the contribution of the chairman of the board of directors to the activities of the Company and its subsidiaries, and reflect the Company's appreciation for the chairman's ability to contribute to achieving the Company's goals in the long term.

Yours respectfully,

The Israel Corporation Ltd.