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Israel Corporation Ltd.

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Adv. Maya Alcheh Kaplan

General Counsel (In house) and Company Secretary

15 December 2010

To:
The Securities Authority
Via MAGNA

To:
The Tel-Aviv Stock Exchange Ltd.
Via MAGNA

Dear Sir/Madam,

Re: Israel Corporation Ltd. (hereinafter: the "Company")
- Immediate Report regarding updating of the terms of service and
employment of the CEO of the Company

In accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: the "**Reporting Regulations**") and further to the Immediate Report dated 13.9.2010 (ref. no. 619053-01-2010), the Company respectfully reports as follows:

1. **Updating of terms of employment of the CEO of the Company**

Further to a number of meetings held at the Remuneration Committee and the Audit Committee of the Company, concerning remuneration of the CEO of the Company and following the Audit Committee's approval of 13.12.2010 and acceptance of the Remuneration Committee's recommendation, on 14 December 2010 the Company's Board of Directors approved the updating of the terms of service and employment of the CEO of the Company that were stipulated in the CEO's employment agreement of 19.9.2007 (hereinafter: the "**Original Employment Agreement**"), *inter alia*, taking into account the period that has elapsed since the CEO assumed office (1.6.2007) and the revision of certain provisions pertaining to the CEO in the Option Plan adopted by the Company in 2010 (as detailed in the Immediate Report of 13.9.2010, ref. no. 619053-01-2010, hereby presented by way of reference) (hereinafter, collectively: the "**Updating of the CEO's Terms of Employment**").

The Updating of the CEO's Terms of Employment has been implemented on the Company's initiative, with the aim of generating suitable continuity of employment of the CEO, who has served in his position for approx. three and a half years by revising and updating the CEO's Original Employment Agreement signed in 2007, when the CEO had commenced his office as the Company's CEO, in a manner consistent with the Company's development, the complexity of its business and the expansion of its areas of activity since 2007, as well

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as the CEO's contribution to the Company and to its shareholders during the years of his service as CEO of the Company. For further details concerning the Audit Committee's and Board's rationales for updating the CEO's terms of employment, see section 3 below.

The principal updates of the CEO's terms of employment are set forth below:

- 1.1 **Term of employment**: The Original Employment Agreement did not stipulate a fixed period for the CEO's service. In the framework of the Updating of the CEO's Terms of Employment, the CEO's Original Employment Agreement was amended such that the CEO's term of employment will be for a fixed term of three years (namely, from 1.1.2011 to 31.12.2013) (hereinafter: the "**Fixed Term**"). Either party may terminate the engagement during the course of the Fixed Term, by six months' advance notice (hereinafter: the "**Advance Notice Period**").
- 1.2 **Monthly salary**: In accordance with the Updating of the CEO's Terms of Employment, the CEO will be entitled to receive, commencing from 1.1.2011, an aggregate monthly salary of NIS 196,600 (hereinafter: the "**Monthly Salary**"). The Monthly Salary will be fully adjusted on a monthly basis, in accordance with the increase in the consumer price index, the base index being the index published on 15.11.2010. The last known index prior to execution of any respective payment will serve as the determining index. In the event of a decrease in the index in a particular month, the Monthly Salary will not be reduced, but the decrease will be taken into account in the ensuing months. It shall be noted that the last monthly salary paid to the CEO pursuant to the Original Employment Agreement totaled a sum of NIS 165,000. In addition, the CEO will also continue to be entitled, during the Fixed Term, to social benefits identical to those determined in the Original Employment Agreement, including manager's insurance, an advanced study fund, a car, telephone, 13th salary, 26 days of annual leave, 22 days of sick leave, etc. (hereinafter: the "**Related Terms**").
- 1.3 **Annual bonus**: The CEO is entitled, in accordance with the Original Employment Agreement, to an annual bonus, at the Board's absolute discretion and subject to the approvals required by law. Without derogating from the foregoing, it was determined in the framework of Updating the CEO's Terms of Employment, as follows: (a) at the end of each calendar year, the Company's organs (the Remuneration Committee, the Audit Committee and the Board) will discuss the CEO's eligibility for a bonus in respect of the Company's performance in the previous year and the amount of the said bonus. The annual bonus amount will be determined in accordance with the Company's remuneration policy in relation to the awarding of bonuses, as applicable in relation to the year for which the bonus is awarded; (b) in the event that a notice of termination of the CEO's service will be delivered during the Fixed Term, the CEO will be entitled to a *pro rata* bonus for the period of his service (including the period during which he continued to fulfill his position during the Advance Notice Period) in the same year in which his service was terminated (hereinafter: the "**Pro Rata Bonus**"). At the time of determining the CEO's *Pro Rata* Bonus, the Audit Committee and the Board will take into account the considerations prescribed in the Company's

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policy for determining annual bonuses in the Company, the duration of the CEO's actual term of employment in his position in the year for which the *Pro Rata* Bonus is awarded and the CEO's contribution to the Company's business in the year for which the *Pro Rata* Bonus is awarded.

- 1.4 **Option Plan:** In accordance with the Original Employment Agreement, the CEO is entitled to participate in an option plan to be adopted by the Company. In relation to the options that were granted to the CEO pursuant to the Company's option plan for 2010 (as detailed in the aforesaid Immediate Report of 13.9.2010), it was determined in the framework of the Updating of the CEO's Terms of Employment, that in the event of the termination of his service as CEO, on the Company's initiative, during the Fixed Term, in circumstances of "termination of the CEO's service on the Company's initiative"¹, and subject to the provisions of section 102 of the Income Tax Ordinance (New Version), 1961, the CEO will be entitled to an early vesting of options granted to him by the Company in September 2010, as detailed below: (a) in the event of a termination notice being given during the first year of the Fixed Term – the CEO will be entitled to an early vesting or to a scheduled vesting (as the case maybe) of the first portion only of the options awarded to him; (b) in the event of a termination notice being given during the second or third year of the Fixed Term – the CEO will be entitled to an early vesting or to a scheduled vesting (as the case may be) of the second and third portions of the options awarded to him; (c) in the event of the CEO's service being terminated during the Fixed Term, in the circumstances stated in sub-section (c) of footnote 1 (i.e., due to a change in control of the Company), the CEO will be entitled to an immediate vesting of all the options that were awarded to him by the Company.

The option warrants that will vest in accordance with the provisions of this section 1.4, may be exercised (subject to the restrictions of the provisions of section 102 of the Income Tax Ordinance) commencing from the last day of the Advance Notice Period (in this sub-section, the "**Effective Date**") or commencing from the date of vesting of the options under the Option Plan (in relation to options whose date of vesting under the Option Plan precedes the Effective Date), all up to the end of a period of 180 days from the Effective Date.

- 1.5 **Severance Pay:** It was updated that in any event of termination of the CEO's employment, for any reason, except in circumstances in which he may be dismissed while negating his severance pay in accordance with law and subject to the CEO's

¹ Meaning: (a) notice by the Company to the CEO regarding termination of his service; (b) notice of the CEO, on his initiative, regarding termination of his service as CEO of Israel Corp. due to a substantial and continuing impingement of the powers vested in the CEO in Israel Corp. itself, as specifically stipulated in the scope of the agreement between the parties; (c) where, due to a change in control of Israel Corp., the CEO is requested to terminate his service as CEO of Israel Corp. during the Fixed Term and has terminated his service as a result thereof, within a period of 6 months from the date of such change of control. For purposes of this section, "control" is as defined in the Securities Law, 1968, including the power to appoint the majority of Board members. All the foregoing is with the exception of termination of the CEO's employment in circumstances in which the CEO may be dismissed while negating his severance pay in accordance with law (in full or in part).

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undertakings regarding confidentiality and non-competition, the CEO will be entitled to severance pay at the rate of 200% (including payments made by the Company into a fund designated for this purpose), on the basis of 13/12 of his Monthly Salary, as updated from time to time. In addition, the Company's Board of the will consider the awarding and sum of an additional retirement grant to the CEO, in accordance with the circumstances which it sees fit to take into account and in its sole discretion².

- 1.6 **Termination of the employment:** In any event of termination of the CEO's employment, for any reason, except in circumstances in which he may be dismissed while negating his severance pay in accordance with law and subject to the CEO's undertakings regarding confidentiality and non-competition, the CEO will be entitled to receive an aggregate Monthly Salary (including Related Terms) during the Advance Notice Period. It is clarified that the CEO will continue to serve during the Advance Notice Period, however the Company may terminate his service as CEO, by a shorter advance notice, provided the CEO is paid the salary for the entire Advance Notice Period. In accordance with the Updating of the CEO's Terms of Employment, the CEO's entitlement to the salary for the Advance Notice Period will apply only in the event of termination of the CEO's employment during the Fixed Term.

In addition, it was stipulated in the framework of Updating the CEO's Terms of Employment, that the CEO will be entitled to an aggregate monthly salary (including Related Terms) for a six-month Period of Adjustment, both in the event of the CEO's service having terminated during the Fixed Term (whether if the termination of service was on the CEO's or the Company's initiative) or at the end of the Fixed Term, if the agreement with the CEO is not extended. It is clarified that the aforesaid Period of Adjustment will overlap the cooling-off period vis-à-vis the CEO's undertaking of non-competition, as prescribed in the Original Employment Agreement. It is specified that the Company's Board may extend the aforesaid Period of Adjustment, in its sole discretion.

During the Advance Notice Period, insofar as same applies and during the period of adjustment, the CEO will be entitled to make use of the car which the Company has placed for his use.

- 1.7 **The CEO's undertaking of non-competition:** In accordance with the Original Employment Agreement, the CEO assumed an undertaking toward the Company of a six-month cooling-off period (that overlaps the Period of Adjustment), during which he would not compete with the Company's business (other than with the Company's approval). In addition, in the framework of Updating the CEO's Terms of Employment, the CEO undertook not to employ (whether directly or indirectly)

² It shall be noted that in accordance with the Original Employment Agreement, the CEO was entitled to severance payment at the rate of 200% (including payments made by the Company into a fund designated for this purpose) in a case that the termination of the CEO's service is not initiated by him, and to severance pay at the rate of 100% (including payments made by the Company into a fund designated for this purpose) in a case that the termination of the CEO's service was on his initiative (though the Company's Board is authorized to increase the severance pay up to 200%).

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employees and/or other office holders of the Company and/or of companies under its control, whether as employees or consultants or in any other way, in any business and/or corporation controlled by him or in which he serves, during a period of two years from the day of vacating his office at the Company.

2. **Details in relation to remuneration of the Company's CEO according to the Sixth Addendum to the Reporting Regulations**

Below is a summary of data in accordance with the Sixth Addendum to the Reporting Regulations regarding the terms of service and employment of Mr. Nir Gilad for 2009:

Details of the remuneration recipients				Remuneration for services (in NIS 000)			Total (in NIS 000)
Name	Position	Scope of position	Percentage of stake in the Company's capital	Salary ^[1]	Bonus	Share based payment for Option Plan	
Nir Gilad (*)	CEO of the Company	100%	--	2,930	4,500 ^[2]	2,984 ^[3]	10,414

(*) It is noted that in accordance with the Immediate Report of 1.1.2009 published by the Company, which is presented here by way of reference, the CEO of the Company (like other officers of the Company) announced his waiver, until the end of 2009, of 10% of the salary to which he was entitled (except for purposes of contributions and Related Terms), in view of the global economic crisis and its implications on the Israeli economy.

[1] The salary component specified above includes the following components: monthly salary, social benefits, customary social and related contributions, a car and reimbursement of telephone expenses.

[2] The bonus specified above represents the annual bonus for 2008, which was paid in 2009. The bonus for 2009 in the sum of NIS 2.7 was approved by the Company's organs in March 2010, as detailed in the Company's Immediate Report of 25.3.2010 (ref. no.: 429207-01-2010), which is hereby presented by way of reference.

[3]

(a) On 25 June 2007, the Company's Board passed a resolution approving an Option Plan to employees and officers, for the allotment of 60,000 options exercisable for shares of the Company. The financial value of each option warrant on 25 June 2007, calculated according to the Black-Scholes formula, is approx. NIS 600 for the first portion, NIS 710.5 for the second portion and NIS 810 for the third portion. The amounts reordered in the share-based payment column represents the expense

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recorded in the Company's books for 2009, according to the financial value of the Plan.

- (b) The total cumulative financial value of the options granted to the CEO in the framework of the Company's Option Plan for 2010, calculated according to the Black-Scholes formula at the time of the Company's Board resolution regarding approval of the Company's Option Plan, is approx. NIS 18,443 thousand, as detailed in the Immediate Report of 13.9.2010 (ref. no.: 619053-01-2010).
- (c) In addition, the CEO of the Company is entitled to participate in the option plan of Israel Chemicals Ltd. (hereinafter: "ICL"), a public subsidiary of the Company, according to which the CEO of the Company was allotted, for his service as chairman of ICL's Board, 800,000 non-negotiable option warrants, free of charge, exercisable for up to 800,000 ordinary ICL shares, of nominal value NIS 1 each, which will constitute up to 0.063% of the issued capital and of the voting rights in ICL, as of 7.1.2010 (up to 0.062%, fully diluted). The financial value of the option warrants allotted to Mr. Gilad, as calculated according to the Black & Scholes formula at the time of the ICL Board resolution, is a sum of NIS 14,800 thousand. The above description, which has been presented here in brief, is based on the immediate reports of ICL, a company traded on the Tel-Aviv stock exchange. For further details and elaboration, see ICL's reports of 7.1.2010 and 15.2.2010, *inter alia*, on the "MAGNA" site of the Securities Authority (www.magna.isa.gov.il).

3. Summary of the reasoning of the Audit Committee and the Board for the Updating of the CEO's Terms of Employment

The directors examined and considered seriously the Updating of the CEO's Terms of Employment and approved the CEO's Terms of Employment, *inter alia*, based on the main reasoning and considerations, as follows:

- 3.1 The Updating of the CEO's Terms of Employment has been implemented on the Company's initiative, with the aim of generating suitable continuity of employment of the CEO, who has served in his position for approx. three and a half years by revising and updating the CEO's Original Employment Agreement signed in 2007, when the CEO had commenced his office as the Company's CEO, in a manner consistent with the Company's development, the complexity of its business and the expansion of its areas of activity since 2007, as well as the CEO's contribution to the Company and to its shareholders during the years of his service as CEO of the Company.
- 3.2 The Company's current policy, according to which a fixed term of service for the CEO, during which the CEO's terms of employment are clear and mutually agreed by both parties, is adequate and appropriate and serves the Company and its managerial structure, without derogating from the Company's ability to renew the CEO's office at the end of the Fixed Term.

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- 3.3 Considering the CEO's overall terms of employment in the Company and his significant contribution thereto during the years of his service, and in light of the cooling-off period to which the CEO has committed in the event of the termination of his service, the members of the Audit Committee and the Board of the Company are in the opinion that it is fair to award the CEO a period of adjustment of 6 months in the event of termination of his service which will overlap the cooling-off period to which the CEO has committed.
- 3.4 The mechanism of the early vesting of the options granted to the CEO by the Company in circumstances of termination of the CEO's service on the Company's initiative, during the Fixed Term, as described in section 1.4 above, is in the opinion of the members of the Audit Committee and the Board of the Company, a balanced and justified mechanism, which does not deviate from customary mechanisms in relation to the chief executive officers of similar-sized public companies in Israel. The object of this mechanism is, *inter alia*, to allow the CEO to benefit from his contribution to the Company and from increasing its value, taking into account the duration of his term of service during the Fixed Term.
- 3.5 The directors estimate that the provisions included in the Updating of the CEO's Terms of Employment are consistent with the customary terms at similar-sized companies and also having regard to the uniqueness of the Company in the Israeli market, the geographical complexity of the Company which operates worldwide and the broad range of areas in which the Company engages. In addition the monthly salary of the CEO is compatible with the monthly salary figures of senior chief executive officers in the Israeli market, as reflected in a comparative study conducted by external consultants, on the Company's request, during 2010.
- 3.6 Taking into consideration the total circumstances, considerations and reasoning detailed above, the members of the Audit Committee and the Board are of the opinion that such Updating of the CEO's Terms of Employment is appropriate and reasonable and aligned with the interests of the Company and its shareholders.

* The above resolution was unanimously passed by the directors who participated in the meeting.

Sincerely yours,

Israel Corporation Ltd.