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## **Israel Corporation Ltd.**

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### **Adv. Maya Alcheh Kaplan**

General Counsel (In house) and Company Secretary

March 30, 2011

TO:

THE SECURITIES AUTHORITY

THE TEL AVIV STOCK EXCHANGE LTD.

THROUGH THE MAGNA SYSTEM

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Dear Sirs,

### **Immediate Report – Bonuses to Officers for 2010**

In accordance with Regulation 37a(3)

Israel Corporation Ltd. (hereinafter: the “**Company**”) wishes to announce that on March 29, 2011, the Board of Directors of the Company approved, further to the recommendation of the Remuneration Committee, dated March 24, 2011, and further to the approval of the Audit Committee, dated March 29, 2011, the payment of annual bonuses to the chairman of the Board of Directors of the Company, to the CEO and to the CFO of the Company for the year 2010.

#### **1. Annual Bonuses**

- 1.1 Payment of a bonus for the year 2010 in the amount of NIS 3 million to the chairman of the Board of Directors of the Company, Mr. Amir Elstein, subject to the approval of the Company’s general meeting as set forth in the Immediate Report dated March 30, 2011, for the convening of a general meeting. Mr. Amir Elstein began to serve as the chairman of the Board of Directors of the Company on July 1, 2010.
- 1.2 Payment of a bonus for 2010 in the amount of NIS 7 million to the CEO of the Company, Mr. Nir Gilad.

- 1.3 Payment of a bonus for 2010 in the amount of NIS 1.7 million to the CFO of the Company, Mr. Avisar Paz, which is described in this Report for the sake of caution.

## 2. **Manner of Determining the Bonuses**

The approval of the bonus for 2010 was preceded by detailed discussions at the Remuneration Committee, the Audit Committee and the Board of Directors of the Company (*inter alia*, on February 24, 2011) with regard to the terms of the total remuneration of each of the Messrs. Amir Elstein, Nir Gilad and Avisar Paz, in which a review was conducted of the terms of employment of each of the said officers, the areas of his responsibility and his activities in 2010, the Company's operating results for 2010 in the aspects related to the areas of responsibility of each of the officers, and the contribution of each of the officers to the Company. In addition, for the purpose of the discussion, relevant background material was submitted to the directors. The grant of the annual bonuses for 2010 and the rate thereof was determined with regard to each of the officers, *inter alia*, based on the following parameters:

- 2.1 The business results of the Company and of the Company's investee companies, for the year 2010, including the profits of the Company and of its investee companies, the increase in the value of the Company and the investee companies, the formulation and implementation of a strategy plan for the Company and its investee companies, the implementation of a streamlining and recovery plan at the Company's investee companies, and restructuring at the investee companies.
- 2.2 Investment and entrepreneurial activities performed in 2010.
- 2.3 The overall terms of employment of each of the officers, and the compliance by each of them with the requirements of the position which he holds, including his compliance with the engagement agreements with him.
- 2.4 An assessment regarding the performance and contribution of each of the officers to the operations of the Company and the companies which are

members of the Company's group, to the development of their business and to the operating results of the Company and the companies of the Group.

- 2.5 The contribution of each of the officers to the Company's success, to the development of the Company and its business, to the implementation of significant measures at the Company, and to the advancement of processes whose purpose is to achieve the Company's targets, with long-term vision.
- 2.6 An assessment regarding the activities of each of the officers for the advancement, development and supervision of business initiatives of the Company in various fields, and also with regard to the managerial objectives achieved by him in 2010.
- 2.7 A comparison with the terms of remuneration in previous years, whilst taking into account the significant increase in the Company's business results for 2010, and the contribution of each of the officers to the advancement thereof.
- 2.8 An examination of the terms of remuneration as per standard practice at companies of a size similar to the Company, in accordance with comparative research that was performed by external consultants for the Company, whilst taking into consideration the uniqueness of the Company, the scope of its business and the complexity of its business in relation to the Israeli market, and the degree of risk at which the Company operates.

3. **Overview of the Reasons of the Audit Committee and the Board of Directors of the Company for the Approval of the Bonuses**

The Audit Committee and the Board of Directors of the Company have examined the amount of the annual bonuses which are appropriate and reasonable for the chairman of the Board of Directors of the Company, the CEO of the Company and the CFO, taking into consideration the recommendation of the Remuneration Committee, whilst examining the total remuneration paid to the said officers in 2010, and based on the above parameters and relevant information previously submitted, and they approved the annual bonuses, *inter alia*, based on the main reasons set forth below:

3.1 The Chairman of the Board of Directors – Mr. Amir Elstein: For details of the reasons of the Board of Directors for the grant of the bonus for 2010 to the chairman of the Board of Directors of the Company, Mr. Amir Elstein, see the notice convening the special general meeting whose agenda contains the approval of the said bonus, dated March 30, 2010.

3.2 The CEO of the Company – Mr. Nir Gilad:

- His leading of the Company to its record results in 2010, and the results of the investee companies;
- Tremendous appreciation of his involvement and activities in the supervision and advancement of the operations and business results of the companies which are members of the Company's group, *inter alia*, during his term of office as the chairman of the Board of Directors of ICL and the chairman of the Board of Directors of ZIM, including the profitability presented by the operating companies held by the Company; in particular, the achievements of Nir Gilad were noted, as the chairman of the Board of Directors of ZIM, and the impressive process which ZIM is undergoing under his management, and also great appreciation for Nir Gilad's contribution in leading the recovery plan and arrangement at ZIM;
- The impression formed of Nir Gilad's contribution in the development of the potential companies held by the Company. The impression formed of the Company's momentum of action, led by Nir Gilad, in 2010, including investments in business initiatives. In 2010, the Company made investments and passed investment resolutions in a total amount of US\$ 670 million. In 2010, the Company raised capital in a total amount of US\$ 265 million.
- His activities for the advancement and development of transactions and processes within the Company's area of activities, and the initiation of new investments;

- His leading and development of work processes and working methods at the Company, including appreciation of his leading the formulation and adoption of a strategic plan for the Company and the implementation thereof at the Company's investee companies, and the adoption of a dynamic management outlook at the Company, and also the leading of control processes and corporate governance at the Company;
- Appreciation of Nir Gilad's activities, particularly taking into consideration the managerial complexity of the Company, which operates in a large number of markets and in a large number of sectors, at times, in markets which contain extensive regulation, and in capital-intensive areas of activities which require a financial ability at an extremely high level. Appreciation of Nir Gilad's activities in the above-mentioned complex business environment, and also for the results achieved by the Company;
- Appreciation of his performance and functioning (including pursuant to the engagement agreement with him) as the CEO in 2010, *inter alia*, against the background of the changes in the global economy and the recovery from the global financial crisis of late 2008, and taking into consideration the size of the Company, its geographical spread, the scope of its operations, the numerous areas of its activities, and the diversity of its business, and the complexity of the position of CEO and the special skills required of the CEO of the Company for the purpose of managing and leading the Company in the way in which the CEO of the Company led the Company in 2010.

It shall be noted that as part of the Company's desire to preserve the continued service in office and the contribution of Nir Gilad, in December 2010, the employment agreement with him was amended, and a specified period was determined therein (as stated in the Company's Immediate Report dated December 15, 2010) and in addition, options were allocated to

the CEO (and to other officers) to purchase shares of the Company (as stated in the Company's Immediate Report dated September 13, 2010).

### 3.3 The CFO of the Company – Mr. Avisar Paz:

- His contribution to the Company's record results in 2010 and the results of the investee companies, and the profitability presented by the operating companies held by the Company in this year;
- Appreciation of his activities in the implementation of control processes at the Company, for the assimilation of regulations and new regulation, for corporate governance at the Company and for his ability to manage the entirety of financial and accounting issues at the Company, including special appreciation for the leading of a significant capital-raising in 2010, and for a turnover in an amount of US\$ 130 million;
- His contribution to the investee companies, and in particular, his contribution to the recovery plan at ZIM, in his capacity as the chairman of ZIM's Finance Committee, his contribution to ICL and Bazan, and his involvement in the supervision of the operations of the companies which are members of the Company's group and the advancement of their business results, in his office as a director and as the chairman of Board of Directors' committees at the investee companies, and also his contribution to the advancement of new investments in the Company's areas of operations;
- Appreciation of his performance and functioning as CFO in 2010, *inter alia*, against the background of the changes in the global economy and the recovery from the global financial crisis of late 2008, and taking into consideration the size of the Company, the scope of its business and the complexity of the financial issues entailed in its operations, and their implications for the demands and the skills required of the Company's CFO.

3.4 In addition, with regard to each of the Messrs. Amir Elstein, Nir Gilad and Avisar Paz, comparative data were reviewed, as compared to standard practice at companies of a similar size to that of the Company, and it was noted that the annual bonus for each of the aforesaid officers in 2010 is fair and reasonable, even if it is higher than the standard practice at the companies examined, which are not similar in nature, character or complexity to the Company, *inter alia*, taking into consideration the following factors: (a) the uniqueness of the Company in the Israeli economy, the geographical complexity of the Company, when the manufacturing plants of the Company's investee companies are spread over four continents, the fact that 60% of the manufacture of the companies of the Group is done outside of Israel, the fact that most of the sales of the Group are made outside of Israel, the broad range of areas in which the Company is engaged (chemistry, refining, chips, energy, shipping, cars, etc.), the fact that part of the companies of the Group are mature companies, but another part are potential companies, and the implications of the complexity and the geographical spread for the demands of the position and the skills required of each of the chairman of the Board of Directors, the CEO and the CFO; (b) the development of the Company in the year 2010, during which the Company undertook business initiatives in new areas, led to the situation whereby the Company is not purely a holding company, but rather a company which also deals in entrepreneurship, management and the development of new and diverse businesses, under the active and ongoing leadership of each of the chairman of the Board of Directors, the CEO and the CFO; (c) the challenges facing the Company and the managerial input required of each of the chairman of the Board of Directors, the CEO and the CFO (each in the aspects relating to his position) for the purpose of the dynamic management of a holding company of the type of the Company and of the size of the Company; (d) the complex job of each of the chairman of the Board of Directors, the CEO and the CFO in light of the complexity and uniqueness of the Company, as aforesaid, and also in view of the strategic objectives of the Company, which include, *inter alia*, the expansion of the areas of activity of the Company and the increased involvement of the

Company's management in the development of new investments, in the promotion of innovative and original technologies, in the improvement of existing investments and in the creation of synergy between the Company's investments; (e) the fact that the Company is based on the limited headquarters staff of the senior management and the unique skills of the members of the management, and the Company's desire to preserve the continued service in office and the contribution of the chairman of the Board of Directors, the CEO and the CFO, to the Company and to its shareholders; (f) the involvement of each of the chairman of the Board of Directors, the CEO and the CFO of the Company in the Company's investee companies which is expressed, *inter alia*, in the contribution to the improvement of their business results and in their enlisting to assist the investee companies during periods of crisis (such as the involvement of the Company's management in ZIM's recovery plan).

- 3.5 The grant of the annual bonus constitutes a continuation of the remuneration policy which has been practiced at the Company in previous years, pursuant to which the annual bonus constitutes a remuneration component of the chairman of the Board of Directors, the CEO of the Company and the CFO alongside a fixed salary and a share-based payment, with the aim of advancing the Company's best interests and its objectives by giving incentives for the continued activities and involvement of each of the chairman of the Board of Directors, the CEO of the Company and the CFO, for the Company's benefit.
- 3.6 The Remuneration Committee, the Audit Committee and the Board of Directors of the Company have given their opinion that the value of the share-based payment, which constitutes the most influential component in terms of the figures comprising the total remuneration that was given to each of the chairman of the Board of Directors, the CEO of the Company and the CFO in 2010, is calculated according to the Black & Scholes formula, which is based on the rate of the share, and also that the value of the share-based payment is affected by fluctuations, it does not constitute an actual payment to the officer, and by its very nature, it contains the component of

uncertainty with regard to the possibility of the officer benefiting from it, and with regard to the extent of the benefit.

- 3.7 Taking into consideration the entirety of the terms of the remuneration of each of the chairman of the Board of Directors, the CEO of the Company and the CFO of the Company, and taking into consideration the reasons set forth above, the Company sees full justification for the grant of the annual bonuses to each of the chairman of the Board of Directors, the CEO of the Company and the CFO – bonuses which are fair and reasonable given the circumstances of the matter.
4. None of the directors objected to the approval of the annual bonuses.
5. For further details regarding the terms of the employment and office of the officers of the Company and also for further details regarding the format of the discussion and the examination of the fairness and reasonableness of the total remuneration given to each of the aforesaid officers, see the details in the Company's Immediate Report for 2010, which was published on March 29, 2011.

**Sincerely yours,**

**Israel Corporation Ltd.**