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ISRAEL CORPORATION LIMITED

2nd August, 2007
Ref: 2007-01-345586

Securities Authority

Tel Aviv Stock Exchange

Dear Sirs,

Report of Transaction pursuant to the Securities (Transaction between Company and Owner of Control) Regulations, 2001

Israel Corporation Ltd. (hereinafter “**the Company**”) gives notice that the Audit Committee and the Board decided to renew the purchase of D&O insurance cover for an additional period of 5 years, as detailed hereafter. The Board also decided upon the convention of a General Meeting on the agenda of which will be approval of such transaction.

1. General

- 1.1 In September 2003 the General Meeting approved a “Framework Resolution”¹ enabling renewal of purchase of insurance cover of D&O, who are owners of control of the Company, during a period of 5 years commencing from the 2003 insurance year, from the insurance company and/or any other insurance company in Israel or abroad as may be chosen by the Board.
- 1.2 In accordance with such approval by the General Meeting, the Company, together with Israel Chemicals Ltd. (hereinafter “**ICL**”), a subsidiary of the Company, purchased D&O insurance cover for all of the D&O from time to time holding office in the Israel Corporation Group and the ICL Group.
- 1.3 The first layer of insurance cover was to the limit of US\$ 60 million, per event and for the period. For D&O of the Company Group (but not for the ICL Group) the Company also purchased a second layer of insurance cover to the limit of US\$ 50 million, per event and for the period.
- 1.4 It was determined that the split between the Company and ICL of payment of the insurance premium would be in accordance with the key used prior to

¹ In the meaning of Regulation 1(3) of the Companies (Transactions with Interested Persons) Regulations 2000

approval – the Company 30% of the cost of the premium; ICL 70% of the cost. In the event that at the time of renewal of the insurance at the end of the insurance period as a result of the filing of a claim or notice to the insurance company in respect of a company in the Company Group or the ICL Group, the split of liability for payment of the premium is to be adjusted between the Company and ICL in such manner that the share of the Group of the Company in respect of which the claim or notice was filed would be increased accordingly.

- 1.5 At present the Company pays a premium of \$ 270,000 in respect of D&O insurance cover.

2. Main Points of Transaction

- 2.1 Purchase of insurance cover of D&O, from time to time in office, in two layers – the first layer jointly with ICL and the second layer separately.
- 2.2 The Joint Layer: The policy will cover the liability of D&O of the Company and of the companies controlled by the Company (hereinafter but with the exception of ICL “**the Company Group**”) and of their liability for holding office in various companies for which they were appointed by the Company Group, in addition to the liability of D&O of ICL, of companies controlled by the ICL and of their liability for holding office in various companies for which they were appointed by ICL (hereinafter “**the ICL Group**”), such as those D&O may be from time to time. The insurance cover in the joint layer will be to the limit of \$ 20 million per event and for the period.
- 2.3 The Separate Layer: The policy will cover the liability of D&O, from time to time, of the Company Group (including their liability for holding office in various companies for which they were appointed by the Company Group), according to terms of cover that are customary in this type of insurance. The insurance cover in the separate layer will be to the limit of \$ 100 million per event and for the period.
- 2.4 The D&O of the Company Group will be insured under both of such layers.
- 2.5 The split between ICL and Israel Corporation of the liability for payment of the insurance premium for the joint layer will be: ICL fifty five percent (55%); the Company the balance (45%), the aforesaid is based upon an evaluation of the insurance company.
- 2.6 The annual premium to be paid by the Company in respect of the current insurance year (in effect as from 1 September 2007), will not exceed \$ 350,000 (“**the Maximum Premium**”) in respect of both layers together. The policy in respect of the current insurance year will be in force until 30.8.08.
- 2.7 If in the following insurance years the insurance premium payable by the Company increases, the following rules shall apply: The annual premium payable by the Company in respect of the insurance year shall not increase by more than 15% per annum above the amount of premium and in no event shall exceed the Maximum Premium by more than 150% (namely shall not exceed \$ 525,000). Any departure from these limits requires approval by General Meeting.

The resolution to which this Report relates is, as mentioned above, a “Framework Resolution”² which, during 5 years commencing from the current insurance year, enables renewal of the purchase D&O insurance cover as aforesaid from any insurance company in Israel and/or abroad chosen by the Board of Directors of the Company, provided that the Audit Committee and the Board of the Company confirm in relation to any insurance renewal that the terms of purchase of the policies conform with the framework transaction and that they approve the rate of split of the premium between the ICL Group and the Company Group with regard to the joint layer, however the Audit Committee and the Board may approve changes from time to time relating to the split of the premium between the Company Group and the ICL Group with regard to the joint layer provided that the rate of change does not deviate by more than 10% from the split referred to above and the Audit Committee and the Board have authority to change from time to time the cover or the split between the insurance layers, the aforesaid subject to the provisions of section 2.7 above.

(The transactions described above, and all of the terms and ancillary arrangements and all other matters that may be necessary or practical for the implementation thereof, are jointly and severally referred to in this Report as “the Framework Resolution”).

3. Personal Interest of Owners of Control and Nature thereof

3.1 The owners of control that are or may be regarded as having a personal interest in the transaction that is the subject of this Report are Mashat (Investments) Ltd. (“**Mashat**”) and Ofer (Ship Holdings) Ltd. (“**Ofer Ships**”). Mashat and Ofer Ships are the shareholders of Millennium Investments Elad Ltd. (80% and 20% respectively) (“**Millennium**”), which itself owns 46.94% of the share capital of the Company. Mashat is a private company that is indirectly owned by means of foreign corporations by a foreign discretionary trust the beneficiaries of which are Mr. Idan Ofer and his issue. In addition Ofer Ships directly owns 2.88% of the share capital of the Company. Ofer Ships is a private company the Ordinary Shares of which are owned in equal shares by Orona Investments Ltd. (a company owned by Mr. Ehud Angel) and L.I.N. (Holdings) Ltd. (“**Lin**”). Mr. Ehud Angel owns a Special Share which *inter alia* confers upon him an additional vote on the Board of Directors of Ofer Ships with specific limitations and on particular matters. Lin is owned by Mr. Ayal Ofer (the brother of Mr. Idan Ofer) who is an owner of control of Ofer Ships. In addition, Mr. Idan Ofer directly owns 3.33% of the share capital of the Company. Furthermore Kirby Enterprises Ltd. (“**Kirby**”) which is indirectly owned by means of a foreign trust the beneficiaries of which are Mr. Idan Ofer and his issue owns 0.74% of the share capital of the Company.

3.2 The personal interest of Mashat and Kirby in approval of the Framework Resolution that is the subject of this Report ensues from the fact that Mr. Idan Ofer is one of the beneficiaries of the foreign trust that indirectly owns Mashat and Kirby. The personal interest of Ofer Ships in approval of the Framework Resolution that is the subject of this Report ensues from the fact that it is owned *inter alia*, indirectly, by Mr. Ayal Ofer (the brother of Mr. Idan Ofer). The personal interest of Mr. Idan Ofer ensues from the fact that he is a director of the Company and a beneficiary of the insurance policies that are the subject of the Framework Resolution.

² In the meaning of Regulation 1(3) of the Companies (Transactions with Interested Persons) Regulations 2000

4. Transactions with the Owner of Control of the same or similar kind

The following are the transactions of the same kind as the Framework Resolution entered into during the two years prior to the time of approval of the transaction by the Board or which are still in force at the time of such approval:

4.1 In September 2003 the General Meeting approved a “Framework Resolution” enabling renewal of the purchase of D&O insurance cover during 5 years commencing from the 2003 insurance year, as detailed in section 1 above.

5. The Manner in which the Terms of Framework Resolution were fixed

5.1 A comparison was made with the custom of companies of similar size with respect to purchase of D&O insurance cover.

5.2 The terms and conditions of the insurance are similar in essence to the practice of the Company in the past except for changes in the amount of insurance cover and the split of the joint layer between the Company Group and the ICL Group and also the amount of the separate level.

5.3 The increase in insurance cover was made taking into consideration that during the years since the previous resolution relating to D&O insurance cover of the Company Group (September 2003), the activity of the Company has expanded and its market value has increased. The risks and degree of exposure of the D&O of the Company Group has increased accordingly.

5.4 The insurance was purchased after negotiations between the Company and ICL and between the insurance companies, and in any event, the following rules were fixed: the annual premium to be paid by the Company in respect of any particular insurance year will not increase by more than 15% a year above the amount of premium and in no event shall exceed the Maximum Premium by more than 150% (namely not more than \$ 525,000). Any departure from these limits requires approval by General Meeting.

6. Approvals required and conditions precedent for approval of the Framework Resolution

6.1 The Audit Committee of the Company approved the Framework Resolution that is the subject of this Report with effect from 1st August 2007.

6.2 The Board of the Company approved the Framework Resolution that is the subject of this Report with effect from 1st August 2007.

6.3 The Framework Resolution that is the subject of this Report is subject to approval by General Meeting of the Company to be convened as provided in section 10 below.

7. Summary of the Grounds of the Audit Committee and Board

The Audit Committee and the Board of the Company scrutinized the Framework Resolution that is the subject of this Report – taking into consideration the matters referred to in section 5 above – and approved the resolution on the basis of the

recommendations of the management of the Company, *inter alia*, based on the following main considerations:

- 7.1 D&O insurance cover is the usual practice of public companies in Israel.
- 7.2 The need to recruit and to hold onto talented skilled personnel despite the ever increasing exposure to the liability of D&O.
- 7.3 Taking into consideration the indemnity of D&O by the Company, insurance cover affords the Company and the D&O cover, in full or in part, for liability, if any.
- 7.4 The purpose of purchase of insurance cover together with ICL, a subsidiary of the Company, is to take suitable and proper advantage of the size of the concern and to reduce the cost of the insurance premium. The layer of insurance by the ICL and the Company jointly will ensure that a claim submitted against both of the two companies will be handled by the insurance companies in a uniform and coordinated manner.
- 7.5 The premium for each insurance year was fixed after negotiations with the insurance companies and it is understood that the premium reflects usual prices and market terms.
- 7.6 The increase of insurance cover was made in comparison with the practice of other public corporations and taking into account that since the previous resolution relating to insurance cover of D&O of the Company Group (September 2003), , the activity of the Company has expanded and its market value has increased. The risks and degree of exposure of the D&O of the Company Group has increased accordingly.

8. Names of the Directors Participating in the Decisions of the Audit Committee and of the Board

- 8.1 In the Decision of the Audit Committee in force as from 1st August 2007 for approval of the Framework Resolution that is the subject of this Report, the following directors participated: Moshe Vidman; Irit Izekson; Yochi Dvir and Yair Serussi.
- 8.2 In the Decision of the Board of directors in force as from 1st August 2007 for approval of the Framework Resolution that is the subject of this Report, the following directors participated: Idan Ofer; Udi Angel; Avi Levy; Moshe Vidman; Irit Izekson; Yochi Dvir and Yair Serussi; Zvi Itskovitch; Amnon Lion; Yaakov Amidror.

9. Names of the Directors with a Personal Interest

All of the directors of the Company (including all office holders of the Company Group) have an inherent personal interest in the Framework Resolution that is the subject of this Report because they are among the beneficiaries of the insurance cover. For the sake of good order it is also pointed out that Messrs. Irit Izekson, Moshe Vidman (directors of the company) as well as Messrs. Nir Gilad, Avisar Paz and Noga Yatziv (who are office holders but not directors of the company) also hold office as directors of ICL.

10. Notice of Convention of General Meeting, Requisite Majority and Record Date for Voting Entitlement of Shareholders

- 10.1 Notice is hereby given that on Monday, 10th September 2007, at 10:00 a.m., a General Meeting of the shareholders of the Company will be held at the offices of the Company at 23 Aranha Street, Millennium Tower, Tel Aviv on the agenda of which is approval of the Framework Resolution that is the subject of this Report as detailed in section 2 above, including all of the terms and ancillary arrangements and all other matters that may be necessary or practical for the implementation thereof.
- 10.2 The requisite majority for approval of the Framework Resolution on the agenda is a majority of the votes of the shareholders present at the meeting, in person or by proxy, who are entitled to participate in the vote provided that one of the following is complied with: (a) the majority vote at the General Meeting includes at least one third of the total of votes of those shareholders who do not have a personal interest in approval of the Framework Resolution and who participate in the vote; in the count of the total of votes of such shareholders, abstention votes will not be taken into account; (b) the total of opposition votes of the shareholders as in paragraph (a) aforesaid does not exceed one percent of the total of voting rights in the Company.
- 10.3 A shareholder is entitled to appoint a proxy to participate and vote on his behalf at the General Meeting in accordance with the provisions of the Byelaws of the Company. Proxy instruments must be deposited at the registered office of the Company at least 48 hours before the time fixed for the meeting or the adjourned meeting.
- 10.4 A shareholder may vote by means of a Voting Form. For such purpose the vote of a shareholder by means of a Voting Form will be regarded as a vote by a shareholder present and voting at the meeting. Vote by means of Voting Form by a shareholder who wishes to vote by means of Voting Form instead of participation at the meeting in person and/or by proxy, is to be made by means of the second part of the Voting Form attached as Schedule 1 to this Report. The Voting Form and documents to be attached thereto as detailed in the Voting Form, must be delivered to the offices of the Company at least 72 hours before the time fixed for the meeting. For such purpose the time of delivery is the time at which the Voting Form and the documents to be attached thereto arrive at the office of the Company.
- 10.5 The Record Date for entitlement of a shareholder to vote at the meeting, in accordance with section 182 of The Companies Law, 1999, is 12th August 2007 (“**the Record Date**”).
- 10.6 In accordance with the Companies (Proof of Ownership of Shares for the Purpose of General Meeting Voting) Regulations, 2000, a shareholder to whose credit a share is registered with a Member of The Tel Aviv Stock Exchange Ltd., which share is included in the Shareholders Register of the Company in the name of a Nominee Company, who wishes to vote at the General Meeting, is required to furnish the Company with a Certificate of the Stock Exchange Member with whom the share is registered to his credit, certifying his ownership of the share at the Record Date, in accordance with Form 1 in the Appendix to the Regulations.

10.7 A quorum shall be constituted by the presence in person or by proxy of at least five shareholders who together hold at least twenty five percent of the voting rights. If no quorum is present half an hour after the time fixed for the meeting, the meeting shall be adjourned for seven days to the same day, at the same time and at the same place, without need for notification of same to the shareholders, and if no quorum is present at the adjourned meeting after half an hour of the time fixed for the meeting – the shareholders present shall constitute a legal quorum.

11. General

11.1 Directive of the Securities Authority: In accordance with Regulation 10 of the Securities (Transaction between Company and Owner of Control) Regulations, 2001, the Securities Authority may within 21 days of the date of submission of this Report, require the Company to furnish within a given time an explanation, details, information, and documents relating to the proposal or transaction, as the case may be, that is the subject of this Report, and to require the Company to amend the Report in such manner and time as is required; in such case the Authority may require postponement of the date of the General Meeting by not less than three business days and not more than 21 days from the date of publication of the amendment of the Report.

11.2 The representative of the Company for the purpose of this Immediate Report is: Advocate Guy Neeman of Gornitzky & Co., of 45 Rothschild Boulevard, Tel Aviv 65784; Telephone 03-7109191; Facsimile 03-5606555.

11.3 Shareholders of the Company may peruse the Transaction Report and the other documents appertaining to the proposed resolution of the General Meeting at the offices of the Company on Sunday to Thursday between the hours of 09:00-16:00 by telephone appointment 03-6844500.

Yours faithfully,

Israel Corporation Ltd.