

**ISRAEL CORPORATION LIMITED (hereinafter “The Company”)**

19<sup>th</sup> May, 2005

Securities Authority

Tel Aviv Stock Exchange

**Israel Corporation Ltd. (“the Company”)**  
**Immediate Report as to Private Offer**

This Immediate Report is given in accordance with The Securities (Private Offer of Securities of a Registered Company) Regulations 2000 (“**the Private Offer Regulations**”).

A. **Introduction**

1. On 15<sup>th</sup> May 2005 the Board of Directors of the Company decided that the Company will allot to H.L Management and Consultants (1986) Ltd., a fully owned subsidiary of the Company (“**the Subsidiary**”), 70,300 shares (“**the Allotted Shares**”), which shares are to be used by the Subsidiary for a new program adopted on the same date by the Subsidiary for recompense of its employees and officers (“**the Program**”). In accordance with the Program, the Subsidiary will allot to such employees and officers (as hereinafter detailed) option warrants for the purchase of shares of the Company to be allotted to the Subsidiary as above. Among the Offer Recipients of such option warrants is the CEO of the Company and officer of the Subsidiary, Mr. Yossi Rosen, to whom 20,000 option warrants will be allotted, and with regard to whom the offer falls within the definition of the term “material private offer” within the meaning of such term in Regulation 1 of the Private Offer Regulations. In addition, allotment has been approved of 50,300 option warrants to 7 additional employees and officers of the Subsidiary, (who are not directors or interested parties in the Company) (“**the Additional Offer Recipients**”), and the offer to such persons is not a material private offer.

B. **Identity of Offer Recipients**

2. As aforesaid, the allotted Shares will be allotted to the Subsidiary but they will serve as shares for the exercise of the option warrants allotted to the CEO of the Company, Mr. Yossi Rosen and the Additional Offer Recipients will be termed hereafter “**the Offer Recipients**” and each one of them “**Offer Recipient**”).

C. **Terms of the Securities the Allotment of which is proposed**

3. The securities that will be allotted to the Subsidiary are Ordinary Shares of the Company of NIS 1 par value. The option warrants offered to the Offer Recipients are non-negotiable option warrants in respect of each one of which the Offer Recipient will be entitled to purchase from the Company one Ordinary Share of the Company of NIS 1 par value on the terms detailed hereafter (“**the Option Warrants**”).

4. Terms of the Option Warrants – Split into portions, exercise period, non-negotiable and non-transferable

- 4.1 Entitlement to receive Option Warrants: The entitlement of each of the Offer Recipients to receive the Options Warrants offered to him will vest in three portions: the entitlement of the Offer Recipient to receive one third of the total quantity of Option Warrants offered to him (“**the First Portion**”) will vest on the second business day subsequent to the receipt of preliminary approval by the Tax Commissioner as in section 6.1 below (or, 30 days after submission of the program, at which time the application of the Subsidiary to the Tax Commissioner will be deemed as approved, as in section 6.1 below); the entitlement of the Offer Recipient to receive an additional one third of the total quantity of Option Warrants offered to him (“**the Second Portion**”) will vest on 31<sup>st</sup> December 2005; the entitlement of the Offer Recipient to receive an additional one third of the total quantity of Option Warrants offered to him (“**the Third Portion**”) will vest on 31<sup>st</sup> December 2006.
- 4.2 Exercise Price of the Option Warrants: The exercise price of each of the Option Warrants will be equal to NIS 880 (being the average Stock Exchange closing price of the Ordinary Shares of the Company during the 30 trading days that preceded 31<sup>st</sup> December 2004, less the dividend distributed at the beginning of 2005), plus linkage increments to the Index in respect of the month of November 2004 until the time of exercise.
- 4.3 Exercise Period of the Option Warrants: The Option Warrants in the First Portion may (subject to the terms of the program) be exercised commencing on 31<sup>st</sup> December 2007 until 31<sup>st</sup> December 2009; the Option Warrants in the Second Portion may (subject to the terms of the program) be exercised commencing on 30<sup>th</sup> June 2008 until 30<sup>th</sup> June 2010; the Option Warrants in the Third Portion may (subject to the terms of the program) be exercised commencing on 31<sup>st</sup> December 2008 until 31<sup>st</sup> December 2010.
- 4.4 Non-negotiable and non-transferable: The Option Warrants to be allotted to the Offer Recipients pursuant to the program will not be registered for trade on the Stock Exchange. The exercise shares to be transferred by the Company to the Offer Recipient upon exercise of the Options Warrants (“**the Exercise Shares**”) will be registered for trade on the Stock Exchange shortly after their allotment to the Subsidiary and they will rank *pari passu* for all intents and purposes with the existing Ordinary Shares of NIS 1 par value in the share capital of the Company. The Options Warrants and rights ensuing therefrom may not be sold or transferred (including by way of charge), and are not subject to sale by execution, lien or similar proceedings, except in the event of death or transfer to a Guardian by law in the event of legal incompetence, provided that in the event of transfer as aforesaid, the transferee undertakes to comply with the provisions of the program and the allotment agreement.
- 4.5 Terms of the Option Warrants in the event of Termination of Employment or Office
- 4.5.1 In the event of the termination of employment relations between the Subsidiary and the Offer Recipient (or termination of office of the Offer Recipient as an officer of the Subsidiary, as the case may be) as a result of

the voluntary retirement of the Offer Recipient and not as a result of inability due to health problems (hereinafter “**Incapacity**”), the Offer Recipient will be entitled to exercise the Option Warrants allotted to him only in respect of those Option Warrants for which the right of the Offer Recipient had vested up to the date of termination of his employment or office (as the case may be), and the same may be exercised (subject to the limitations of the provisions of section 102 of The Income Tax Ordinance, as hereinafter specified) within a period of 180 days from the termination of employment or termination of office, as the case may be. The entire balance of the Option Warrants will expire on the date of termination of the employment or office of the Offer Recipient.

For the avoidance of doubt, if the blocking period in accordance with the provisions of section 102 of The Income Tax Ordinance (as hereinafter specified) has not yet elapsed, the 180 day period referred to in this section 4.5.1 will end after the elapse of 180 days from the termination of such blocking period. If the blocking period in accordance with the provisions of section 102 of The Income Tax Ordinance (as hereinafter specified) has elapsed, the 180 day period referred to in this section 4.5.1 will end after the elapse of 180 days from the termination of employee-employer relations or termination of office, as the case may be.

- 4.5.2 In the event of the termination of employment or office of the Offer recipient as a result of incapacity or death – the Offer Recipient (or his heirs) will be entitled to exercise the Option Warrants for which the right of the Offer Recipient had vested up to the date of termination of his employment or office, at any time until the expiry of the Option Warrants. In addition the Offer Recipient (or his heirs) will be entitled to exercise a part the Option Warrants for which the right of the Offer Recipient would have had vested up to the date of termination of his employment or office, at any time until the end of the annual entitlement period during which the incapacity or death occurred, in proportion to the number of months elapsed from the end of the previous entitlement period until the date termination of employment/office in relation to 12 months. The balance of the Option Warrants will expire on the date of termination of the employment or office of the Offer Recipient, as the case may be.
- 4.5.3 In the event of the termination of employment or office of the Offer Recipient as a result of dismissal in circumstances that in the opinion of the Company, afford to the Company by law the right to dismiss him without payment of severance payments, all the Option Warrants offered to the Offer Recipient in accordance with the program will expire forthwith, including those in respect of which the right to exercise by the Offer Recipient has vested, but which have not yet actually been exercised.
- 4.5.4 In the event of the termination of employment or office of the Offer Recipient for any reason not included in sections 4.5.1-4.5.3 above, the Offer Recipient will be entitled to exercise the Option Warrants allotted to him only in respect of those Option Warrants for which the right of the Offer Recipient had vested up to the date of termination of his employment or office (as the case may be), and the same may be

exercised during the exercise period provided (without change in the original times for exercise). The balance of the Option Warrants will expire on the date of termination of the employment or office of the Offer Recipient, as the case may be.

#### 4.6 Procedure for Exercise

If an Offer Recipient wishes to exercise Option Warrants, subject to compliance with the terms of the program, he shall notify his exercise request to the Company in writing (“**Exercise Notice**”) not less than one business day prior to the proposed date of exercise (“**Exercise Date**”). At the time of exercise, there will be transferred to the Offer Recipient, shares at the bonus value only, as hereinafter specified, and accordingly the exercise price is relevant only for the purpose of determining the quantity of Exercise Shares to which the Offer Recipient will be entitled at the Exercise Date of the Option Warrants. Upon submission of an Exercise Notice by the Offer Recipient, the following shall apply:

##### 4.6.1 The difference is to be calculated between:

a. The closing price of an Ordinary Share of the Company on the Stock Exchange on the date of the Exercise Notice (“**the Determining Price**”), multiplied by the number of Exercise Shares that are the subject of the Option Warrants in respect of which the Exercise Notice was given (adjusted according to the provisions for protection of the Offer Recipient detailed below),

and between:

b. the Exercise Price of each Option Warrant (subject to adjustments detailed below in the provisions for protection of the Offer Recipient), multiplied by the number of Option Warrants in respect of which the Exercise Notice was submitted.

This difference will constitute the bonus amount ensuing to the Offer Recipient at the Exercise Date (“**the Bonus Amount**”).

4.6.2 The Subsidiary will transfer to the Offer Recipient a quantity of Exercise Shares of which the market value at the Determining Price is equal to the Bonus Amount only. Any share fraction resulting from such calculation will be rounded off to the next higher complete share.

4.6.3 In accordance with the aforesaid, on the Exercise Date of the Option Warrants, the Offer Recipient will not actually pay any amount whatever in respect of exercise of the Option Warrants.

#### 4.7 Provisions for Protection of Offer Recipient

4.7.1 In the event that during the life of the Options Warrants, the Company distributes bonus shares to the holders of its Ordinary Shares, the rights of the Offer Recipients shall be safeguarded in the following manner: immediately following the Record Date for the distribution of the bonus shares (“**the Record Date**”), the number of Exercise Shares that the Offer Recipient is entitled to receive, shall be increased by the addition of the number and class of shares to which the Offer Recipient would have been entitled by way of bonus shares had he exercised the Option Warrants (not yet exercised) shortly prior to the Record Date. For avoidance of

doubt, it is clarified that the aforesaid adjustments will be applicable to all the Option Warrants the right to receipt of which by the Offer Recipient has vested up to the Record Date (including those Option Warrants as aforesaid that the Offer Recipient was not entitled to exercise on the Record Date).

- 4.7.2 If the Company is a party to an agreement or arrangement for exchange of shares (such as merger or reorganization) (“**the Exchange Transaction**”) by which it is proposed to the holders of the Ordinary Shares of the Company to exchange such shares for securities of any other corporation, the Subsidiary may obligate the Offer Recipient, in respect of all of the Option Warrants that have not yet been exercised, to accept Option Warrants exercisable for shares of such other corporation in exchange for the Option Warrants held by the subsidiary for him. The aforesaid at the same exchange ratio as for all the holders of Ordinary Shares of the Company and provided that the total exercise price in respect of all of the alternate option warrants is equal to the total Exercise Price in respect of all the Option Warrants held by or for the Offer Recipient that have not yet been exercised.
- 4.7.3 In the event of a rights issue by the Company to the holders of the Ordinary Shares during the life of the Options Warrants, the Exercise Price of all those Option Warrants, not been exercised up to such time, shall be reduced on the “ex rights” date, by an amount equal to the bonus element. For avoidance of doubt it is clarified that such reduction shall apply to all the Option Warrants (including those Option Warrants that the Offer Recipient was not entitled to exercise on the Record Date). For such purpose, “the bonus element” means: the difference between the Stock Exchange price of the share that in accordance with the Rights Issue Prospectus serves as the basis for calculation of the “ex rights” price of the share fixed in the Prospectus, and between the “ex rights” price of the share in accordance with such Prospectus.
- 4.7.4 In the event of the payment of a cash dividend by the Company to the holders of its Ordinary Shares during the life of the Options Warrants, on the “ex dividend” date fixed by the Stock Exchange, the Exercise Price of all Option Warrants (not exercised at such time) shall be reduced by an amount equal to the dividend amount paid in respect of each share of the Company. For the avoidance of doubt, it is clarified that the aforesaid adjustments will be applicable to all the Option Warrants (including those Option Warrants as aforesaid that the Offer Recipient was not entitled to receive or to exercise on the Record Date for payment of the dividend).
- 4.7.5 If the Company carries out a merger or split of its Ordinary Shares to shares of a different par value, the necessary adjustments will apply to the Exercise Shares.
- 4.7.6 It is clarified that all securities allotted to the Offer Recipient in respect of the Option Warrants or Exercise Shares and rights ensuing therefrom (such as bonus shares pursuant to section 4.7.1, Option Warrants and/or Shares of another corporation pursuant to section 4.7.2 and shares of a different par value pursuant to section 4.7.5), shall also be deposited with

the trustee hereinafter referred to, and the provisions relating to the Option Warrants and the Exercise Shares, and the tax method detailed below, shall be applicable thereto, subject to the requisite changes.

5. Quantity of Shares that are the subject of the Option Warrants

In accordance with the program, 20,000 Option Warrants are be allotted to the CEO of the Company, Mr. Rosen, and 50,300 Option Warrants are be allotted to the other Offer Recipients (as defined in section 1 above). In the theoretical event of exercise in full, the Option Warrants offered to Mr. Rosen will confer 0.27% of the issued paid up share capital of the Company, and the Option Warrants allotted to the other Offer Recipients will confer 0.68% of such capital (fully diluted<sup>1</sup> - 0.26% and 0.66%, respectively). Notwithstanding the aforesaid, the presumption of exercise in full is purely theoretical because in practice at the time of exercise of the Option Warrants, there will not be allotted to the Offer Recipient the entire amount of the shares resulting therefrom, but only a quantity of shares that reflects the Bonus Amount incorporated in the Option Warrants, namely the difference between the price of the Ordinary Shares of the Company at the Exercise Date, and the Exercise Price of the Option (see section 4.6 above). (For example: if Mr. Rosen would have exercised all of the Option Warrants offered to him in accordance with this Report on the date of the approval by the Board, in accordance with section 4.6 above he would have received only 5,223 Shares that constitute 0.07% of the capital.

6. Taxation and Trust Provisions

6.1 The Subsidiary will apply to the Tax Commissioner for approval (or, on the expiration of 30 from submission of the program, the application will be deemed as approved) that the provisions of section 102 of the Income Tax Ordinance should be applicable to the Option Warrants and Exercise Shares in the capital scheme for allotment by means of a trustee (section 102 and the Regulations enacted and Rules fixed by virtue thereof and hereinafter jointly referred to as “**Section 102 Provisions**”).

6.2 In accordance with the Section 102 Provisions, the Option Warrants will be allotted to a trustee for the Offer Recipients and the trustee will deal with the Option Warrants and the Exercise Shares in accordance with the Section 102 Provisions as well as in accordance with the terms of trust and practice for exercise of the Option Warrants and sale of the Exercise Shares as may be agreed between the Subsidiary and the trustee.

6.3 In accordance with the Section 102 Provisions, and without derogating from the aforesaid, the following provisions shall be applicable:

6.3.1 The trustee shall hold the Options Warrants and the shares that result from exercise thereof during a period of 24 months from the end of the tax year in which the Option Warrants were allotted and deposited with the trustee (“**the Blocking Period**”). For avoidance of doubt it is clarified that the Offer Recipient will not be entitled to receive the Option Warrants or the Exercise Shares from the trustee before the end of the Blocking Period,

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<sup>1</sup> On the assumption of exercise of all of the Option Warrants that are the subject of this Report, exercise of 10,384 non-negotiable Option Warrants; 97,305 negotiable Option Warrants; and 92,667,100 Debentures convertible – up to 310,371 shares of the Company.

and will not be entitled to instruct the trustee as to sale or transfer of the Exercise Shares before the end of such period. Furthermore during the Blocking Period the Option Warrants and the shares will not be subject to any act of transfer (including by way of being subject to a Power of Attorney or Share Transfer Deed) unless permitted by the Section 102 Provisions.

6.3.2 The trustee will hold the Option Warrants for the Offer Recipients throughout their entire existence and will also hold the Exercise Shares until sale thereof or until payment of the tax for which the Offer Recipient is liable whichever is the earlier. If the Offer Recipient wishes to sell the Exercise Shares before payment of the applicable tax, he may do so by means of the trustee subject to the terms of the arrangement, if any, with the tax authorities. The trustee may deduct any amount from the consideration received from the sale so as to secure payment of the tax.

6.3.3 For the avoidance of doubt it is clarified that in the Blocking Period during which the trustee holds the Exercise Shares for the Offer Recipient, neither the trustee nor the Offer Recipient shall be entitled to vote the shares in any manner whatsoever.

6.4 The trustee for the purposes of this agreement shall be Accountant Orney Elad.

6.5 Each of the Offer Recipients shall bear the tax imposed in respect of the allotment of the Option Warrants for him, in respect of the sale of the Exercise Shares, as well as in respect of any transaction or act with the Option Warrants or the Exercise Shares in accordance with the program (including exchange of the shares in an exchange transaction as defined in section 4.7.2) if such tax is applicable.

D. **Economic Value of Options**

7. The economic value of all of the Option Warrants included in the first portion is NIS 429.21; the economic value of all of the Option Warrants included in the second portion is NIS 443.79; the economic value of all of the Option Warrants included in the third portion is NIS 457.96.

7.1 The economic value of the Option Warrants was calculated in accordance with the "Black & Schuls" formula based on the closing price of the shares of the Company on the Stock Exchange on 15<sup>th</sup> May 2005, the date of approval of the Offer by the Board, namely NIS 1,191 per shares, the weekly margin being 3.46%.

7.2 The calculation of the economic value took the following presumptions into consideration:

All of the Option Warrants will be exercised in a homogenous manner over the entire Exercise Period;

Calculation of the economic value does not take into account the fact that the Option Warrants will not be registered for trade on the Stock Exchange;

The margin used for calculation was that published by the Stock Exchange;

The annual capitalization rate of the Option Warrants was 2%.

- 7.3 The aggregate economic value of all of the Option Warrants to be allotted to Mr. Rosen pursuant to this Report is NIS 8,873,000. The aggregate economic value of all of the Option Warrants to be allotted to all of the other Offer Recipients jointly pursuant to this Report is NIS 22,316,000.

**E. Issued Share Capital of the Company, Holdings of the Offer Recipient and of Interested Parties in the Company**

8. The issued paid share capital of the Company as of the date of this Report is comprised of 7,337,198 Ordinary Shares of NIS 1 par value each. The following are details of the holding of Mr. Rosen in the share capital of the Company (voting rights and capital), and the holdings of interested parties (by virtue of shareholdings) and of the other shareholders of the Company as of the date of this Report, and after exercise of all of the Option Warrants pursuant to this Report:

| Name of Shareholder             | Quantity & percent of capital and voting rights holding, as of date of this Report |           | Quantity & percent of capital and voting rights holding, after exercise of all Option Warrants pursuant to this Report |                           |                            |       |
|---------------------------------|--|-----------|--|---------------------------|----------------------------|-------|
|                                 | No. of shares (thousands)  | Rate as % | Undiluted  |                           | Fully Diluted <sup>2</sup> |       |
| No. of shares (thousands)       |  |           | Rate as %  | No. of shares (thousands) | Rate as %                  |       |
| Bank Leumi                      | 1,382,802  | 18.85     | 1,382,802  | 18.67                     | 1,439,856                  | 18.83 |
| Idan Ofer                       | 256,266  | 3.49      | 256,266  | 3.46                      | 256,266                    | 3.35  |
| Millenium Investments Elad Ltd. | 3,613,455  | 49.25     | 3,613,455  | 48.78                     | 3,613,455                  | 47.25 |
| Ofer (Ship Holdings) Ltd.       | 221,862  | 3.02      | 221,862  | 3.00                      | 221,862                    | 2.90  |
| Bank Leumi Provident Funds      | 104,234  | 1.42      | 104,234  | 1.41                      | 104,234                    | 1.36  |
| Bank Leumi Trust Funds          | 80,511   | 1.10      | 80,511   | 1.09                      | 91,468                     | 1.20  |
| Yossi Rosen                     | 1,863  | 0.03      | 1,863  | 0.03                      | 21,863                     | 0.29  |
| Other shareholders              | 1,676,205  | 22.84     | 1,726,505  | 23.29                     | 1,898,565                  | 24.82 |

**F. Consideration for Securities Offered**

9. The Option Warrants will be granted to the Offer Recipients without consideration as part of their recompense in the Subsidiary. The shares will be allotted by the Company to the Subsidiary in consideration for their par value.

<sup>2</sup> On the assumption as in 1 above.

G. **Approvals Required**

10. Allotment of the Option Warrants that are the subject of this Immediate Report is subject to approval by the Stock Exchange of the registration of the Exercise Shares for trade.

H. **Agreements between the Offer Recipient and the Shareholders of the Company**

11. Each of the Offer Recipients has informed the Company that there are no agreements, in writing or oral, between him and shareholders of the Company, relating to the purchase or sale of securities of the Company or relating to voting rights.

I. **Blocking Provisions applicable to the Offer Recipients**

12. In accordance with The Securities Law 1968 and The Securities (Details for Purpose of Sections 15A to 15C of the Law) Regulations 2000, the restrictions detailed below will apply to the sale on the Stock Exchange of the Exercise Shares transferred to the Offer Recipients on exercise of the Option Warrants (in addition to the provisions relating to vesting of the Option Warrants as detailed in this Report):

12.1 The Exercise Shares may not be offered for sale on the Stock Exchange during six months from allotment of the Option Warrants.

12.2 During six consecutive quarters subsequent to the aforesaid six months, the Offer Recipient may, on each day of trade, offer for sale a quantity of shares that is not in excess of the average daily volume of Stock Exchange trade of the shares of the Company during the period of eight weeks that preceded the date of the offer, and provided that he shall not offer for sale during any single quarter a quantity of shares in excess of one percent of the issued paid capital of the Company.

13. In accordance with the provisions of the said law, the Subsidiary may not offer the Exercise Shares that are allotted to it pursuant to this Immediate Report for sale on the Stock Exchange during two years from the date of allotment.

J. **Time of Allotment**

14. The Option Warrants will be allotted after receipt of approval by the Stock Exchange as in section G above, and only after receipt of prior approval from the Tax Commissioner (or, on the elapse of 30 days from filing the program – if the application of the Subsidiary is deemed to have been approved), to the effect that the provisions of section 102 of the Income Tax Ordinance apply to the allotment of the Option Warrants pursuant to the program, as a capital allotment by means of a trustee.

Yours faithfully,

Israel Corporation Ltd.