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Israel Corporation Ltd.

Millennium Tower, 23 Aranha Street, P.O.B. 20456, Tel-Aviv 61204

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Adv. Noga Yatziv

Company Secretary and Assistant to the President

March 1, 2009

To:
The Securities Authority
via MAGNA

To:
The Tel Aviv Stock Exchange Ltd.
via MAGNA

Dear Sir/Madam,

Re: **Immediate Report – Terms of Service of a Director**

Further to the Immediate Report of the Company dated February 8, 2009 (reference No. 2009-01-031386), regarding the appointment of Mr. Amir Elstein as Director of the Company, the Company hereby reports pursuant to the Companies Regulations (Relief in Transactions with Interested Parties) 5760-2000 (the "**Relief Regulations**"), as follows:

1. On February 5, 2009, the Board of Directors of the Company approved the appointment of Mr. Amir Elstein as an additional Director of the Company, until the convening date of the Annual General Meeting of the Company which will take place following his appointment, pursuant to Article 86 in the Articles of Association of the Company.
2. The Board of Directors, in its meeting on February 26, 2009, following the approval of the Audit Committee, has decided that Mr. Elstein shall be entitled, with effect from the actual commencement of his service as a director, to all the terms of the position and service (as defined in the Relief Regulations), in effect at the Company in relation to directors thereof, including entitlement to remuneration in the maximum amount prescribed in the Companies Regulations (Rules regarding Remuneration and Expenses for External Directors) 5760-2000 (after the Amendment to the regulations on 6.3.2008) (the "**Remuneration Regulations**"), considering the ranking of the Company and that, considering his declaration that he is an "Expert Director"¹ due to his education, his

¹ As the term "Expert External Director" is defined in the Remuneration Regulations, *mutatis mutandis*.

experience, his expertise and his high level of skills and his profound understanding in the principal field of activity of the Company, the Board of Directors has decided that Mr. Elstein shall be an "Expert Director"¹ and that he shall therefore be entitled to the additional amount prescribed in the Remuneration Regulations in respect thereof.

3. Similar to the notification of all the directors of the Company, as stated in the Immediate Report dated January 1, 2009 (reference No.: 2009-01-000321), Mr. Elstein has informed the Company of his initiative and his decision to waive the amount of 10% of the director's remuneration to which he is entitled until the end of 2009.
4. The Audit Committee and the Board of Directors have examined and considered the terms of the position and service of Mr. Elstein and have approved them, *inter alia*, on the basis of the following principal considerations, grounds and criteria:
 - 4.1. the decision regarding the terms of the position and employment of Mr. Elstein is consistent with the general policy of the Company regarding remuneration and standard terms for all the directors serving the Company, considering the exceptions prescribed in the Amendment to the Remuneration Regulations in relation to an "Expert External Director".
 - 4.2. the decision of the Board of Directors that Mr. Elstein is an "Expert Director"¹, and therefore he is entitled to the additional amount prescribed in the Remuneration Regulations in respect thereof, based on the declaration of Mr. Elstein as aforesaid, and upon examining and evaluating his education, his experience, his expertise and his high level of skills and his understanding in the principal field of activity of the Company, as presented to the Company.
 - 4.3. In the totality of the considerations, the Company considers it fully justified to grant the said terms of the position and service to Mr. Elstein, which are identical to the remaining terms customarily provided by the Company in relation to Directors serving in the Company, which are proper and reasonable in the circumstances of the matter.

There were no objections raised by any of the directors in relation to the said approval.

5. In accordance with Regulation 1C of the Relief Regulations: (a) the relief pursuant to Regulation 1 of the Relief Regulations shall not apply to the Company, if one or more shareholders who holds at least one percent of the issued capital or of the voting rights at the Company gave notice of his objection to the grant of such relief, provided that the

objection was submitted to the Company, in writing, not later than fourteen days from the date on which this report was submitted or from the date on which a report amending this report was submitted, if any; (b) if an objection as stated in sub-section (a) above was submitted, the said engagement shall be subject to approval in accordance with that set forth in section 273 or 275 of the Companies Law, 5759 – 1999, as the case may be.

Sincerely,

Israel Corporation Ltd.