

Makhteshim Agan Industries Ltd
(Hereinafter: "The Company")

May 12, 2010

The Securities Authority
Via Magna

The Tel-Aviv Stock Exchange
Via Magna

Re: Immediate Report in accordance with the Securities Regulations (Private Offering of Securities in a Registered Company), 5760 - 2000

Hereby an Immediate Report in accordance with Regulation 21 of the Securities Regulations (Private Offering of Securities in a Registered Company), 5760 – 2000 ("Private Offering Regulations") and in accordance with Regulation 37A(3) of the Securities Regulations (Periodic and Immediate Reports), 5730 – 1970, on a decision of the Company's Board of Directors on May 13, 2008, in respect of approval of a private issue of non-tradable options, exercisable for shares in the Company, to ten (10) senior officers of the Company and a senior manager (jointly "the Offerees" and each of the Offerees severally "the Offeree" as part of a private offering that is not a material private offering (in the meaning of this term in the private offering regulations) ("the Private Offering"), all as detailed in this report below.

1. **Preamble**

- 1.1 On May 11, 2010, the Company's Board of Directors approved the issue to the Offerees of 6,500,000 non-tradable options, theoretically exercisable for 6,500,000 ordinary shares of the Company with a nominal value of NIS 1 each, in accordance with and subject to the terms of clause 2 below.
- 1.2 The issue of options to the Offerees shall be carried out in accordance with the provisions of section 102(B)(2) of the Income Tax Order (New Text), 5721 – 1961 ("the Order"), using the capital gains track using a trustee appointed by the Company, in accordance with the Options Program (2008) ("the Program"), approved by the Company's Board of Directors on January 9, 2008 (as modified and expanded from time to time). The principal terms of the options are as stated in this Private Offering report.

2. **The offered securities and their terms**

- 2.1 **Amount of options and percentage of exercise shares in the Company's issued and paid up capital**
 - 2.1.1 In accordance with the terms of the Private Offering, the Company shall issue to the Offerees, subject to receipt of approval from the Tel-Aviv Stock Exchange Ltd to register for trading the exercise shares that will arise from the exercise of the options, in total 6,500,000 options not registered for trading, theoretically, for 6,500,000 ordinary shares of the Company with a nominal value of NIS 1 each, whereby each option can be exercised for one of the Company's ordinary shares.
 - 2.1.2 Exercise shares arising from the options issued to the Offerees ("the Exercise Shares") shall be capitalized, on the theoretical assumption of full exercise, at 1.40% of the Company's issued and paid up share capital and at 1.49% of the voting rights, and at 1.34% of the Company's issued and paid up share capital and at 1.43% of the voting rights fully diluted¹. For details of the number of options issued to each Offeree, see clause 2.1.4 below.

¹ Assuming theoretical exercise of all the Company's non-tradable options.

Notwithstanding the aforesaid, the assumption about a full exercise of the options is only theoretical, because actually the Offerees who will realize their options will not be allotted all the shares deriving therefrom. They will be allotted only shares in a quantity that reflects the sum of the monetary benefit embedded in the options, namely the difference between the price of an ordinary share of the Company, on the exercise date, and the price of exercise of the option (see below).

2.1.3 The Exercise Shares shall be registered for trading on the Tel-Aviv Stock Exchange Ltd (“the Stock Exchange”) and from the date of issue they shall enjoy equal rights in all respects as the Company’s existing ordinary shares with a nominal value of NIS 1.

2.2 Consideration and exercise price

2.2.1 Consideration

The Exercise Shares shall be issued to the Offerees free of consideration, as part of remuneration as part of their employment in the Company. In accordance with section 304 of the Companies Law, 5759 – 1999, the Company shall convert part of its profits as stated in this section of the law into share capital, at the level of the nominal value of the shares actually issued.

2.2.2 Exercise price

The basic exercise price of the options issued to the Offerees is NIS 20.22 per option (hereinafter “the Basic Exercise Price”).

2.3 Stock Exchange share price and economic value of the options

2.3.1 The last quoted share price close to the decision of the Company’s Board of Directors (May 10, 2010) was NIS 15.76 per share of the Company with a nominal value of NIS 1, a price that was 22.06% lower than the Basic Exercise Price of the options.

2.3.2 The economic value of the options, as calculated according to the formula decreed by the Stock Exchange in Israel in accordance with the binomial method, is NIS 28,990 thousand.

2.3.3 Below are additional details in respect of the cost of the grant of options for the entire Exercise Period and for a single year:

Average cost for single Offeree per year (Thousand NIS)	Average cost for single Offeree for entire Exercise Period (Thousand NIS)	Highest average cost for single Offeree per year (Thousand NIS)	Highest cost for single Offeree for the entire Exercise Period (Thousand NIS)
878	2,635	1,056	3,166

2.4 Determining date, purchase dates and exercise periods

2.4.1 The determining date for the purpose of issue of the options shall be the date of approval by the Board of Directors of issue of the options to the Offerees (namely May 11, 2010).

2.4.2 The options issued to the Offerees shall vest in three tranches, as follows:

- (1) One third of the options will be exercisable from one year after the determining date;
- (2) One third of the options will be exercisable from two years after the determining date;
- (3) One third of the options will be exercisable from three years after the

determining date;

2.4.3 The final expiry date of the options (in the event that had not expired or been exercised prior in accordance with the terms of the program and the options agreement with the Offeree) shall be 24 months from the vesting date of the said option.

2.5 Manner of exercise

Options will be exercisable in the manner described below:

2.5.1 In the Offeree requests to exercise an option, he/she shall inform the trustee in writing (with a copy to the Company) of the demand to exercise. In the announcement the Offeree shall stipulate the number of options he/she wishes to exercise for shares ("the Exercise Announcement"). The exercise date shall be that date stated on the Exercise Announcement (the "Exercise Date"), on condition that that the requested Exercise Date be at least one business day after submitting the Exercise Announcement to the trustee (with a copy to the Company).

2.5.2 After the Offeree shall have submitted the Exercise Announcement, a calculation shall be made of the difference between:

- (a) The closing price of the Company's ordinary shares on the Stock Exchange on the trading day preceding the Exercise Date ("the Determining Price"), multiplied by the number of Exercise Shares covered by the options for which the Exercise Announcement was given (adjusted according to the adjustment provisions of the options program), and:
- (b) The Exercise Price as stated in clause 2.2 above, multiplied by the number of options for which the Exercise Announcement was given.

This difference shall represent the monetary benefit accruing to the Offeree at the Exercise Date ("the Monetary Benefit Amount").

2.5.3 The Company shall issue (or at its discretion shall cause to have transferred treasury shares it or a company it controls holds or will hold) to the trustee for the Offeree the amount of shares whose market value according to the Determining Price is equivalent to the Monetary Benefit Amount alone. Any fraction of a share arising from the aforementioned calculation shall be rounded upwards to the nearest whole share.

2.6 Provisions that shall apply in the event of the termination of the employment of the Offeree

2.6.1 In the event of the termination of employment of an Offeree with the Company or one of its subsidiaries, whichever is the later ("Termination of Term"), for reasons not stated in sub-clauses 2.6.2 – 2.6.3 below, the right of the Offeree to exercise the options issued to him/her shall only be for those options for which the exercise right has vested by date of termination of employment, and they shall be exercisable (subject to the limitations in section 102 of the Order) for a period of 180 days from the Termination of Term (but not later than the original expiry date of the options). The rest of the options issued to the Offeree shall lapse upon Termination of Term.

Notwithstanding the foregoing, the rights of an Offeree who after termination of employment in the Company or one of its subsidiaries, shall continue to provide various services to the Company or a subsidiary, directly or through a company he/she controls, shall not be harmed by the said termination of relations and what is stated above in this clause shall not apply, and he/she shall be entitled to continue to exercise the options in accordance with the terms of vesting up until the termination of his/her relations with the Company or a subsidiary (or until the Expiry Date, whichever is the earlier). In the event of termination of his/her relationship with the Company or a subsidiary, the provisions of this sub-clause above shall apply in

respect of termination of employment (namely the Offeree shall be deemed, for the purpose of this clause alone, as though he/she had terminated his/her employment with the Company or a subsidiary at the said date of termination of employment).

- 2.6.2 In the event of termination of employment of the Offeree with the Company as the result of incapacity due to health problems (“Disability”) or on account of death, the Offeree (or his/her heirs) shall be entitled (subject to the limitations in section 102 of the Order) to exercise the options including the tranches for which his/her right to exercise vested up to the date of the termination of employment, up until the options Expiry Date as stipulated above. In addition, the said Offeree (or his/her heirs) shall be entitled to exercise up until the options Expiry Date as stipulated above the options included in the tranche for which the right to exercise vests at the end of the annual entitlement period in which the Disability or death occurred. The balance of options shall expire upon termination of employment.
- 2.6.3 In the event of termination of employment of the Offeree with the Company due to his/her dismissal for reasons that in the Company’s opinion gave it in law the right to dismiss him/her without payment of severance pay, all options offered to the Offeree under this program shall expire immediately at date of dismissal, including those that the Offeree’s right to exercise them had vested by that date but which he/she had not exercised in practice.
- 2.6.4 In the event of termination of employment of the Offeree with the Company due to retirement after the Offeree had reached the age of 65, or as a result of early retirement, in accordance with the Company’s early retirement program or at its specific agreement, the said Offeree shall be entitled (subject to the limitations in section 102 of the Order) to exercise the options included in the tranches in which his/her right to exercise them had vested by the date of termination of employment, and the vesting date of all or part of the tranches that have not yet reached vesting date shall be accelerated, and the Offeree shall be entitled to exercise immediately the entire quantity of options included in the said tranches, however not before the vesting date of the first tranche, and he/she shall be entitled to do so in the period until expiry of the options as stipulated above.
- 2.6.5 The decision on whether Termination of Term is on account of Disability or for reasons of dismissal without the right to severance pay shall be made by the Board of Directors, at its sole discretion.
- 2.6.6 The Board of Directors is entitled to determine at any time, at its sole discretion, in respect of an Offeree or in general, different periods and terms from those stipulated in this clause 2.6, all subject to the provisions of the options agreement between the Company and the Offeree and the Options Program.
- 2.6.7 For the avoidance of doubt, it is clarified that in any case the period of the early announcement or any other period that shall be calculated in accordance with the agreement with the Offeree as part of his/her Term shall be deemed to be part of the Term for the purpose of calculating the vesting period.

2.7 Provisions for protection of the Offeree

Upon the occurrence of any of the events listed below, the Offeree shall be entitled to purchase shares by way of the options issued to him/her in accordance with this report, subject to adjustments specified below:

- 2.7.1 **Distribution of bonus shares** – in the event that the Company distributes bonus shares to holders of ordinary shares with a nominal value of NIS 1, during the period the options exist, the rights of each Offeree shall be preserved as follows: Immediately after the Determining Date for distribution of the bonus shares (“the Determining Date”) the number of shares arising from exercise of the options that an Offeree is entitled to receive upon exercise shall be increased, by way of an addition

of the number and type of shares to which the Offeree was entitled, as bonus shares, had he/she exercised the options (not yet exercised) at the Determining Date. The number of Exercise Shares to which the holder of options shall be entitled shall only be adjusted in the event of the distribution of bonus shares as stated in this sub-clause but not in the event of any other issues (including issues to controlling shareholders). The entitlement of the Offeree to securities of the Company in the event of the distribution of bonus shares as stipulated above in this clause. Shall only apply from the Exercise Date of the options and in respect of the options actually exercised by the Offeree.

2.7.2 **Rights issue** – In the event of a rights issue by the Company to shareholders, the Exercise Price of each option shall be reduced on the Ex-Rights day by an amount equal to the bonus element. In this respect, “bonus element” means: The difference between the share price on the Stock Exchange that according to what is stated in the prospectus for the rights issue served as the basis for calculating the “ex-rights” share price that was stated in the prospectus, and the ex-rights share price according to the above prospectus.

2.7.3 **Dividend** – the Exercise Price of each option shall be adjusted on account of a cash dividend distribution to the Company’s shareholders, subject to receiving all the required approvals including confirmation from the income tax authorities, if required.

2.7.4 **Change in capital** – In the event of any change in the Company’s issued share capital through splitting shares, combining, distribution or exchange of shares, change in the capital structure of the Company or any similar event by or of the Company, then the number and type of shares that shall arise from exercise of the options issued under this report, shall be adjusted pro-rata in order to preserve proportionately the number of shares to which the Offeree is entitled for each option and the Exercise Price for each option shall not change.

2.7.5 **Transaction** – in the event that the Company carries out a transaction (as defined below), the purchase period for each option not yet vested or exercised shall be immediately accelerated in order that all options issued to the Offeree shall vest immediately and can be exercised starting ten (10) days prior to completion of the transaction, or from any earlier date that the Board of Directors shall set and allow the Offeree to take part in the transaction and comply with its terms, up until just before completion of the transaction, when all unexercised options shall expire.

“**A transaction**” shall be the occurrence of a single transaction / action / event or of a series of related transactions / actions / events, or one or more of the events listed below: (1) Sale, or transfer in any other way, of all or most of the consolidated assets of the Company (in the event of doubt, the Company’s Board of Directors shall decide if all or most of the Company’s consolidated assets have been sold); (2) Sale, transfer or issue of the Company’s securities, or of the Company’s parent company, Koor Industries Ltd. (“the Parent Company”) that results in a change of control in the Company or change in control of the Parent Company, whether directly or indirectly; (3) merger or similar transaction of the Company or of the Parent Company with or into another company (or other companies), whereby at the end the Company or the Parent Company, respectively, is not the surviving company or which results in a change of control in the Company or the Parent Company, respectively.

2.7.6 **Forced sale** – subject to the provisions of the Company’s Articles of Association, in the event of the sale or transfer of all or almost all the Company’s share capital or of the merger or similar transaction of the Parent Company with another company, whose implementation shall be contingent upon the participation of the Offeree (in the case of doubt, the Company’s Board of Directors shall decide whether almost all the Company’s share capital has been sold and/or if the said sale is contingent upon participation of the Offeree), the Offeree shall be obliged to

participate in the said sale and to sell the Exercise Shares he/she is holding (whether or not by the trustee), on condition that the Exercise Shares be sold at an equal price to the sales price of the rest of the shares sold in the said sale and at the same terms.

2.7.7 **Liquidation** – except if determined otherwise by the Board of Directors, in the event of liquidation of the Company, the Offeree shall be entitled to exercise the options issued to him/her, including options that according to their terms have not yet vested, from the date a petition for said liquidation is filed and until the date set by the Board of Directors when the options shall expire, which shall be at least 10 days after filing of the petition for liquidation.

2.8 Limitations on transferability of options and/or Exercise Shares

2.8.1 Options issued to the Offerees shall not be registered for trading on the Stock Exchange. Options or Offerees' rights in respect of the options cannot be sold, transferred (including through attachment), assignment, used as security, or any rights arising therefrom as a benefit for a third party, nor shall they be subject to sale as part of the proceedings of an execution order, lien or similar proceedings, excepting transfer under the laws of inheritance or under a will or transfer to a legal guardian in the event of unfitness in law. Similarly, during the Offeree's lifetime, all the Offeree's rights to purchase shares under the program, can only be exercised by the Offeree alone.

Every said action, whether direct or indirect, and whether it applies immediately or in the future, shall be null and void.

2.8.2 As long as the options and/or Exercise Shares are controlled by the trustee on behalf of the Offeree, all the Offeree's rights are personal and cannot be transferred, assigned, mortgaged, used as a security, excepting transfer under a will or the laws of inheritance.

2.8.3 In the event of transfer of options or shares under a will or the laws of inheritance, the provisions of the options program and options agreements shall apply to the Offeree's legal heirs.

2.9 Taxation and indemnification

The Offeree alone shall be responsible for all tax liabilities in respect of the grant and exercise of the options, payment for shares as part of exercising the options, sale of the shares or any other action (of the Company and/or affiliated companies and/or the trustee and/or the Offeree). The Company and/or affiliated companies and/or the trustee shall deduct in accordance with the law, regulations and rules, all taxes, including deduction of tax at source. The Offeree shall indemnify the Company and/or affiliated companies and/or the trustee and relieve them of all responsibility in respect of the payment of said taxes, interest charges and fines and any other charges whose obligation arises from the need to deduct tax or a failure to deduct tax from each payment made to the Offeree.

2.10 The options program shall be managed by the Board of Directors or alternatively by recommendation of a committee that will be appointed by it, all as detailed in the Options Program.

3. Agreements in respect of the purchase or sale of the Company's securities

To the best of the Company's knowledge, and after having checked with the Offerees, as of the date of this Immediate Report there are no written or verbal agreements between the Offerees and the Company's other shareholders or between the Offerees and others in respect of the purchase or sale of the Company's securities or in respect of voting rights in the Company.

4. Suspensive conditions for the private offering

The private offering of options is subject to the approval of the Stock Exchange to register the Exercise Shares for trading.

5. Limitations on carrying out actions on the offered options and Exercise Shares

- 5.1 Concerning limitations on the transferability of options and/or Exercise Shares, see clause 2.8 above.
- 5.2 Offerees can only exercise the options subject to the purchase dates and exercise period as detailed in clause 2.4 above.
- 5.3 In accordance with the provisions of section 15C of the Securities Law, 5728 – 1968 and the provisions of the Securities Regulations (Details in respect of Sections 15A to 15C of the Law). 5760 – 2000, an offering by the Offerees in a private offering during trading on the Stock Exchange of the shares that shall be issued to them as a result of exercising the options, wherein one of the following conditions exists, shall be deemed a public offering:
- 5.3.1 An offering during the six months from the date of issue of the options under this report (“the First Period”).
- 5.3.2 Offering – during six sequential quarters from the First Period (“the Additional periods”), if each of the Additional Periods there shall be one of the following:
- (a) The amount of securities offered each trading day on the Stock Exchange shall be greater than the daily average turnover of trading in the Company’s ordinary shares on the Stock exchange in a period of eight weeks prior to the offering day.
 - (b) The percentage offered shall be greater than one percent of issued and paid up capital of the Company throughout the entire quarter.
 - (c) For this purpose “issued and paid up”: To exclude shares resulting from exercise or conversion of convertible securities offered up until the offering day and not yet exercised or converted.
“Issued and paid up capital” – to exclude shares resulting from exercise or conversion of convertible securities offered until the offering day and not yet exercised or converted.
- 5.3.3 The aforesaid shall also apply to shares purchased from the Offerees during the said First Period or Additional Periods, not in accordance with the prospectus and not during trading on the Stock Exchange and to securities arising from exercise or conversion of securities issued as stated above.

6. Reasons of the Company’s Board of Directors

- 6.1 In accordance with the foregoing, the grant of options to Offerees was approved by the Company’s Board of Directors at its meeting on May 11, 2010. At the time the decision was taken concerning the grant of options to the Offerees, the Company’s Board had before it material including inter alia: (1) Details of previous options issued to the Offerees and their existing terms of employment in the Company; (2) the Company’s options program (2008) under which it was proposed to issue the Offerees the options; (3) an economic expert opinion concerning the benefit included within the options that it was proposed to issue to the Offerees; and (4) an economic check of the reasonableness of the terms of the overall remuneration of the Offerees.
- 6.2 The said private offering in this report was approved unanimously by the attendees at the Board meeting, at which the issue was approved, inter alia for the considerations and reasons detailed below:
- 6.2.1 The purpose of the grant of the options to the Offerees is to advance the interests of the Company and its objectives by providing true, reasonable incentives to the Offerees to encourage and motivate them to continue to work in the Company and they should have an interest in assuring the Company’s long-term success, in developing its businesses and achieving results.

In addition, the grant of options to the Offerees reflects the considerable contribution to the Company by the Offerees, who contribute their best efforts and their time to advance the Company's interests.

6.2.2 In accordance with the terms of the options agreement with each of the Offerees, the Basic Exercise Price for the options is NIS 20.22, a price that is 28.30% higher than the Company's closing share price on the Stock Exchange at the end of the trading day prior to the date of approval of the issue of the options by the Board of Directors.

In the opinion of the Company's Board, the Exercise Price of the options is reasonable, inter alia because this price is significantly higher than the market price of the Company's shares at date of approval of the grant by the Board. Accordingly, it represents a suitable basis to provide an incentive to the Offerees to act for the Company's long-term success and the increase of its profits and value.

6.2.3 The Company's Board is of the opinion that the grant of options to the Offerees is reasonable and on accepted terms, inter alia ensuring that the amount of options granted to each of the Offerees is identical and in most cases even lower than the amount of options granted to senior officers of the Company in the past, and taking into account that the terms of the options program under which the options would be granted are identical or materially similar to the terms of other of the Company's options programs.

6.2.4 The additional annual cost to the Company for the grant of the options for each Offeree is reasonable, and together with this additional cost, the remuneration level of each Offeree does not deviate from the average determined in an expert opinion presented to the Board.

6.2.4 In accordance with the economic work presented to the Company's Board, the value of the inherent benefit in the options granted to the Offerees, as well as their overall terms of remuneration as a result of the said grant of options, are at market conditions and do not deviate from the range of remuneration granted in the past to senior officers in companies of similar size to the Company.

6.2.5 The Company's Board is of the opinion that the grant of options to the Offerees is required inter alia because the significant deterioration of the conditions of the capital market and of the markets in which the Company has been active in previous years has in practice rendered redundant and negated the inherent benefit in the options granted in the past to most of the Offerees, and in accordance with the grant of options to the Offerees:

- (א) Will allow the Company to bridge the damage with a remuneration package to the Offerees without an expenditure of the Company's cash;
- (ב) Does not benefit the Offerees more than the Company wished to grant them at the time it approved for them in the past the grant of options.

7. **Date of grant**

The date of the grant of the options shall be after obtaining the approval of the Tel-Aviv Stock Exchange Ltd as described in clause 4 above.

8. **Company representatives for handling this report**

The Company's representatives for handling this report are the Company's Legal Counsel, Adv. Michal Arlosoroff, telefax: 073-2321923, and Adv. Ilanit Landesman-Yogev and Nir Dash of the Herzog Fox Neeman Law Offices, 4 Weizman Street, Tel-Aviv, tel: 03-6922020; fax: 03-6966464.

Sincerely,

Makhteshim Agan Industries Ltd

**By: Adv. Michal Arlosoroff, Legal Counsel & Company
Secretary**