Discount Investment Corporation Ltd,

Immediate report dated September 12, 2019 - reference number: 2019-01-095941

Subject: **Appointment of CEO and Approval of Terms of Tenure and Employment**

Discount Investment Corporation Ltd. (the "**Company**") hereby announces that on September 12, 2019, the Company's board of directors approved, after approval was given by the Company's compensation committee, and after accepting the recommendation of the Company's search committee (which was appointed by the Company's board of directors for this purpose), the appointment of Eran Saar as the Company's CEO (the "**CEO**"), as well as the CEO's terms of tenure and employment, as specified below.

The CEO's terms of tenure and employment were approved by the Company's compensation committee and board of directors in accordance with the Company's compensation policy (the "**Compensation Policy**")[1] and in accordance with the provisions of section 272(c1)(3) of the Companies Law, 5759-1999 (the "**Companies Law**"). Following the CEO's declaration regarding the absence of any ties to the Company and/or to the Company's controlling shareholder, in accordance with section 240(b) of the Companies Law, the compensation committee decided to exempt the aforementioned engagement from the requirement for approval, by the general meeting of the Company's shareholders, with respect to the CEO, in accordance with section 272(c1)(3) of the Companies Law, after having realized, in light of the CEO's qualifications, experience, suitability for the position, the opportunity to recruit him for the fulfillment of the aforementioned position in the Company, and the immediate need to create a binding engagement for the fulfillment of the position, that the presentation thereof to the meeting for approval, within the legally prescribed timetable, would have thwarted the engagement.

A. Summary of the employment terms of the Company's CEO

1. **Position**: The CEO will be employed in the position of Company CEO, and in this position, he will serve as a director and officer in investee companies of the Company, at the request of the Company's board of directors, and subject to the receipt of approval from the competent organs of the relevant investee companies. Any compensation paid with respect to his tenure in the aforementioned investee companies will be paid to the Company, and the CEO will not be entitled to such compensation, or to any additional salary with respect to thereto.

2. **Scope of position**: The CEO will be employed in the Company in a three-quarters (75%) position.

3. **Employment period**: The CEO will be employed by the Company in accordance with an employment agreement for an undefined period, beginning on December 12, 2019 (the "**Tenure Commencement Date**").

4. **Fixed salary**: The base monthly salary for the fulfillment of all of his duties in accordance with the employment agreement will amount to NIS 120,000 with respect to a 75% position. The salary will be linked to increases in the consumer price index (with the base index being the known index on the Tenure Commencement Date).

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[1] For additional details regarding the compensation policy, including the wording thereof, see the Company's immediate reports dated July 15, 2019 (supplementary report) and July 24, 2019 (reference numbers: 2019-01-072721 and 2019-01-076702).

5. **Fringe benefits**: The CEO will be entitled to sick days in accordance with the law, to an annual vacation of 24 days, to convalescence pay in accordance with the law, provided that it is no less than the Company's standard practice (and subject to a 75% position), the provision of a monthly sum of 7.5% of the salary to a study fund, as well as provisions for pension, severance pay and loss of working capacity insurance. The Company's CEO will also be entitled to a vehicle, according to the grade which will be practiced in the Company from time to time, with respect to members of management; grossing-up of tax with respect to the vehicle's value; and reimbursement of expenses with respect to the vehicle's maintenance and use (e.g., insurance, fuel, etc.).

6. **Variable component - equity compensation:**

   A. The CEO will be entitled to 2,500,000 options (the "**Options**"), exercisable into 2,500,000 ordinary Company shares with a par value of NIS 1 each ("**Ordinary Shares**", and after being exercised, the "**Exercise Shares**"). The Options will be subject to the terms of the Options plan for Company officers, as approved by the Company's board of directors on March 23, 2016 (the "**Options Plan**").

   B. The total benefit value of the Options amounts to approximately NIS 6,065 thousand, based on the B&S model. According to a linear distribution, the annual benefit amounts to a total of approximately NIS 1,213 thousand.

   C. The Exercise Shares, once granted, will constitute approximately 1.71% of the Company's issued and paid-up share capital (after deducting dormant shares, and after taking into account all share options for Company officers), as of September 12, 2019.

   D. The CEO's entitlement to the Options will vest in 5 equal tranches, over a period of 5 years after the Tenure Commencement Date, as follows:

      i. The first tranche (20% of the Options) will vest one year after the Tenure Commencement Date, according to an exercise price equal to NIS 6.90 per Ordinary Share (which is the average price of Company shares during the last 30 (calendar) days immediately before the date of the board of directors' resolution regarding the terms of tenure and employment - NIS 5.5237 (the "**Base Price**")), plus 25%.

      ii. The second tranche (20% of the Options) will vest two years after the Tenure Commencement Date, according to an exercise price equal to NIS 8.05 per share (*viz.*, the base price plus 46%).

      iii. The third tranche (20% of the Options) will vest three years after the Tenure Commencement Date, according to an exercise price equal to NIS 8.05 per share (viz., the base price plus 46%).

      iv. The fourth tranche (20% of the Options) will vest four years after the Tenure Commencement Date, according to an exercise price equal to NIS 8.63 per share (viz., the base price plus 56%).

      v. The fifth tranche (20% of the Options) will vest five years after the Tenure Commencement Date, according to an exercise price equal to NIS 8.63 per share (viz., the base price plus 56%).

E. All of options will be exercisable until the end of 7 years after the Tenure Commencement Date.

F. The Company will publish an immediate report regarding a material private offer, in accordance with the Securities Regulations (Private Offer of Securities in a Registered Company), 5760-2000, in accordance with the dates prescribed in the aforementioned regulations.

7. **Variable component - annual bonus:** The CEO will be entitled to an annual bonus, beginning in 2020, which will not exceed 6 monthly salaries (70% of the bonus will be granted based on fulfillment of company-wide targets and personal targets, as will be determined by each year by the Company's board of directors, with the recommendation of the Company's compensation committee, and 30% of the bonus will be granted in the discretion of the Company's compensation committee and the board of directors, in accordance with the CEO's contribution), subject to the fulfillment of the conditions specified in the compensation policy, as amended from time to time, including, inter alia, with respect to the minimum conditions.

8. **Annual cost of compensation**: The total annual cost, with respect to the fixed component, fringe benefits, and variable component, with respect to a 100% position, based on the data regarding tenure in the Company, as stated above (assuming entitlement to the maximum bonus), is approximately NIS 5,277 thousand.

9. **Confidentiality, non-competition and intellectual property**: The employment agreement includes provisions pertaining to confidentiality, non-competition and intellectual property rights.

10. **Termination of the agreement and advance notice**: Each party will be entitled, at any time, to unilaterally announce to the other party the termination of the employment agreement, by giving written notice six months in advance.

11. It is noted that by virtue of the status of the Company's CEO as an officer of the Company, the CEO will be included in the Company's standard arrangements regarding insurance, indemnification and release, in accordance with previous Company resolutions.

B. **Summary explanations provided by the compensation committee and board of directors for the approval of the terms of tenure and employment**

12. The compensation committee and board of directors have gained a favorable impression of the CEO's education, qualifications and experience (inter alia, as CEO of Equital Group, as CFO of Equital Group, and as Deputy Manager of the Corporate Department at the Israel Securities Authority).

13. The Company's compensation committee and board of directors were presented with a comparison paper, prepared by an external consultant, in which the CEO's compensation was compared to the compensation of other CEO's in similar companies, in terms of fields and scopes of activity. In accordance with the aforementioned comparison data, the CEO's proposed terms of tenure (calculated according to the salary which would have been paid to him, had he served in a 100% position) are within the sample range (on its lower bound). In light of the fact that the scope of his position is 75% only, the salary which is effectively paid to him by the Company is even lower than the sample range. Additionally, a comparison was made relative to the terms of

tenure and employment of Mr. Sholem Lapidot, who served as the Company's Acting CEO since January 6, 2016, and as the Company's CEO since August 2016[2].

14. The compensation committee and the board of directors were presented with data regarding the ratio between the CEO's terms of tenure and employment, and the median and average salaries of the Company's other employees. It is noted that in light of the fact that the Company is a holding company with limited managerial headquarters, the Company's compensation committee and the board of directors believe that these ratios are less significant in the Company. The compensation committee and the board of directors believe that these ratios have no effect on the working relationships in the Company.

15. The CEO's proposed terms of tenure and employment are consistent with the compensation policy, and with its objectives and the considerations specified therein.

16. Additionally, the exercise price of the Options reflects a significant premium over the Company's average share price during the 30 calendar days which preceded the resolution of the Company's board of directors regarding the provision of equity compensation, which ranges between around 25%, for the exercise price of the tranche which will vest after one year of employment, and around 56%, for the exercise price of the tranche which will vest after five years of employment. The exercise prices also reflect a significant premium ranging from around 22% to around 52%, relative to the closing price of the Company's stock on the trading day preceding the resolution of the Company's board of directors to grant the equity compensation. The exercise of the option will be conditional upon an increase of the share price, and therefore, only if the share price (which is affected, inter alia, by the Company's performance and the potential attributed to it by the market) significantly increases, will the Options have any economic value.

17. The CEO's tenure in a 75% position corresponds to the position, authorities and responsibilities of the Company's CEO, in consideration of the Company's business, operational, organizational and financial position, and the challenges which it faces.

18. In consideration of the entire series of evaluated parameters, and the reasons specified above, and following an evaluation of all of the foregoing considerations, the compensation committee and the board of directors reached the conclusion that both the equity compensation and the fixed and variable compensation are reasonable, appropriate and consistent with the Company's best interests, and are intended to provide the CEO with an optimal incentive to work towards maximizing the Company's profits, and realizing its long term goals.

C. **<u>Compensation with respect to tenure as the CEO of IDB Development</u>**

19. It is noted that, to the best of the Company's knowledge, the CEO will serve, beginning on December 12, 2019, also as the CEO of IDB Development Corporation Ltd. ("**IDB Development**"), in a 25% position.

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[2] In accordance with the approval of the general meeting of the Company's shareholders. For additional details regarding the aforementioned resolution see, through inclusion by way of reference, the immediate report regarding the convention of a meeting, dated March 1, 2016 (reference number: 2016-01-038407), the immediate report regarding a transaction between the Company and its controlling shareholder, dated March 1, 2016 (reference number: 2016-01-043393), and the immediate report regarding the results of the meeting to approve a controlling shareholder transaction, dated April 6, 2016 (reference number: 2016-01-043393).

20. To the best of the Company's knowledge, with respect to the CEO's tenure as the CEO of IDB Development, in a 25% position, he will be entitled to the following compensation from IDB Development:

A. Fixed salary and fringe benefits as described above, subject to the relevant changes and adjustments, in accordance with a 25% position (excluding vehicle maintenance).

B. Annual bonus: The CEO will be entitled to an annual bonus, beginning in 2020, which will not exceed 6 monthly salaries, according to a 25% position, as stated above (70% of the bonus will be granted based on fulfillment of company-wide targets and personal targets, as will be determined by each year by IDB Development's board of directors, with the recommendation of the compensation committee, and 30% of the bonus will be granted in the discretion of the compensation committee and the board of directors of IDB Development, in accordance with the CEO's contribution).

C. Compensation based on increase of NAV: The CEO will be entitled to a cash bonus of 4% (gross) of the increase (if any) of the adjusted net asset value of IDB Development, with respect to the period beginning on December 31, 2019.

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