

TAKEOVER CODE

The Company is incorporated in Israel and, as such, the City Code on Takeovers and Mergers of the United Kingdom (the "Takeover Code") does not apply. The Company will be subject to Israeli corporate law which regulates acquisitions of shares through tender offers and mergers, requires special approvals for transactions involving directors, officers or significant shareholders of the Company, and regulates other matters that may be relevant to these types of transactions.

However, certain provisions have been incorporated into the articles of association of the Company (the "Articles") which aim to mirror the material provisions of Rule 9 of the Takeover Code ("Rule 9") to the extent that it is possible to do so.

In particular, the Articles provide that (except in certain limited circumstances):

- an acquisition of shares which increases the aggregate holding of the acquirer (and his concert parties) to shares carrying 30 per cent. or more of the voting rights of the Company; or
- an acquisition of Ordinary Shares by a person holding (together with his concert parties) Ordinary Shares carrying between 30 and 50 per cent. of the voting rights in the Company which increases the voting rights of that person (together with his concert parties),

is prohibited unless the consent of the non-executive Directors is obtained. The main difference between these provisions and Rule 9 is that the Takeover Panel does not have any jurisdiction to enforce these provisions.

Mergers

- A "merger" is defined, for the purposes hereof, as the transfer of all assets and liabilities, including conditional, future, known and unknown liabilities of an absorbed company to a surviving company, as a result of which the absorbed company is wholly absorbed. The Israel Companies Law 5759-1999 (the "Companies Law") permits merger transactions, provided that each party to the transaction obtains the approval of its board of directors and shareholders (excluding certain merger transactions which do not require the approval of the shareholders, as set forth in the Companies Law). For the purposes of the shareholder vote of each party, the merger will not be deemed approved if a majority of the shares not held by the other party, or by any person who holds 25 per cent. or more of the shares or the right to appoint 25 per cent. or more of the directors of the other party, has voted against the merger.
- The Companies Law requires the parties to a proposed merger to file a merger proposal with the Israeli Registrar of Companies, specifying certain terms of the transaction. Each merging company's board of directors and shareholders must approve the merger. Shares in one of the merging companies held by the other merging company or certain of its affiliates are disenfranchised for purposes of voting on the merger. A merging company must inform its creditors of the proposed merger. Any creditor of a party to the merger may seek a court order blocking the merger and a court will only grant such an order if there is a reasonable concern that the surviving company will not be able to satisfy all of the obligations of the parties to the merger. Moreover, a merger may not be completed until at least 50 days have passed from the time that the merger proposal was filed with the Israeli Registrar of Companies and at least 30 days have passed from the approval of the shareholders of each of the merging companies.
- In addition, the provisions of the Companies Law that deal with "arrangements" between a company and its shareholders may be used to effect squeeze-out transactions in which the target company becomes a wholly-owned subsidiary of the acquirer. These provisions generally require that the merger be approved by a majority of the participating shareholders holding at least 75 per cent. of the shares voted on the matter, as well as 75 per cent. of each class of creditors. In addition to shareholder approval, court approval of the transaction is required.

Special Tender Offer

- The Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if, as a result of the acquisition, the purchaser could become a holder of 25 per cent. or more of the voting rights in the Company. This rule does not apply if there is already another holder of at least 25 per cent. of the voting rights in the Company.
- Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser could become a holder of more than 45 per cent. of the voting rights in the company, if there is no other shareholder of the company who holds more than 45 per cent. of the voting rights in the company.
- A special tender offer must be extended to all shareholders of a company but the offeror is not required to purchase shares representing more than 5 per cent. of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. A special tender offer may be consummated only if (i) at least 5 per cent. of the voting power attached to the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.
- If a special tender offer is accepted, then the purchaser or any person or entity controlling it or under common control with the purchaser or such controlling person or entity may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.
- Shares that are acquired in violation of this requirement to make a tender offer will be deemed Dormant Shares (as defined in the Companies Law) and will have no rights whatsoever for so long as they are held by the acquirer.

Full Tender Offer

- Under the Companies Law, a person may not purchase shares of a public company if, following the purchase, the purchaser would hold more than 90 per cent. of the company's shares or of any class of shares, unless the purchaser makes a full tender offer to purchase all of the target company's shares or all the shares of the particular class, as applicable. A full tender is deemed completed and approved if, following the full tender offer, either:
 - i. out of the total shareholders that did agree to sell their shares in the tender there is a majority of shareholders that have no Personal Interest in the transaction; and (ii) those shareholders that did not agree to sell their shares under the tender, constitute in the aggregate less than 5 per cent. of the total issued and outstanding share capital of the Company; or
 - ii. those shareholders that did not agree to sell their shares under the tender, constitute in the aggregate less than 2 per cent. of the total issued and outstanding share capital of the Company.

If either one of the conditions set out above is met then the Companies Law provides for a mandatory squeeze out under which the purchaser automatically acquires ownership of all remaining shares.

However, if the purchaser is unable to purchase more than 95 per cent. or 98 per cent., as applicable, of the company's shares or class of shares, the purchaser may not own more than 90 per cent. of the shares or class of shares of the target company.

Further information can be found in the Company's Articles.