



## Government Secretariat

The Vital Interests Order was approved on December 23, 2013 by the Ministerial Committee on Privatization in accordance with the provisions set forth in Section 59H of the Government Companies Law 5735-1975 and on April 23, 2014 by the Knesset Finance Committee; pursuant to Section 59B(h) of the Government Companies Law. Issuance of the Order by the Ministers (Prime Minister, Minister of Defense and Minister of Finance) and publication of the Order in the State Records (*Reshumot*) shall be implemented until the closing of the IMI Systems Ltd. Sale Procedure.

### **Government Companies Order (Declaration of Vital State Interests in IMI Systems Ltd.), 5775-2015**

By virtue of our authority under Chapter H2 of the Government Companies Law, 5735-1975<sup>1</sup> (hereinafter – the Law), with the approval of the Ministerial Committee for Privatization, in consultation with the Government Companies Authority, and with the approval of the Knesset Finance Committee<sup>2</sup> under Section 21a(a) of the Basic Law: the Knesset, and Article 2(b) of the Penal Law, 5737-1977<sup>3</sup>, we hereby order as follows:

#### **Definitions**

1. In this Order –

“Data protection” – safeguarding classified information or a classified subject, and preventing damage to each of these:

“Israeli entity” – each of these:

- (1) With regard to an individual – one who is a citizen and resident of Israel;
- (2) With regard to a corporation – a company legally incorporated in Israel under the Companies Law, whose routine management and center of business are in Israel (in this clause – Israeli corporation), and in which one of the following exists:
  - (a) A company in which all means of control are held exclusively by individuals who are citizens and residents of Israel, or by an Israeli corporation, in which the conditions of this subsection exist;
  - (b) A public company, in which control is not held by an entity that is not a citizen and resident of Israel, directly or

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<sup>1</sup> Code of Laws 5735, p. 132; 5763, p. 396.

<sup>2</sup> Code of Laws 5718, p. 69; 5761, p. 166.

<sup>3</sup> Code of Laws 5737, p. 226; 5754, p. 348.



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indirectly, and in which control is held, directly, exclusively by citizens and residents of Israel, or in which control is held is directly by an Israeli corporation in which the conditions of subsection (a) exist.

"Held entity" – a corporation whose center of business is in Israel, where the applicant controls or holds 5% or more of a particular type of means of control, 5% of the property rights in it, or another corporation in which the applicant controls or holds 20% or more of a particular type of means of control in it, or 20% of the property rights in it, or where the applicant has invested in it an amount in excess of 20% of the equity capital of the held entity or of the applicant, whether in shares or in another way, other than a loan given in the normal way of business;

"Holding entity" – one controlling the applicant, one holding 5% or more of a particular type of means of control in the applicant, one holding 5% or more of the property rights in the applicant, or one that has invested an amount in excess of 20% of the equity capital of the applicant, whether in shares or in another way, other than a loan given in the normal way of business;

"The Company" – IMI Systems Ltd;

"Excess holdings" – holding control, means of control, or a significant interest in the Company without the authorization required by the law or by this Order;

"Malmab – Director of Security of the Defense establishment;

"Affording a right" – including transfer, affording right of use, rental or lien, whether by voluntary transaction or by law, whether directly or indirectly, whether at one time or in parts, whether in a single transaction or a series of transactions;

"The Ministers" – the Prime Minister, Finance Minister, and Minister of Defense;

"Security modification" – as its meaning in the General Security Service Law 5762-2002;<sup>4</sup>

"Subsidiary company" – as defined in the Securities Law;

"Private company" – as defined in the Companies Law;

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<sup>4</sup> Code of Laws 5762, p. 179.



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"Companies Law" – the Companies Law 5759-1999;<sup>5</sup>

"Security Arrangements Law" – the Security Arrangements in Public Bodies Law 5758-1998;<sup>6</sup>

"Securities Law" – the Securities Law 5728-1968;<sup>7</sup>

"Applicant" – one submitting an application under Article 5;

"Security information" – information with regard to methods, actions and means requiring classified data protection, information regarding physical security activities, security checks, protection and devices, or protection of computerized systems and their application, and any such information with regard to security classification and security suitability of Company employees and service providers;

"Hostile state" – a country that does not have diplomatic relations with Israel, or a country that the Minister of Defense, in consultation with the Minister of Foreign Affairs, has declared, in a notification to the Company, to be a hostile country, or other entity that is not a state that the Minister of Defense has declared, in a notification to the Company, to be a hostile entity;

"Vital information" – information, including unclassified information, with regard to data protection actions or physical protection actions;

"Classified information," "classified subject" – information or a subject whose security classification has been determined by the Director of Security of the Defense establishment (Malmab) as "confidential" or above;

"Merger" – as per its meaning in the Companies Law;

"Security officer" – as per its meaning in the Security Arrangements Law and appointed as stated therein;

"Computerized system" -- classified computerized system and vital computerized system;

"Vital computerized system" – the Company's computerized system, including the databases used for providing services and for operation and control of the system, classified by the Director of Security of the Defense establishment (Malmab) as a vital system;

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<sup>5</sup> Code of Laws 5759, p. 189.

<sup>6</sup> Code of Laws 5758, p. 348.

<sup>7</sup> Code of Laws 5728, p. 234.



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"Classified computerized system" – the Company's computerized system, including databases used for providing services and for system operation and control, classified by the Director of Security of the Defense establishment (Malmab) as a system whose security classification is "confidential" or above;

"Officer" – as defined in the Companies Law;

"Security matters" – security information, classified information, classified subject, classified service, vital information, security classification, security suitability, data protection actions, and actions to secure the computerized system;

"Split" – as defined in the Income Tax Ordinance;<sup>8</sup>

"Voluntary dissolution" – as defined in the Companies Ordinance (New Version) 5743-1983;<sup>9</sup>

"Actions to secure the computerized system" – actions required to protect the Company's computerized systems and to secure and prevent exposure or harm to the system and to the information used for operating;

"Physical protection actions" – as defined in the Security Arrangements Law;

"Classified service" – service provided to the Company for classified subjects;

"Spheres of operation" – each of the spheres of operation detailed in the Second Addendum, providing that it is the subject of agreements between the Ministry of Defense and the Company;

**Declaration of vital interests in the Company**

2. The state has vital interests in connection with the Company as detailed below:
  - (1) Guaranteeing the continued existence of the spheres of operation;
  - (2) Preserving the Company's nature as an Israeli company whose center of business and management shall be in Israel;

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<sup>8</sup> Laws of the State of Israel, new edition 6, p. 120

<sup>9</sup> Laws of the State of Israel, new edition 37, p. 761.



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- (3) Preventing the formation of a position of influence over the Company on the part of hostile entities or entities that are liable to harm State security or foreign affairs;
- (4) Preventing the exposure or disclosure of information on security matters, for reasons of state security or the country's foreign relations;
- (5) Promoting competition or preventing centralization in the economy.

**Restrictions on holding, purchasing and transferring control, significant influence or means of control**

3. (a) Holding, purchasing and transferring control, means of control, or significant influence in the Company shall be subject to the following restrictions:
  - (1) No person shall purchase or hold control of the Company without the advance, written authorization of the Ministers;
  - (2) A person shall not hold –
    - (a) Means of control of a particular kind in the Company at a rate of 5% or more without the advance, written authorization of the Ministers;
    - (b) Significant influence in the Company without the advance, written authorization of the Ministers;
  - (3) One who has received authorization to hold means of control or to hold significant influence in accordance with clause (2) may not increase his holdings beyond the rates set out in the authorization, or add to his rights as set out in the authorization, including by way of agreements, and including voting agreements, unless further authorization has been obtained in accordance with clause (2); however, the holder of a controlling interest may increase his holdings in the means of control in the Company without further authorization;
  - (4) The holder of a controlling interest, or the holder of any portion whatsoever of the means of control in the Company, or one who has significant influence shall not be one of the following:
    - (a) A hostile state;



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- (b) A citizen or resident of a hostile state;
- (c) A corporation that is registered, incorporated or has its center of business in a hostile state;
- (d) A corporation in which control is held by a hostile state;
- (e) A corporation in which control is held by a citizen or resident of a hostile state;
- (f) A foreign country;
- (g) A government corporation; however, the Ministers may permit a government corporation to hold means of control in the Company, directly or indirectly, at a rate of no more than 10% providing that the government corporation shall not be the holder of a controlling interest in the Company.

For this purpose, “government corporation” – a corporation in which control is held by any foreign country.

- (h) Anyone convicted of an offense which, because of its nature, severity or circumstances, renders them unfit, in the opinion of the Ministers, to receive approval to hold control, significant influence, or a means of control in the Company, or who is facing pending proceedings for such offenses.
- (5) A person shall not transfer control, significant influence, or means of control in the Company to another, directly or indirectly, including by way of allocating securities, in the knowledge that the holdings or the rights of the transferee following the transfer are prohibited or require authorization under the law or under this Order, unless the transferee has advance, written authorization for this from the Ministers at the rate and under the conditions determined.
- (b) The Ministers may refuse to grant authorization under this section, and may stipulate authorization on conditions whose infringement shall be grounds for its revocation by the Ministers, and shall inform the Company of this.
  - (c) Authorization granted under subsection (a) shall expire in the event of any one of these:



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- (1) One of the conditions of the authorization no longer pertains;
- (2) It is discovered that the entity granted authorization is one of those listed in subsection (a)(4);
- (3) The entity granted authorization becomes one of those listed in subsection (a)(4).

**Control in the Company**

4. a) Control in the Company shall be held by an entity given authorization for control, in which all these exist:
  - (1) If an individual – it is an Israeli entity;
  - (2) If a corporation – it is a company incorporated in Israel under the Companies Law, whose center of business is in Israel, and in which an Israeli entity directly holds at least 10% of each of the means of control in the Company; however, the company with the controlling interest may be at most five companies together that are connected by an agreement between them guaranteeing, to the Ministers' satisfaction, their joint control of the Company, their ability to operate it, and the existence of the arrangements set out in this subsection, and all these shall be one company.
- b) Authorization for control shall expire if said holder of a controlling interest in subsection (a) ceases to exist.

**Application for authorization by the Ministers**

5. (a) An application for authorization by the Ministers to hold a controlling interest, significant influence, or means of control in the Company shall be submitted as detailed below:
  - (1) The applicant for authorization by the Ministers to control or to hold significant influence or means of control in the Company at a rate requiring authorization under this Order, or the applicant wishing to engage in an agreement affording it one of these, shall submit an application in this connection, in advance and in writing;
  - (2) Should a person have control, significant influence, or means of control in the Company at a rate requiring authorization under this Order, including due to exercise of an attachment of means of control or exercise of another right afforded to him, directly or indirectly, shall report this in writing to the



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Company and shall submit an application to the Ministers for authorization of his holdings in the Company, all within 48 hours;

- (3) An application under clauses (1) and (2) shall be submitted to the Ministers in the format in the First Addendum, and shall include the following details:
- (a) The applicant's name;
  - (b) With regard to an individual – his citizenship, place of permanent residence, and country in which he operates, and with regard to a corporation, the location of its center of business, and the countries in which it operates, directly or indirectly;
  - (c) The rate of the applicant's holdings in the Company at the time of submitting the application, and the rate that shall be held if the application is accepted, including by virtue of accords or voting agreements between it and others, together with details with regard to the officers it is entitled to appoint, including by virtue of a shared rate of appointment;
  - (d) Details of each holding entity in the applicant, or holder of significant influence in the applicant, officers in it, and any interested party in it, and the rates of their holding in it or the positions in which they serve; details of the corporations that are entities held by it and the rate of its holdings in them, details of any corporation where the holder of a controlling interest or the holder of a significant influence in it is also the holder of a controlling interest or holder of a significant influence in the applicant, details of the holdings of each of these in the Company, and with regard to each one of them, details of that stated in subsection (b) shall also be given;
  - (e) Details of the holdings of the applicant in corporations that are incorporated or registered in a hostile state, or where control in them is held by a hostile state or by a corporation that is incorporated or registered in a hostile state, or by a citizen or resident of a hostile state;





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- (f) Substantive details about the agreement, event, or manner in which the applicant was afforded or is to be afforded control, significant influence or holding of the means of control in the Company or about the shared appointment, including details about methods of funding that stated above and the entities participating in it, directly or indirectly, and the form of the agreements and accompanying documents; should the applicant have received financing from a banking corporation (hereinafter – bank financing), the form of the applicant's financing agreement with the banking corporation and accompanying documents shall be attached to the application; should collateral or financial sources have been put up for the purpose of the bank financing, directly or indirectly, by another entity or entities other than the applicant, the application shall include full details of this and the agreements and accompanying documents relating to it shall be attached;
  - (g) Details with regard to the applicant's operations and – insofar as is known to it – with regard to the activities of all those listed in subsection (d), in the field of security;
  - (h) A declaration by the applicant and each holder of a controlling interest and officer therein with regard to any investigation, conviction or indictment submitted against any of them, if any, in Israel or outside Israel, for criminal offences, other than traffic offences;
  - (i) The consent of the applicant and each holder of a controlling interest and officer therein that the Ministers or their representatives shall receive information on the details of records as stated in Article 2 of the Crime Register and Rehabilitation of Offenders Law, 5741-1981.<sup>10</sup>
- (4) Notwithstanding that stated in clause (3), a banking corporation, a trust company wholly owned by a banking corporation, a trust fund, insurer, provident fund or management company, any of which hold significant

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<sup>10</sup> Code of Laws 5741, p. 322.



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influence, means of control, or control solely due to being the holder of a lien is not required to give the details required by subsections (d), (h) and (i) in said clause (3), unless instructed to do so by the Ministers; there is nothing in this provision to exempt any of the said entities from providing all said details in the framework of an application for authorization to exercise a lien;

- (5) Notwithstanding that stated in clause (3), the Ministers may exempt an investment institution from providing details with regard to its holdings in any corporation whatsoever as detailed below:
- (a) The rate of its holdings in a corporation as stated does not exceed 10% of any particular type of means of control in that corporation, providing that the institution does not control the corporation and the value of its rate of holdings in the corporation does not exceed 10% of the value of the corporation's assets;
  - (b) The rate of holdings of the investment institution in the corporation does not exceed 25% of any particular means of control in that corporation, providing that the value of its rate of holdings in the corporation does not exceed 10% of the value of the corporation's assets, and the institution does not control the corporation, and all the investment institution's holdings in corporations with regard to which it is exempt from reporting under this subsection, cumulatively, do not exceed a value of 40% of its assets; should the value of the cumulative rate of holdings of the investment institution exceed the value of the rate set out in this subsection, said exemption shall not apply with regard to the investment institution's holdings in excess of said rate;
  - (c) The rate of holdings of the investment institution in a corporation does not exceed 49% of any particular type of means of control in that corporation, providing that the value of the rate of its holdings in the corporation does not exceed a value of 1% of the institution's assets, the institution does not control the corporation, and all the holdings of the investment institution in corporations



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for which it is exempt from reporting under this subsection cumulatively do not exceed 40% of its assets; should the value of the cumulative rate of holdings of the investment institution exceed the value of the rate set out in this subsection, said exemption shall not apply with regard to the investment institution's holdings in excess of said rate;

- (6) Exemption from providing details with regard to an investment institution's holdings under clause (5) shall apply so long as the conditions stated therein and the conditions determined by the Ministers exist; should these conditions cease to exist:
- (a) With regard to the holdings of an investment institution in a particular corporation - the institution shall report its holdings in that corporation in accordance with the provisions of this Order;
  - (b) With regard to the investment institution - the provisions of clause (3)(d) and the other provisions of this Order shall apply to it.
- (7) The Ministers may exempt a person from providing details under clause (3)(d), in whole or in part, including with regard to details of the application in the First Addendum and its format, and they may stipulate granting the exemption with conditions, providing that they have seen that granting the exemption does not derogate from the vital interests of the State as stated in Section 2; there is nothing in the provisions of this clause to derogate from the authorities of the Ministers under subsection (b) and Sections 6(j) and 9;
- (8) An application under clauses (1) and (2) shall also include a power of attorney authorizing the Board of Directors of the Company to sell the applicant's excess holdings, as stated in Section 7(b);
- (b) The Ministers or their representatives may require additional details and documents to those detailed in the application and those listed in sub-regulation (a)(3), on matters relating to vital interests in the Company.



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(c) The Ministers shall notify the applicant and the Company of their decision within three months of the date the application is received or the additional details and documents are received in full, the later of these dates.

(d) In this section –

"Management company" and "provident fund" – as defined in the Supervision of Financial Services (Provident Funds) Law, 5765 – 2005;<sup>11</sup>

"Insurer" – as defined in the Supervision of Financial Services (Insurance) Law, 5741 - 1981;<sup>12</sup>

"Trust fund" – a fund for joint investments in trust, as its meaning in the Joint Investments in Trust Law 5754 - 1994;<sup>13</sup>

"Banking Corporation" – a corporation that has received a license under the Banking (Licensing) Law 5741 – 1981<sup>14</sup> or a corporation that has received an equivalent license in one of the OECD countries;

"Investment institution" – a trust fund, provident fund, private investment fund, investment bank or investment company in which the following conditions exist:

- (1) The institution holds the means of control in the corporation, itself, for the client public it may have from time to time;
- (2) The institution has been incorporated in a country that is not a hostile state, its place of business is in said country, and it does not have an interested party who is a citizen or resident of a hostile state;
- (3) The total amount of the assets under its management is in excess of one billion new shekels;
- (4) The institution holds a license to operate, insofar as required, in the country in which it is incorporated or where it operates as an institution.

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<sup>11</sup> Code of Laws 5765, p. 889.

<sup>12</sup> Code of Laws 5741, p. 208.

<sup>13</sup> Code of Laws 5754, p. 308.

<sup>14</sup> Code of Laws 5741, p. 232.



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Calculation of the rates of holdings shall be made according to the audited financial statements of the investment institution, drawn up in accordance with accepted accounting rules to December 31 of the last year ending prior to the date of calculation, and according to the representative rate of the reporting currency against the new shekel on said date.

**Enforcement, reporting and registration**

6. (a) In addition to the provisions of the law and the Company's Articles, the Company shall maintain a register of all those holding 5% or more of each of the means of control in the Company (hereinafter – the Register), in which the details given under this Order shall be recorded, including all these:
  - (1) Notice by the Ministers in accordance with Sections 3(b) and 5(c);
  - (2) Reporting as stated in subsections (b) to (g);
  - (3) Excess holdings, noting the fact that they are in excess, to be recorded immediately this becomes known;
- (b) In addition to that stated in the law, a holder of a controlling interest, a holder of significant influence, or an interested party shall report to the Company and the Ministers on any right whatsoever afforded by its holdings; the report shall be made immediately and no later than the business day following the date the right is afforded;
- (c) The holder of a controlling interest in the Company and the holder of a means of control requiring authorization under this Order shall report to the Company and the Ministers on their holdings in a corporation that is registered, incorporated or has its center of business in a hostile state, or in which control is held by a hostile state, by a corporation incorporated or registered in a hostile state, or by a citizen or resident of a hostile state.
- (d) The Company shall report to the Ministers, to the best of its knowledge, on any change in the details that are required to be recorded in the Register; said reporting shall be made as soon as possible after the Company becomes aware of the change, and no later than 7 days thereafter.



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- (e) Without derogating from other provisions in this Order, should the Company secretary learn that a person is holding excess holdings, the Company secretary shall request that this person act in accordance with this Order, and shall report immediately to the Ministers.
- (f) A party receiving authorization from the Ministers for an application under Section 5(1) or (2) shall report to the Ministers and the Company on any change in the details given under Section 5(a)(3), (5) and (b), immediately on learning about the change.
- (g) On December 31 of each year, the Company shall report to the Ministers on holdings of control, means of control, and significant influence in the Company, and on the details that are required to be recorded in the Register and changes to them that have occurred during the year ending on said date, including details with regard to agreements, financing and liens relating to holdings (hereinafter – Additional Details), and if the Additional Details are with the knowledge of the Company.
- (h) The Ministers may exempt anyone receiving authorization under Section 5 from giving details under this section, in whole or in part, and stipulate granting the exemption on conditions to be determined, if they see that granting the exemption does not harm the vital interests of the State detailed in Section 2.
- (i) Without derogating from the provisions of subsections (a) to (g) and Section 5, the Ministers may request that a party receiving authorization under Section 5 provide further information available to it in connection with details that it is required to disclose under this Order and its provisions.
- (j) Where the Company is required under this section to maintain a record or report to the Ministers with regard to details about the holders of means of control in it, including changes in their holdings, a holder of a controlling interest, anyone holding means of control requiring authorization under this Order, and any interested party in the Company must submit a notification to the Company according to the details and dates necessary for the Company to fulfill its said obligations.

**Sale of excess holdings**



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7. (a) The holder of excess holdings –
- (1) That has not applied for authorization by the Ministers under Section 5 – shall sell its excess holdings within seven days; in the matter of this clause and clauses (2) and (3) –“excess holdings” – other than significant influence that is not due to holding a means of control;
  - (2) Where the authorization granted to it by the Ministers under Section 9 has been revoked or has expired, and a new application has not been submitted under Section 5 – shall sell its excess holdings within 14 days of the date of revocation or expiration, as applicable;
  - (3) That has applied for authorization from the Ministers, including where the authorization granted by the Ministers has been revoked or has expired, and has submitted a new application under Section 5 which has been rejected – shall sell its excess holdings within 60 days of the date of notification by the Ministers that the application has been rejected;
  - (4) Shall not afford any right to another in the excess holdings, other than in accordance with that stated in the law and in this Order.
- (b) Where a holder of excess holdings that does not sell its excess holdings as stated in subsection (a) and the Company holds a power of attorney given to it under Section 5(a)(8), the Company, by means of the Board of Directors, shall sell the excess holdings within 60 days of the end of the periods set out in subsection (a), subject to the provisions of this Order; the Board of Directors shall transfer the consideration of the sale to the holder, less the expenses involved in the sale.
- (c) Any transfer or sale of means of control implemented in accordance with a resolution passed by the Company’s Board of Directors to sell the means of control under subsection (b) shall be valid, and neither the party that held the means of control that were sold nor the one purchasing them shall have no claim whatsoever against the Company, including its Board of Directors, or officers in the Company, in connection with its rights in the shares, the process of their sale, or the consideration



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obtained, unless the action was carried out maliciously or with the intention of personal gain.

- (d) In addition to that stated in any law, the Ministers or the Company may appeal to the Court to instruct said party to sell its excess holdings, to appoint an official receiver to sell the excess holdings, or to grant any other relief.
- (e) In subsection (a)(4) and (b) to (d), “excess holdings” – other than a holding in contradiction to Section 3(a)(4).

**Unauthorized holding**

- 8. With regard to exercising a right in the Company by virtue of excess holdings, these provisions shall apply:
  - (1) The exercise of a right by virtue of unauthorized holdings shall have no validity with regard to the Company, including in connection with receiving a dividend, and without derogating from the generality of that stated:
    - (a) No director or CEO shall be appointed, elected or removed from office by virtue of excess holdings; should a director or CEO be appointed, elected or removed from office as stated, the appointment, tenure, or removal as applicable shall not be valid;
    - (b) Voting at the General Assembly of the Company by virtue of excess holdings shall not be counted in the votes of the Assembly.
  - (2) Should a person hold excess holdings, and as a result the relative rate of holdings of another holder in the means of control in the Company is increased to a rate requiring authorization under the law or this Order (hereinafter – the relative holdings), the relative holdings of the other shall require authorization by the Ministers if, as a result of that stated, the other has become a holder of a controlling interest in the Company or a year has elapsed since its relative holdings increased to a rate requiring authorization by the Ministers under the law or under this Order; if the holder of the relative holdings does not receive the Ministers’ authorization as required in this clause, exercise of a right by virtue of the part of its relative holdings for which authorization has not been granted shall not be valid, other





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than the right to participate in the profits of the corporation and the bonus shares.

- (3) The Company shall act to the best of its ability to prevent a person from acting by virtue of excess holdings.

**Validity of the authorization**

9. (a) If control or means of control in the Company is transferred to another such that the holdings of the transferor decrease to below the rate requiring authorization under the law or under this Order, the transferor shall not be entitled to increase its holdings again to a rate requiring authorization under the law or under this Order without a new authorization from the Ministers.
- (b) Should control in a party that has received authorization from the Minister pass to another, the authorization shall expire, unless the Ministers have approved said transfer of control in advance, under the conditions set out, and as of the date set out in the approval.
- (c) Should a party that has received authorization from the Ministers hold holdings in a corporation that is registered, incorporated, or has its center of business in a hostile state, or where control in it is held by a hostile state, by a corporation registered in a hostile state, or a citizen or resident of a hostile state, the Ministers may revoke the authorization or stipulate conditions whose infringement shall be grounds for its revocation by the Ministers.
- (d) Should there be a change in the details given under Section 5(a)(3)-(4) and 5(b), or should the Ministers receive information under Section 6(i) and find that said change in details is a substantive change, the Ministers may revoke authorization that has been given, or stipulate conditions whose infringement shall be grounds for its revocation by the Ministers.
- (e) Should a party that has received authorization from the Ministers breach any of the conditions set out in this Order or in the authorization, the Ministers may revoke the authorization or allot dates and conditions for correction of the infringement.
- (f) The Ministers shall not revoke an authorization that has been given and shall not stipulate conditions in an existing authorization whose infringement shall be grounds for revocation



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of the authorization, other than after giving the holder of the authorization an opportunity to voice its arguments.

- (g) Should authorization by the Ministers be revoked or expire, in accordance with the law and this Order, the holdings of the holder shall become excess holdings and that stated in Sections 7 and 8 shall apply; this section does not prevent the submission of a new application in accordance with Section 5.

**Providing information to the Ministers**

- 10. Without derogating from any duty of reporting or providing information applying to the Company under any law –
  - (1) The Company shall provide the Ministers, upon request, any information on the matters relating to the vital interests of the State in connection with the Company in Section 2, as detailed in the request, in addition to the obligations detailed in any other law or in this Order;
  - (2) The Company shall report to the Ministers immediately, at its initiative, on any event known to the Company that is liable to cause a substantive disruption, substantive change, or substantive reduction to the vital interests under Section 291) and (4); in the matter of this clause, “substantive disruption,” “substantive change,” or “substantive reduction” – whether as a result of an event that is not under the Company’s control or as a result of its actions or omissions;
  - (3) The Ministers may instruct the Company to provide additional reports beyond that stated in clauses (1) and (2), if they find that this is necessary for maintaining the vital interests as stated in Section 2.

**Israeli nature of the Company**

- 11. (a) The Company shall at all times be incorporated and registered in Israel under the Companies Law.
- (b) Regular management of the Company and the center of its business shall be in Israel.
- (c) The location of the Company’s management and its main offices shall be in Israel.



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- (d) The meetings of the Company's Board of Directors and the General Assembly of the Company shareholders shall be held in Israel.
- (e) All spheres of operation shall be implemented in Israel, other than if approved otherwise by the director-general of the Ministry of Defense; there is nothing in this subsection to derogate from the Company's right or require it to obtain authorization as stated with regard to transferring know-how or production capability out of Israel in connection with its spheres of operation, by way of reproducing capabilities, without derogating from the Company's capability in Israel, in accordance with and subject to any law.

**Approval and classification of officers**

- 12. (a) The majority of the members of the Board of Directors, including the chair of the Board of Directors, shall be Israeli citizens and residents, with security clearance appropriate to the level of classification decided by the Director of Security of the Defense establishment (Malmab) (hereinafter – classified directors); directors who are not Israeli citizens and residents with the appropriate security clearance as stated – shall not receive information on security matters and shall not be exposed to it, and shall not participate in Board of Directors discussions on classified matters.
- (b) In order to uphold said requirement in subsection (a), the Company shall comply with the following requirements:
  - (1) A person who is not a classified director shall not be appointed or elected as chair of the Board of Directors and such an appointment shall not be valid, nor shall a director be appointed or elected who is not a classified director and such an appointment shall not be valid if, as a result, the number of classified directors falls below a majority of members of the Board of Directors;
  - (2) Should the term of a classified director expire or end in such a manner that the total number of classified directors falls below a majority of members of the Board of Directors, the directors who are not classified directors may only take part in meetings of the Company's Board of Directors if their



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number at the particular meeting is less than the number of classified directors participating in the meeting, and all provided that no classified directors have been appointed relative to that required under clause (a).

- (c) The officers listed below, or their equivalent should the description of the position or function change, shall be Israeli citizens and residents, and their employment shall be in accordance with the security classification requirements of the position at a level to be determined by the Director of Security of the Defense establishment (Malmab) (hereinafter – classified officers):
- (1) Chair of the Board of Directors and all the external directors;
  - (2) The general manager, the assistant general manager and their stand-ins;
  - (3) The deputy general managers and their stand-ins;
  - (4) The legal adviser, his deputy and their stand-ins;
  - (5) The internal auditor and his stand-in;
  - (6) The Company's security officer and his team;
  - (7) Other officers or officers and other Company service providers, including accountants and other consultants to the Company, as determined by the Director of Security of the Defense establishment (Malmab) who are likely to have classified information come into their hands.
- (d) Should that stated in subsection (3) not pertain to any of those listed therein, the validity of the appointment of that officer in the Company or his employment by the Company, as applicable, shall be invalid.
- (e) Director of Security of the Defense establishment (Malmab) shall give notice of its decision in the matter of the security clearance as stated in subsections (a) and (c) in this Order within four months of receiving a written application including all the material required.

**Preventing exposure of classified information, a classified subject or security information, and their protection**



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13. (a) The Company and the Company's security officer shall implement the professional guidelines with regard to data protection and physical protection actions as given by the Director of Security of the Defense establishment (Malmab) to the Company, from time to time, including instructions with regard to control and reporting.
- (b) Reporting or publication relating to classified information or a classified subject shall be in accordance with the security instructions and guidelines drawn up by the Director of Security of the Defense establishment (Malmab).
- (c) Notwithstanding that stated in any law and subject to the provisions of Sections 19(a)(2) and 36c(b) of the Securities Law, if they apply to the Company, and notwithstanding the restrictions, conditions and instructions imposed on it, and subject to that stated in subsection 13(b), if the Company is required, by law, to disclose information whose exposure, according to the decision of Director of Security of the Defense establishment (Malmab), could pose a risk of revealing classified information or a classified subject or security information, these provisions shall apply:
- (1) The information shall be give only after it is examined and approved in advance and in writing, by the Director of Security of the Defense establishment (Malmab);
  - (2) As required by the Director of Security of the Defense establishment (Malmab), the Company shall take steps to obtain a legal exemption from the duty of disclosure;
  - (3) Reporting or publication relating to classified information or a classified subject or security information shall be in accordance with special security arrangements as directed by the Director of Security of the Defense establishment (Malmab).
- (d) If it is decided by the Director of Security of the Defense establishment (Malmab) that disclosure of the information is liable to harm state security or foreign relations, the Company shall take steps to obtain a legal exemption from the duty of disclosure.



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- (e) No subject shall be brought up for discussion by the Company's Board of Directors without coordination with the Company's security officer and in accordance with the security instructions of Director of Security of the Defense establishment (Malmab).
- (f) From among its classified directors, the Company's Board of Directors shall appoint a qualified organ in accordance with Article 46 of the Companies Law, to be called the "Committee for Security Matters" (hereinafter, Committee for Security Matters); the chair of the Board of Directors shall serve on the committee, the number of classified directors in the committee shall be at least half the number of directors on the Company's Board of Directors, or four classified directors, the lower of the two; if half the number of directors as stated is not a whole number, the number of classified directors shall be rounded up; the chair of the Board of Directors shall serve as chair of the Committee for Security Matters.
- (g) Subjects relating to security matters shall be discussed, subject to that stated in subsection (k), in the framework of the Committee for Security Matters.
- (h) A decision taken by the Committee for Security Matters or an action that it carries out shall be the same as a decision taken by the Company or an action that it carries out, and it shall not be discussed by any other Company organ.
- (i) Discussions and decisions on issues relating to security matters by the Audit Committee, as defined in the Companies Law, shall be discussed, if discussion is required by the Audit Committee, by a panel of three classified directors among the members of the Audit Committee; said directors may only invite members of the Committee for Security Matters and the internal auditor to the discussion.
- (j) The provisions of subsections (a) to (i) shall apply to meetings of the Board of Directors where security issues are on the agenda, providing that the legal quorum of each such meeting includes classified directors only.
- (k) Security matters that the Board of Directors must discuss under the provisions of any law shall be discussed, if they need to be discussed in the Board of Directors, with the participation of



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classified directors only; directors who are not classified shall not be permitted to participate in this Board of Directors meeting, and shall not be entitled to receive information, be exposed to information, or is that the documents relating to the issues discussed at it.

- (l) Only a classified director may stand in for a classified director.
- (m) Security matters shall be discussed subject to that stated in subsection (k) by the Board of Directors, the Committee for Security Matters, and the Audit Committee after authorization by the Company's security officer who has been approved for this position as stated in the Security Arrangements in Public Bodies Law.
- (n) The Company may not give information on security matters to a director who is not classified, including security information, and a director who is not classified shall not receive information on security matters, including security information, and shall not be exposed to it.
- (o) A classified director shall not pass on or give information and documents on security matters, other than giving information to the Audit Committee as stated in subsection (i).
- (p) The Company may not pass on information on security matters to another, including its shareholders, if the disclosure is in contradiction to the instructions of Director of Security of the Defense establishment (Malmab) or its representatives.
- (q) A shareholder or officer who has not received information that he should have received by virtue of his position or status in accordance with the Articles and any law, and is prevented from doing so because of the provisions of this section, shall be exempt in the event of infringement of the responsibility imposed upon him under any law, if said infringement is caused solely due to failure to receive the information he has not been given as stated, and non-provision of the information as stated shall not be seen as a breach of obligation under any law, all subject to the provisions of Articles 19(a)(2) and 36c(b) of the Securities Law, if they apply to the Company, and the restrictions, conditions or provisions applying to them.



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- (r) The Company's General Assembly may not take, delegate, transfer or exercise authorities given to another organ in the Company, relating to classified information, a classified subject, or security information, or where their exercise requires exposure to said information.

**Maintaining confidentiality and data protection**

14. Without derogating from the application of the provisions of any law, the Director of Security of the Defense establishment (Malmab) or his representative may instruct the Company, in order to maintain confidentiality and protect classified information or security information, to fulfill instructions to implement data protection actions and physical protection, and to secure computerized systems, including instructions in accordance with a government resolution or under any law, including the Security Arrangements in Public Bodies Law; with regard to instructions and guidelines given by the Director of Security of the Defense establishment (Malmab) as stated, the mechanisms set out in Articles 10a and 11 of the Security Arrangements Law shall apply.

**Transfer, lien, or seizure of necessary assets**

15. (a) The following actions require advance, written authorization from the Ministers:
- (1) Affording a right in a necessary asset, including affording said right to a subsidiary of the Company;
- For this purpose, "necessary asset" – any one of these:
- (a) An asset, including know-how, acquired or developed or planned or produced in a designated manner for a field of operation;
- (b) An asset, including know-how, used in a field of operation, where there is a significant fear that it will not be possible to acquire or develop or plan or produce an alternative asset within a reasonable period of time.
- (2) Affording a right in a means of control of a subsidiary of the Company to which necessary assets have been transferred, as a result of which a person holds more than 25% of the means of control in the subsidiary, or as a result of which control of the subsidiary is transferred; for this purpose, the allocation





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of securities shall also be seen as affording a right in means of control if, as a result, a person holds more than 25% of the means of control in the Company's subsidiary or control of the subsidiary is transferred.

- (b) In any situation where the Company wishes to afford rights to a third party as stated in subsection (a), the Company shall notify the Minister of Defense of this in writing, and he shall inform the Company, within 30 days of receiving said written notification, if he has an objection to affording the right or the conditions for affording it; should the Minister of Defense not give notice of his objection or the conditions for affording the requested right within said period of time, the Company may act and transfer the right as stated in subsection (a), as stated in its application, and the Minister of Defense shall be considered to have authorized this action.
- (c) Notwithstanding that stated in subsections (a) and (b), these liens shall not require advance, written authorization from the Ministers, but only notification by the Company:
- (1) Permanent lien of assets that are not necessary assets and whose value is NIS 10 million and above;
  - (2) Floating lien to an Israeli banking corporation that can only be endorsed to an Israeli banking corporation, and which does not include necessary assets.
- (d) Should a lien form on a necessary asset, or should there be a request to afford a right in one of these assets in the framework of exercise of a lien, these provisions shall apply:
- (1) Exercise of the lien shall be carried out in Israel and Israeli law shall apply to it;
  - (2) Should an official receiver be appointed to exercise a floating lien on the Company's assets, or a permanent lien on a necessary asset or on an asset used for a classified sphere of operation according to Director of Security of the Defense establishment (Malmab) instructions, the official receiver shall have the appropriate security clearance at the level decided by the Director of Security of the Defense establishment (Malmab);



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- (3) No right shall be sold in any of the Company's assets in the framework of exercise of a lien and it shall not be valid unless, in parallel to submission of an application in this matter to the qualified court or the executions office, the applicant for exercise and the Company have submitted notice to the Ministers on their intention to make the sale; should there be an intention to sell a right in one of the necessary assets or should the Ministers inform the applicant and the Company that the asset that the applicant for exercise intends to sell is a necessary asset, the identity of the purchaser of the right shall be subject to approval by the Ministers; should the Ministers refuse to approve the identity of the purchaser, the State shall purchase the right in the asset for its value or for the consideration of redemption of the lien, or shall redeem the lien, as decided by the Ministers; should the Ministers decide to redeem the lien, the provisions of Article 14 of the Pledges Law 5727 – 1967<sup>15</sup> shall apply.
- (4) In addition to that stated in clauses (1) to (3), the duties incumbent on the Company under this Order shall apply to the official receiver in all matters relating to the assets in his charge.
- (e) The Company shall include the provisions of subsection (d) in advance among the conditions of the lien.
- (f) The provisions of this section shall not apply with regard to a lien imposed prior to the start of this Order.

**Changes in Company structure**

16. (a) The actions in the Company detailed below require advance, written authorization by the Ministers:
- (1) Voluntary liquidation of the Company;
  - (2) A compromise or arrangement between the Company and its creditors or shareholders that is liable to cause substantive disruption or substantive reduction of any of the vital interests;
  - (3) Change or reorganization of the Company structure, including establishing a subsidiary of the Company to which necessary

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<sup>15</sup> Code of Laws 5727, p. 48.



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assets are transferred or where there is an undertaking to transfer necessary assets to it, providing that the Company has informed the Director of Security of the Defense establishment (Malmab) of its intention to implement said change no later than 30 days prior to the date of implementation; that stated in this clause shall not apply with regard to an internal organizational change that does not affect one of the spheres of operation;

- (4) Merger of the Company with another company;
- (5) Subject to that stated in Section 15, splitting up the company including the transfer of necessary assets or other assets used in a sphere of operation.

(b) In addition to that stated in any law, the Court may cancel an action as detailed in subsection (a) for which authorization has not been given, and determine the consequences arising from said cancellation.

**Legal position of the State**

17. This Order shall not apply to the State as holder of means of control in the Company or as holder of a controlling interest therein.

**Additional orders**

18. (a) Should the Company cease to maintain a sphere of operation, as stated in Section 2(1), or should the Ministers feel that there is a reasonable fear that the Company shall stop supplying them, and the Ministers find that it is essential to guarantee continuity of the operation or provision of the service, or to prevent their disruption or cessation, they may, with the approval of the Ministerial Committee and after consultation with the Authority, direct the Company in an Order to continue the operation or provision of the service, for a period and under the conditions as directed, and the provisions of Article 59N of the Law shall apply.
- (b) Should an Order be issued as stated in subsection (a) and the Company fail to comply with that stated therein, the Ministers may, by an Order, appoint a person to take charge of the continued existence of the operation or provision of the service, and management of the facilities and assets with which the operation or provision of service is implemented, and that stated in Article 59n of the Law shall apply.



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### **Start and application**

19. (a) This Order shall start on privatization of the Company and shall apply even after privatization of the Company; an announcement of privatization of the Company shall be published in the official Gazette within 30 days of the date of privatization of the Company.
- (b) The provision of Chapter H2 of the Law, including the authority to issue additional orders thereunder, and the restrictions, conditions and provisions of this Order shall also apply after privatization of the Company.
- (c) The Ministers shall give notice to the Company of any change to the Second Amendment, subject to the agreement as stated in the definition of “spheres of operation” in Section 1.
- (d) The provisions of this Order shall not derogate from the provisions of any law, including the Security Arrangements Law, which shall continue to apply even after privatization of the Company.



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**First Addendum**

**(Sections 5(a)3 and (7))**

**Details of application for authorization to hold means of control /  
significant influence / control**

Please detail all the information required in the following format:

1. Applicant's name: (Hebrew) \_\_\_\_\_  
(in Latin letters) \_\_\_\_\_  
ID no. or corporation no.: \_\_\_\_\_  
Mailing address: \_\_\_\_\_  
Town: \_\_\_\_\_ Post code: \_\_\_\_\_  
Telephone no.: \_\_\_\_\_  
Fax no.: \_\_\_\_\_  
Address of registered office: \_\_\_\_\_  
Town: \_\_\_\_\_ Post code: \_\_\_\_\_  
Telephone no.: \_\_\_\_\_  
Fax no.: \_\_\_\_\_  
Address of center of business: \_\_\_\_\_  
Town: \_\_\_\_\_  
Post code: \_\_\_\_\_  
Telephone no.: \_\_\_\_\_  
Fax no.: \_\_\_\_\_  
Name of applicant's authorized contact person for this application:  
\_\_\_\_\_  
Address of authorized contact person:  
\_\_\_\_\_  
Telephone no.: \_\_\_\_\_  
Fax no.: \_\_\_\_\_
2. (a) Citizenship of applicant: \_\_\_\_\_ and if a  
corporation, place of incorporation: \_\_\_\_\_



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- (b) Permanent residence of applicant: \_\_\_\_\_ and if a corporation, location of center of business: \_\_\_\_
- (c) Countries in which the applicant operates: \_\_\_\_
- 3. (a) Rate of the applicant's holdings on submitting the application: \_\_\_\_\_
- (b) Rate of the applicant's holdings in the Company if the application is accepted: \_\_\_\_\_
- (c) Details of joint appointment: \_\_\_\_\_
- (d) Details of officers that the applicant is entitled to appoint: \_\_\_\_\_
- (e) Details of the applicant's significant influence: \_
- 4. (a) Details of the corporations that are entities held by the applicant, the rate of its holdings in them, details of the holdings of each of these in the Company, and for each of them, details regarding that stated in Section 2 of this application shall also be given (attach a structure tree showing the "family tree").
- (b) Corporation only: details of each holding entity, and direct or indirect, in the applicant, and any entity with significant influence in the applicant, its officers and all interested parties, and the rate of holdings in it or the positions in which they serve, details of the holdings of each of these in the Company, and for each of them, details regarding that stated in Section 2 of this application shall also be given (attach a structure tree showing the "family tree").
- 5. Details of the applicant's holdings in corporations that are incorporated or registered in hostile countries or whose center of business is in a hostile country, or in which control is held by a hostile country.
- 6. Fundamental details about the agreement, the event or the manner in which the applicant has been afforded or is to be afforded control, means of control, or significant influence in the Company, or about the joint appointment, including details on methods of financing that stated above and the entities participating in it, directly or which shall participate in it, directly or indirectly, together with the documents and accompanying documents.
- 7. If bank financing has been or is to be given: the form of the financing agreement and accompanying documents shall be attached.



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8. If collateral or financial sources have been put up for the bank financing, directly or indirectly, by another entity or entities other than the applicant, full details of the transaction with regard to them should be noted and all the documents and accompanying documents relating to it should be attached.
9. Details with regard to the applicant's operations and - insofar as is known to it - with regard to the operations of all those listed in Section 4 of this application in the field of security in Israel and outside Israel.
10. If the applicant, or one of the holders of control in it, a director or officer in it – if the applicant is a corporation – has been convicted of a criminal offense, had an indictment submitted against him, or been investigated for criminal offenses, other than traffic offenses, in Israel or abroad – details should be given as follows:
  - (1) The name of the offender, the accused or the person under investigation.
  - (2) The connection between the offender, the accused or the person under investigation and the applicant (officer, holder of control or director).
  - (3) Details of the offense / investigation file.
  - (4) Details of the court file / police file:

Location: \_\_\_\_\_

File number: \_\_\_\_\_

And these to be attached:

    - (1) Bill of indictment
    - (2) Ruling and sentence – if given.
11. The applicant and the holders of control, directors and officers in the applicant shall declare the correctness of the information in this application, and state their consent to the removal of any right to confidentiality in the information relating to them held by the Israel Police, or by other police and state entities within and outside Israel, including Interpol, or by a supervisory authority, within and outside Israel (such as banking supervision and insurance supervision), and that these entities may give the Ministers information about the



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applicant, the holders of control, directors and officers in it to the Ministry of Defense.

7. Signature of the applicant: \_\_\_\_\_

Names of the holders of control (with regard to a corporation) by those authorized to sign in its name:

Their signatures:

\_\_\_\_\_

Names of signatories: \_\_\_\_\_

Names of officers: \_\_\_\_\_

Their signatures: \_\_\_\_\_

**Confirmation**

On \_\_\_\_\_ there appeared before me \_\_\_\_\_, who identified themselves by identity cards \_\_\_\_\_, and after I cautioned them that they must state the truth and that if they did not do so, they would be liable to the penalties set out in the law, they signed the above affidavits.

I also confirm – with regard to a corporation – that the signatories are authorized to bind the corporation in all matters relating to this application.

\_\_\_\_\_

Attorney





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## Second Addendum

### (Sections 1 – definition of "spheres of operation," and 19(c))

#### 1) Spheres of operation

- (a) The spheres of operation for the purpose of Section 1 of the Order are guaranteeing the continued existence of goods of the type as stated in Section 2 of this addendum, as shall be detailed in the framework of the agreement as stated in Section 1(c) of this addendum, maintaining capabilities with regard to them, and the appropriate continuity of their supply;
- (b) In this addendum – "guaranteeing continued existence and maintaining capabilities" also includes aspects of development, manufacture, maintenance and quality control, in their various stages, in whole or in part;
- (c) In the framework of an agreement to be signed between Israel Military Industries Ltd. and the Ministry of Defense, or between the Company and the Ministry of Defense, in accordance with Section 1 of the Order the spheres of operation and merchandise shall be detailed, according to the types as stated in this addendum, as ordered from Intel Military Industries Ltd. by the Ministry of Defense, directly or indirectly, as of January 1, 2004 and until the date of privatization, including the classified aspects relating to them.

#### 2) These are the types of merchandise:

- (a) Tank cannons;
- (b) Bearings for tank turrets;
- (c) Pyrotechnic products (including initiators, starters, fuses including thermal fuses and detonators) of different kinds, including S20 detonators;
- (d) Different types of chaff and flares;

Binyamin Netanyahu  
Prime Minister

Yair Lapid  
Minister of Finance

Moshe (Bogie) Ya'alon  
Minister of Defense

\_\_\_\_\_ 5774

(\_\_\_\_\_ 2013)