

**Elron [Electronic Industries](#)  
[Ventures](#) Ltd. (the “Company”)**

**Compensation Policy**

**Definitions**

The definitions and terms in this Compensation Policy shall bear the meaning determined therefor in the Companies Law, unless defined otherwise in the Compensation Policy.

The following terms in the Compensation Policy shall bear the following meaning, unless explicitly stated otherwise:

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| <b>“Company”</b>   | - Elron <a href="#">Electronic Industries Ventures</a> Ltd.;   |
| <b>“Board of Directors” or “Board”</b>                     | - The Company’s board of directors;  |
| <b>“Committee” or “Compensation Committee”</b>             | - The Company’s compensation committee;  |
| <b>“Companies Law”</b>                                     | - The Companies Law, 5759-1999, and the regulations thereunder;  |
| <b>“Compensation Policy”</b>                               | - A policy regarding Terms of Office and Employment of Officers;   |
| <b>“Control”</b>   | As defined in the Companies Law, unless determined otherwise   |
| <b>“Officer”</b>   | - A director, CEO, Deputy CEO, Vice-President, and any and all other officers as defined in the Companies Law, insofar as will be appointed in the Company, and/or a manager who will be appointed and defined as an Officer with regard to the Compensation Policy by the Company’s Board of Directors; |
| <b>“Monthly Salary” or “Monthly Pay” or “Gross Salary”</b> | - The monthly salary is the monthly salary for the purpose of social benefits (i.e. excluding ancillary benefits, social benefits on the part of the Company, bonuses, equity compensation and additional benefits);   |
| <b>“Monthly Cost of Salary”</b>                            | - The cost to the Company in respect of any payment for the employment of an Officer per month which includes the Monthly Salary, social   |

benefits, car and expenses of use thereof, fixed benefits and payments according to law, and any other benefit or payment, with the exception of bonuses and other variable compensation;

- “Group” or “Company Group”** - The Company and/or subsidiaries and/or affiliated companies and/or group companies and/or a controlling shareholder of the Company and/or partnerships which are held and/or managed by the Company, including dedicated investment fund/s which the Company and/or corporations from the Company Group will hold at least 40% of the issued and outstanding capital of its/their general partner and/or will manage it/them.
- “Success Fee”** - Compensation for success/yield to which corporations in the Group will be entitled for providing management services and/or for yield on investment.
- “Bonus Year”** - The calendar year in respect of which the bonus is paid;
- “Terms of Office and Employment”** - According to the definition of the term in the Companies Law.

### **General**

- 2.1. The purpose of this document is to describe and specify the Company’s policy with respect to compensation of the Company’s Officers, the components thereof and the manner of determination thereof, *inter alia* in accordance with the provisions of the Companies Law. The proposed compensation policy is intended to assist with achievement of goals and the work plans of the Company, in the short- term, the mid-term and the long-term. Although the Company is not obligated to apply the Compensation Policy to the entire Group, since the Company’s Officers may hold office as officers also of other entities in the Group which are not the Company (including in a dedicated investment fund or in its general partner or in its management company), the Company is applying the Compensation Policy as aforesaid to officers of other corporations in the Group, provided that such officers hold office as Officers also of the Company. For the avoidance of doubt, the terms of this Compensation Policy shall not apply to persons who are not the Officers of the Company who shall hold office (insofar as shall hold office) as officers of other corporations in the Group which are not the Company (including in a dedicated investment fund or in its general partner or in its management company), *inter alia* since among the private corporations of the Company Group there are also startup

companies, the compensation structure of which is relevant to corporations of this type. The Company may approve that the Officers be employed also at corporations in the Company Group and receive the compensation in whole and/or in part also from the corporation in which they will be employed and/or from a different corporation in the Group, including from RDC Rafael Development Corporation Ltd. (“**RDC**”)

- 2.2. The Company is an operating holding company which focuses on the building of technology corporations and companies that are in various stages of development. Consequently, the Company’s financial results may vary significantly from one year to the next and are significantly dependent on its investments in the group corporations and on the disposition of its holdings. In view of the fact that the Company’s investments are in corporations which are generally at the research and development stage and consequently record current losses due to R&D expenses, the Company recognizes its share in the losses of the group corporations, in many cases irrespective of the success at the development stages and of the business and clinical progress of the group corporations, and will therefore usually record losses in the years in which no significant disposition transactions are performed.
- 2.3. The principles of the policy were intended to determine rational, proper and fair compensation for the Company’s Officers, which will ensure that the Officers’ compensation is consistent with the best interests of the Company and its organization-wide strategy, and simultaneously will lead to enhancement of the Officers’ sense of identification with the Company and its activity, strengthen the correlation between the scope of compensation for the Officer and maximizing profits from the Company’s operations including operations through corporations from the Company Group, will encourage the Officers to maximize the Group’s performance (and as a result the Company’s performance) and will enhance their satisfaction and motivation and lead to long-term retention of the high-quality Officers of the Company. The Compensation Policy is designed to reinforce patterns of behavior that the Company is interested in cultivating; to shape the desired organizational culture in the eyes of the Company; and to maintain the proper balance between the Company’s overall organizational strategy, objectives and work plans, as determined from time to time, and the creation of an appropriate incentive system for recruiting and retaining quality managerial personnel in senior management positions for the long-term, required for the Company’s further development and business success.
- 2.4. The considerations that guided the Compensation Committee and the Board of Directors of the Company upon determining the policy are promotion of the Company’s goals, its work plan and its policy from a long-term perspective;

creating proper incentives for the Company's Officers, considering *inter alia* the Company's risk management policy and its dynamic character as a company that invests in the research and development stage; the Company's size (considering, *inter alia*, its equity, the amount of its assets and the amount of an average annual investment in Company Group); the character of the Company as a holding company as specified above and the complexity of its activity; reinforcement of the identity of the interests of the Company's Officers and its shareholders; the possibility that the Company will also deal in management of dedicated investment funds within its areas of activity and the desire that employees and Officers will play a role in such funds if they are established and will contribute to their success; and with regard to Terms of Office and Employment which include variable components, providing discretion to consider the Officer's contribution to achievement of the Company's targets and to maximization of its profits over time, all with a long-term view and according to the Officer's position. The variable component is designed to reward the Officer for his achievements and for his contribution to the achievement of the Company's goals in the grant year and it also helps to retain officials in the Company.

- 2.5. Equity and/or performance-based compensation shall be granted in a manner that reflects the Officer's contribution to achievement of the Company's targets and to maximization of its profits, from a long-term perspective. The variable component shall be determined in conformance with the Company's performance and the personal performance of the Officer versus the targets that were defined for him in the framework of fulfillment of his duties according to his responsibilities, and in accordance with the Company's discretion. In this framework, an equity bonus instead of a performance-based bonus, and a grant that is not based on meeting measurable qualitative targets or quantitative targets may be granted. The main purpose of the equity compensation component is to increase the alignment of interests between the Officers and the Company's shareholders, and to strengthen the compensations grounding on a long-term component. Grant of an equity compensation serves the Company's interest, and the combination of equity compensation components constitutes a management tool for the Company to recruit and retain its Officers over time, to create a link between the compensation of Officers and the creation
- 2.6. The Company's of value for the shareholders of the Company and to incentivize the Officers to promote the interests of the Company and its shareholders

## **The Officer Compensation Concept**

### 3.1. General –

Upon determining and examining the compensation terms and conditions of the Company's Officers, the parameters listed below will, *inter alia*, be taken into account:

- 3.1.1 The Officer's education, qualifications, expertise, professional experience, and achievements.
- 3.1.2 The nature of the position and the level of responsibility and the authorities imposed on the Officer due to his position.
- 3.1.3 The Officer's contribution to the Company's performance, profits and stability, and promotion of the Company's goals, its work plan and its policy from a long-term perspective.
- 3.1.4 The Company's need to achieve long-term retention of the Officer in view of his skill, knowledge and/or unique expertise.
- 3.1.5 Previous agreements that were signed with the Officer (if any), and the terms of employment of the Officer who preceded him in the position.
- 3.1.6 The terms of employment that are customary at the Company for other Officers, considering their rank and responsibilities.

3.2 When the Company comes to recruit or appoint a new Officer, preference will be given to the fact that each Officer has achievements and professional experience in the field of the intended position.

3.3 As detailed below, the customary compensation for Officers of the Company can be composed of a fixed component, yearly compensation with a measurable component and a discretionary component, a special compensation at the discretion of the Board of Directors for one-off events, and an equity component (~~whether~~ by Equity Instruments (as the meaning of such term in section 7.1 below) ~~or by a cash compensation which will derive from the performance of the Company's stock~~). The overall compensation structure for the Officer, which includes Monthly Salary, social and related benefits and variable components, will be determined, *inter alia*, within the compensation ranges specified below, based on the parameters specified above, and while considering the existing compensation conditions of other Officers of the group, and the accepted compensation conditions for officers in similar positions at public (and private) companies with a similar market value and/or characteristics and size of operations, which engage in sectors that are

as close as possible to the operating sectors of the Company. Such a comparison will be made based on data that are publicly released and/or based on an external research study on the issue, as needed, insofar as the information is available and in the opinion of the Company, is relevant in the circumstances.

- 3.4 It is clarified that wherever ceilings are specified in this policy, the meaning is maximum potential value which may be granted, but the ceilings do not obligate the Company and/or the Board of Directors to any equity compensation component at all and/or of the ceiling amount.

### **The Fixed Component**

This component is intended to compensate the Officer for performance of the position at the Company and for performance of the position's ongoing tasks on a daily basis. In addition, this component is intended to give fair compensation to the Officers and to retain high-quality Officers who are suited to the Company's goals.

- 4.1. Monthly Pay (Gross Salary) – the Monthly Pay shall not deviate from the caps specified below:

<b>Rank</b>	<b>Monthly Pay cap (gross)</b>
CEO of the Company	ILS <del>120</del> <u>95</u> thousand
Another Officer subject to to the CEO	ILS <del>90</del> <u>75</u> thousand

- 4.2. The maximum fixed salary for the CEO and for another Officer of the Company is based on a full-time position. In a case where the Officer is employed on a part-time basis, the maximum salary component stated in the table will be adjusted to the actual scope of the position.
- 4.3. The Company shall be entitled to link the Officer's fixed component to the consumer price index (including linkage of the said cap amounts). The Company may determine that the fixed component shall not be reduced due to a decrease in the index, but a decrease in the index shall be deducted from any future increase.
- 4.4. A deviation of up to 10% above the gross salary cap as aforesaid (net of the linkage component) shall not be deemed as a deviation from the provisions of the Compensation Policy.
- 4.5. **Reimbursement of Expenses:**

The Officers shall be entitled to reimbursement of expenses that shall actually be incurred in the context of their position, including expenses for participation in meetings, travel expenses in Israel and overseas, per diem expenses (in and outside of Israel, including payment for housing and accommodation), newspapers, hospitality expenses, fees for membership of professional organizations, professional literature,

against presentation of receipts, all according to the Company's procedures.

4.6. **Social and Related Benefits:**

The Company shall be entitled to grant the Officers social conditions and benefits as determined in the law and, in addition thereto, as is customary at the Company, including:

- 4.6.1. Provisions for provident payments and severance pay<sup>1</sup>; work disability insurance; a study fund; leave and redemption thereof; sick leave; recreation pay.
- 4.6.2. Benefits that are ancillary to the salary as is customary for Officers in similar positions, including through payment of reimbursement of their expenses (such as: car, landline phone and mobile phone, laptop computer, internet connection, subscription to a daily newspaper, comprehensive medical assessment, etc. (including gross-up of benefit attribution value for tax purposes of these components, insofar as required and according to the Company's determination)) in accordance with the Company's procedures.

**Variable Compensation – Annual Bonus**

- 5.1. The Company shall be entitled to grant variable compensation to the Officer, in accordance with the principles specified in Sections 2 and 3 above.
- 5.2. The goal of the performance-dependent cash variable compensation is to encourage the Officers to act for the achievement of the Company's goals and targets, while creating an identity of interests between the Officers, the Company and its shareholders. Accordingly, the Officers of the Company will be entitled to an annual bonus according to measurable criteria ("**Measurable Component**"), and non-measurable qualitative criteria ("**Qualitative Component**" or "**Discretionary Component**"), all in accordance with the principles specified below (collectively: the "**Annual Bonus**").
- 5.3. Threshold conditions – the Company shall be entitled to grant an Annual Bonus to Officers in respect of the Measurable Component, as specified in Section 5.4 below, for a Bonus Year, subject to the following threshold conditions:
  - 5.3.1. The Company met its financial liabilities in the Bonus Year.

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<sup>1</sup> In accordance with the provisions of the law, including the possibility of release of money accrued in severance pay funds in any case of conclusion of employment, or pursuant to Section 14 of the Severance Pay Law, in accordance with an agreement with the employee, and in accordance with the accepted practice in the Company.

5.3.2. The Company's financial statements do not include a "going concern" qualification for the Company.

5.4. The measurable component – measurable goals related to the Group's performance

5.4.1. Bonus cap – the entitlement of the Company's Officers to the Annual Bonus in cash for the measurable component will be subject to the following caps:

<b>Rank</b>	<b>Annual cap (in terms of number of salaries, gross)</b>
CEO	<u>64.5</u>
Another Officer who reports to the CEO	<u>4.5 2.5</u>

5.4.2 This component of the Annual Bonus for each Officer shall be calculated according to the Group or Officer achieving a target or targets which are measurable, such as: increase in the value of the Group's corporations, meeting the budget, turnover, gross profit, operating profit, EBITDA or net profit, obtaining resources for the Company, performance of investments for disposition of the Company's investments, completion of development milestones, obtaining regulatory approvals, submission or receipt of FDA approval by one of the companies, recruitment of a given number of patients for a trial, etc.

5.4.3 The targets for each Officer or for all of the Officers as a whole (except with respect to the CEO) shall be recommended by the CEO and approved by the Compensation Committee and the Board of Directors. The targets with respect to the CEO shall be approved by the Compensation Committee and the Board of Directors close in time to the beginning of the Bonus Year, and may be similar to those determined with respect to the other Officers.

5.4.4. Subject to the aforementioned, the Company's Board of Directors, after receiving the Compensation Committee's recommendation, is entitled to determine annually, close in time to the Bonus Year, the components of the targets, their weight in the formula of the bonus out of the bonus cap, the



range of percentage compliance with the targets, including the possibility of determining a minimum and a maximum standard, and the scope of eligibility for the bonus in relation to the percentage range of compliance with the targets and the time required to comply with the various targets. Partial compliance with a particular target may result in the granting of a partial bonus for such target, subject to the minimum standard determined, to the extent determined, while results reflecting excessive performance for a particular target, as applicable, may result in a bonus that exceeds the component attributed to the aforementioned target (subject to the total bonus cap in section 5.4). To the extent weights are not determined for each target, each target shall carry an equal weight.

5.4.5 The Board of Directors of the Company, after receiving the Compensation Committee's recommendation, is entitled to determine near the beginning of the compensation year that yearly cash compensation for the measurable component will not be granted for such year to an Officer or to all Officers in general, that goals will not be determined for an Officer or for all Officers in general, and that instead of a cash compensation for the measurable component the Officer may be able to receive an additional equity compensation as detailed in section 7.1 below.

#### 5.5 Discretionary bonus component

This component of the Annual Bonus shall be based on an evaluation in respect of performance of the Officer's duties and his performance in the Bonus Year, and shall be granted to an Officer of the Company based on the recommendation of the CEO and with the approval of the Compensation Committee and the Board of Directors of the Company, and with respect to the CEO – with the approval of the Compensation Committee and the Board of Directors of the Company. In any event, the discretionary component of the Annual Bonus shall not exceed ~~3~~1.5 Monthly Salaries for each Officer.

- 5.5. Timing of payment of the Annual Bonus – During a compensation year where the Annual Bonus is paid, it shall be paid to the Officers entitled to a bonus from the Company with respect to each calendar year of their employment period, no later than the date of the first salary due following the date of approval of the Company's consolidated financial statements for the same calendar year. Notwithstanding the aforesaid, for the component of the bonus that depends on measurable objectives relating to the performance of the Group, if determined for a certain compensation year, the Compensation Committee is entitled to determine that 70% of the bonus

eligibility for this component will be paid at the same time (i.e., the first paycheck payment after the approval of the Company's consolidated financial statements for the same Calendar year) and the remaining 30% will be paid after the Company's distributed consolidated financial statements for the year following the relevant calendar year and only if the Company meets the specified threshold conditions, in the relevant calendar year and the successor calendar year, listed in Section 5.3 above.

- 5.6. Denial of bonuses – If the office of any of the Officers shall end in circumstances in which his right to severance pay may be denied in the case of dismissal, his entitlement to an Annual Bonus and to any parts of an Annual Bonus not yet paid to him, shall be denied. In addition, the Company's Board of Directors will be authorized to cancel payment of the bonus or part thereof to a certain Officer in cases of the Officer's involvement in embezzlement, fraud and/or improper governance.
- 5.7. Reduction of bonuses – The Company's Board of Directors, upon the recommendation of the Compensation Committee, may reduce the bonus amount by up to 30%, considering the examination of the reasonableness of the bonus that was received as a result of the meeting of the targets, the Officer's contribution to the achievement thereof and the Company's financial and business condition.
- 5.8. Calculation of bonuses in the case of partial employment during the Bonus Year – In a case where the employment relationship between the Officer and the Company ends in the course of the Bonus Year after March 31, or in a case where an Officer began his employment in the course of the Bonus Year and shall have completed at least three months of employment, the Annual Bonus amount shall be calculated according to this Compensation Policy at the end of the calendar year, while it is possible to determine that the targets that were fixed will be amended and calculated proportionately according to the period of the Officer's employment in part of such year, as such may be relevant, and the Officer shall be entitled to the portion of the Annual Bonus proportionately to the period of his employment out of the year.
- 5.9. Publication in the Annual Report – Each year (if and insofar as in such year an Annual Bonus was granted to the Company's CEO according to this section) the Company shall publish in the annual report the measurable targets that were set by the Board of Directors for the CEO for the previous Bonus Year.

### **Special Bonus**

- 6.1. The Company's Board of Directors, upon the recommendation of the Compensation Committee, may approve payment of a one-time bonus to an Officer due to his considerable contribution to the leading and closing of a significant transaction for the Company ("**Special Event**"). The amount of the special bonus upon the occurrence of a special event as aforesaid shall not exceed ~~6~~2 Gross Salaries. For this purpose, the

following shall be deemed as a special event: (1) a sale and/or disposition and/or merger of holdings of the Company and/or RDC in a group company (or its operations, as the case may be) at a value that is at least 3 times the total and nominal aggregate investment that was made in the group company by the Company and/or by RDC and a minimum gross transaction amount (the Company's or RDC's portion of at least \$10 million, or (2) special instances of transactions which the Compensation Committee and the Board of Directors determined that there was an extraordinary contribution by an Officer.

### **Variable Equity Component**

- 7.1. In the period of the Compensation Policy, the Company will be entitled to approve or act according to plans for the granting of equity compensation to Officers. The granting of equity compensation will take into account the Officer's contribution to the Group, his position, his importance to the Group and the period for which he has been working in the Group. The equity compensation may be granted in restricted stock units (RSU) and/or restricted stock and/or a share-based instrument and/or phantom options or options exercisable for shares of the Company/or for rights to success fee (whereas with respect to rights to success fee, if granted – the grant will be in accordance with a mechanism that will be determined and approved from time to time by the Board of Directors or the Compensation Committee, as applicable, and the value of such rights will be calculated upon their grant by an external valuator who will be determined by the Compensation Committee), or a combination thereof (the "Equity Instruments"). The allotment and vesting of the Equity Instruments will be contingent on the provisions specified below and/or in any other arrangement, in the context of a plan pursuant to Section 102 of the Income Tax Ordinance or any provision that shall substitute or modify it (on a capital or ordinary track) or in any other plan (whether with or without a trustee). The Compensation Committee and the Board of Directors are entitled to determine the minimum conditions for the release of the restrictions of restricted stock units (RSU) and/or restricted stock including at least the minimum conditions set forth in Section 5.3

The principles stated in this policy relating to the variable equity component reflect the main terms of the equity compensation of the Company's Officers. The other provisions pertaining to the allotment of the equity compensation will be determined in the compensation terms and conditions or in the equity compensation plan, including provisions regarding conditions with respect to entitlement to dividends and the vote of shares that are included in the equity compensation; accepted adjustments (including by way of changing the allotted quantity, changing the exercise price, as the case may be, compensation in cash, etc.), which include adjustments in respect of a dividend, stock dividends, changes in capital (consolidation, split, etc.), a rights offering, a restructuring of the Company (such as: split, merger, etc.); a

right of first refusal in the transfer of securities; the rights of the Officer in connection with restricted stock units and/or restricted stock and/or phantom and/or stock options; taxation matters; manner of exercise of the options; acceleration of the equity compensation upon conclusion of office, change of control, ceasing trading etc. The Compensation Committee and the Board of Directors may determine additional provisions in connection with the equity compensation, and update, from time to time, the conditions and provisions thereof.

~~7.2.1.7.1.1~~ 7.1.1 Vesting period – The total vesting period of the equity compensation shall be spread out over a period which shall be no less than three years from the date of grant of the Equity Instrument. It will be possible to determine that the equity compensation will vest in installments in the framework of the said total vesting period, provided that the first installment shall vest no earlier than the lapse of one year from the date of the grant. The vesting of the equity compensation shall be contingent on the continued employment or office of the Officer at the Company and/or at a corporation of the Company Group at the time of the vesting of each installment.

7.1.2. Cap on the value of the benefit – In general, the ceiling economic value of the equity compensation that shall be granted, insofar as granted, on the date of the grant, for a bonus year (which will be calculated on a linear basis and not on an accounting basis);, -

7.1.2.1. In a year in which the Board of Directors decided that an annual cash compensation for the measurable component will be granted for such year to a certain Officer or to all Officers in general as set forth in section 5.4.4 above such shall not exceed an amount equal to 9 times the Monthly Pay (Gross Salary) for the CEO and 6 times the Monthly Pay (Gross Salary) for an Officer to which a cash compensation is granted for such year.

~~7.2.2.7.1.2.3.~~ 7.1.2.3. In a year in which the Board of Directors decided that an annual cash compensation for the measurable component will not be granted for such year to a certain Officer or to all Officers in general as set forth in section 5.4.4 above, the ceiling value of the equity compensation will increase accordingly, such that it will be 9 times the Monthly Pay (Gross Salary) for the CEO and 6 times the Monthly Pay (Gross Salary) for another Officer subject to the CEO plus the ceiling value of the annual cash compensation for the measurable component (as set forth in section 5.4.1 above) for such Officer.

7.2.3-7.1.3.Exercise price – Upon the granting of options, the exercise price of each option shall be no less than the average price of the Company’s stock on the stock exchange in the 30 trading days preceding the date of the grant, or than the price of the Company’s stock on the date of the option grant, as shall be determined on the date of the grant.

7.2.4-7.1.4.Duration - Any installment of the equity compensation in an exercise dependent Equity Instrument, shall be exercisable within a period to be determined on the date of the grant and which shall not exceed 8 years from the date of the grant.

7.2.5-7.1.5.Exercise according to the value of the benefit – The Compensation Committee and the Board of Directors of the Company shall be entitled to determine, in the framework of the granting of Equity Instruments, that the exercise thereof shall be performed according to the value of the benefit therein (“Cashless”), such that at the time of exercise of the shares that reflects the benefit component only.

7.2.6-7.1.6.Exercise value – The Compensation Committee and the Board of Directors of the Company will be entitled to determine a cap on the exercise value of the Equity Instruments or not to determine such a cap in the compensation plan and/or in a specific grant.

7.1.7 Acceleration of Vesting - The Board of Directors may determine instructions regarding the full acceleration of the vesting periods of the equity compensation in cases of death, disability, medical reasons, and in the event of a change of control of the Company as a result of which trading in the Company's shares has ceased. Additionally, the Board of Directors may determine instructions regarding the acceleration of the vesting periods of equity compensation in the case of termination of employment of the Company officers as a result of a transfer/change of control, and in this case, acceleration of the next installment that has not yet vested will be permitted.

7.1.8 The Company will be entitled to determine, in plans for the granting of compensation as aforesaid, provisions regarding its right to purchase the shares from the Company’s employees.

### 7.3-7.2.The Company’s stock yield index

7.3.1-7.2.1. ~~In the event that in respect of a calendar year, the Company shall choose not to allot equity components according to Section 7.1 above<sup>2</sup>, then in lieu of the grant of equity compensation through equity components, a cash bonus will be paid for the same calendar year (or for the part of the year with respect to which the aforementioned equity components were not granted, as applicable and mutatis mutandis) which is subject to the cap specified in Section 7.1.2 above, which shall be derived from~~

~~2. Excluding an equity component which is instead of annual cash compensation for the measurable component only.~~

~~the performance of the Company's stock yield, as specified below.~~

~~7.3.2.7.2.2. The rationale in using the test of the Company's stock yield is that the Company's management has key influence over the Company's results and performance, and consequently over the capital market's confidence in the Company.~~

~~7.3.3.7.2.3. This component of the Annual Bonus for each Officer shall be calculated based on the ILS yield of the Company's stock during the Bonus Year, while the minimum yield in respect of which 40% of the bonus cap will be granted for this component is 10% ("Minimum Threshold") and for a 20% stock yield, the Officer shall be granted 100% of the bonus cap which is attributed to this bonus component (the "Maximum Threshold"). The bonus for this component for performance levels between the Minimum Threshold and the Maximum Threshold shall be calculated in a linear manner.~~

~~7.3.4.7.2.4. The stock yield shall be calculated as follows: at the beginning of each Bonus Year, the average price of the Company's stock in the 30 trading days preceding January 1 of such year shall be calculated, and at the end of each Bonus Year, the average price of the Company's stock in the last 30 trading days of such year shall be calculated. The calculation of the yield shall include adjustments as is accepted, such as yield to the shareholders for dividend distributions and adjustments to changes in the share capital such as stock combinations, a stock split, the granting of stock dividends, etc.~~

~~7.3.5.7.2.5. Calculation of the stock yield index component in the case of partial employment during the Bonus Year — in a case where the employment relationship between the Officer and the Company ends in the course of the Bonus Year after March 31, or in a case where an Officer began his employment in the course of the Bonus Year and shall have completed at least three months of employment, the amount to which the Officer is entitled in respect of the stock yield index component shall be calculated according to this Compensation Policy, at the end of the calendar year, and the Officer will be entitled to part of the Annual Bonus proportionately to the period of his employment out of the year.~~

7.4.7.3. Equity compensation in group companies that are not controlled by the Company - The Company's Officers sometimes serve as officers and directors of group companies of the Company which have equity compensation plans. In a case where an Officer of the Company either

serves or shall serve as an officer, including as a director, of a group company that is not controlled by the Company, subject to the approval of the Company's Board of Directors, the Officer may be compensated according to the compensation policy of the group company (with respect to the equity compensation), independently of the Company's other compensation components, all in accordance with the compensation policy and the compensation plans of the group company, and the same shall not be deemed as compensation which is granted by the Company.

7.5.7.4. Equity compensation in group companies controlled by the Company - The Company's Officers who serve or will serve officers and directors of group companies controlled by the Company may be entitled to equity compensation under an equity compensation plan of such controlled company, subject to the approval of the Compensation Committee and the Board of Directors of the Company, provided that the amount of the equity compensation officers on behalf of the Company as aforesaid shall not exceed 5% of the said controlled company.

#### **Ratio Between a Fixed Component and a Variable Component**

8.1. The maximum variable component paid by the Company according to this Compensation Policy to any Officer shall not exceed 60% of the total annual compensation cost of the Terms of Office and Employment of the Officer<sup>3</sup>. For the avoidance of doubt, for this purpose, equity compensation as stated in Sections 7.23 and 7.34 above shall not be counted.

#### **Compensation for Directors**

9.1. The fixed compensation for directors of the Company shall be annual compensation and per-meeting compensation (including in the case of a written resolution or a telephone conversation) and reimbursement of expenses, to be determined in accordance with the provisions set forth in the Companies Regulations (Rules on Compensation and Expenses of an Outside Director), 5760-2000 (the "**Compensation Regulations**"). Lawful VAT shall be added to the annual compensation and to the per-meeting compensation, insofar as required.

9.2. Considering the nature and size of the Company, as being from time to time, the roles and duties of a director of the Company, the Company may determine that the payments to the directors shall also be according to the provisions that apply to proportionate compensation pursuant to

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<sup>3</sup> For this purpose, "variable component" includes annual bonus, special bonus compensation in the form of an equity component. For the purpose of calculating the equity compensation, it shall be clarified that it is the economic value of the equity compensation on the date of the grant, as estimated by accepted economic models, and spread out in a linear manner over the vesting period of the equity compensation.



the Compensation Regulations, including with respect to compensation in securities which will comply with Section 7 above.

9.3. The aforesaid notwithstanding, in the event that an active Chairman or an active acting Chairman of the Board shall be appointed for the Company, all of the provisions set forth in this document with respect to the rank of CEO shall apply to him, *mutatis mutandis*, in accordance with the approvals required pursuant to law, and as the case may be<sup>4</sup>. excluding, the cap on the value of the variable equity component, as defined in Section 7.1.2.1 above, such that for the Chairperson of the Board of Directors, it shall not exceed a sum equal to 7 times the monthly salary (gross salary) (instead of 9 times the monthly salary (gross salary) which was determined for the CEO).

~~9.3.~~

9.4 The Chairperson of the Board of Directors, who is a controlling shareholder in the Company, will not receive compensation through the Company's capital instruments (as described in Section 7.1 above), but will be able to receive the value of the capital compensation as stated in Section 7.1 with a fixed compensation and/or an annual bonus and/or a special bonus, as determined by the Company and subject to approvals by law and subject to Section 9.3 above. In addition, in lieu of discretionary bonus, with respect to a chairperson who is a controlling shareholder, the Company will be able to convert the amount of the discretionary bonus component that could have been granted to the CEO, with the measurable component of the annual bonus or the special bonus. The determination of the measurable component of the annual bonus will be made with the necessary adjustments required by the provisions of the law and the Securities Authority's guidelines regarding compensation to a controlling shareholder.

### **Conclusion of Employment Arrangements**

10.1. Each one of the Company's Officers shall have a specific severance and retirement package determined for them, which takes into account the terms of the Officer's employment upon his retirement, the Officer's seniority at the Company, his contribution thereto and the circumstances of his retirement. With respect to new employees and Officers, the conditions shall be determined according to the Company's common practice and under similar terms and conditions.

10.2. Payment for prior notice – The Company will be entitled to grant the CEO of the Company Officer prior notice for a period not exceeding 4 months and any Other Officer subject to the CEO, not exceeding 3 months, during which the Officer shall undertake to provide the Company with services in practice, in the course of which the employee will be entitled to all of the conditions and benefits and to the bonuses and to the equity component for the period in which he actually worked. The Company shall be entitled to waive the Officer's employment at the Company during the prior notice period and to pay the consideration that is due to him in lieu of the prior notice, plus all of the conditions and benefits or the value thereof, also in the case of immediate termination of employment.

~~10.2.~~



### 10.3. Adjustment/Retirement bonus

- 10.3.1. The Compensation Committee shall have the option of approving an adjustment bonus/retirement bonus for an Officer<sup>5</sup> according to the following provisions:

<b>Position/Bonus</b>	<b>Worked in the Company for more than 3 years and up to 5 years</b>	<b>Worked in the Company 5 years or more</b>
CEO	Up to 4 times Gross Salary	Up to 8 times Gross Salary

<sup>4</sup> It is clarified that as of the date of approval of this Compensation Policy, the Chairman of the Board receives directors' compensation in accordance with the provisions of Section 9.1 of the policy.

<sup>5</sup> Over and above the Officer's rights to severance and prior notice as detailed in the policy

Other Officer subject to the CEO	Up to 3 times Gross Salary	Up to 6 times Gross Salary
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- 10.3.2. The Company may condition payment of the adjustment or re retirement bonus on the Officer's non-compete undertaking during the adjustment period.
- 10.3.3. The considerations for granting an adjustment or retirement bonus may include, *inter alia*, and insofar as they are known at the time of the making of the decision, the period of the Officer's employment, the terms of his employment in such period, the Company's performance in the said period, the Officer's contribution to achievement of the Company's targets and to maximization of its profits, a special non-competition undertaking, and the circumstances of the retirement.
- 10.3.4. The Company may approve an adjustment or retirement bonus as aforesaid for an Officer during the term of his office or upon conclusion of his office, which shall be paid at the time of conclusion of the Officer's office.

### **Insurance, Indemnity and Exemption**

- 11.1. Insurance policy – The Company shall be entitled to acquire each year, including in accordance with Regulation 1B1 of the Companies Regulations (Reliefs for Interested Parties' Transactions), 5760-2000 (the "**Relief Regulations**") and subject to the approval of the compensation committee only, an insurance policy for directors and officers liability, including a run-off policy or an insurance covering a relevant event or action, applying to the Company's and/or its subsidiaries' directors and officers, as will serve from time to time, which insurance shall cover their liability subject to applicable approvals and limitations under law. The Company's compensation

committee shall determine the total annual insurance premiums (for these policies) and the deductibles in accordance with the market terms in effect at the time of purchase of the policies.

- 11.2. Advance indemnity – The Company shall be entitled to give an advance indemnity undertaking to each Officer of the Company in his capacity as an officer of the Company or by virtue of his position at other companies in which he was appointed on behalf or at the request of the Company, subject to the restrictions and approvals set forth in the law. The indemnity amount that the Company shall pay to all of the Officers, in the aggregate, including Officers who serve or shall serve, at the request of the Company, as officers of other companies, under all of the letters of indemnity that shall be issued to them by the Company pursuant to the indemnity resolution, in respect of a monetary liability, shall not exceed, in the aggregate, 25% (twenty five percent) of the Company's equity (in U.S. dollars), according to the Company's last (annual or quarterly) financial statements that are known before actual payment of the indemnity plus amounts that shall be received, if any, from an insurance company in the framework of insurance in which the Company engaged. The aforesaid does not derogate from an indemnity undertaking if and insofar as shall have been approved and/or given in the past by the Company to Officers, and which is valid.
- 11.3. Retroactive indemnity – The Company shall be entitled to indemnify any Officer retroactively in the broadest possible manner according to the Companies Law.
- 11.4. Exemption – The Company shall be entitled to grant the Officers, subject to the provisions of any law, exemption from liability due to any damage caused thereto due to a breach of the Officer's duty of care thereto by his actions in his capacity as an Officer, subject to the provisions of the law and the Company's articles of association. The said exemption shall not apply in relation to an act or omission of an Officer with respect to a resolution or transaction in which the controlling shareholder or any Officer has a personal interest. The said qualification does not apply to Officers who were first appointed prior to approval of the compensation policy that was approved at the general meeting of February 27, 2017 (see the notice of meeting report of February 16, 2017, Ref. No.: 2017-01-016902) and who are entitled to exemption according to resolutions that were adopted in the past at the Company.
- 11.5. This Compensation Policy does not derogate from resolutions of the Company which were adopted in the past with respect to the giving of advance indemnity and/or an indemnity undertaking and/or an advance exemption from liability, to Officers, as permitted under the Companies Law.

**The ratio between the Terms of Office and Employment of the Officers and the salary of the Company's employees**

- 12.1. Upon determining the compensation conditions of the Company's Officers, an examination shall be made, *inter alia*, of the ratio between the terms of office of each one of the Company's Officers and the salary cost of the Company's other employees and of contract workers retained

by the Company, and in particular the ratio to the average and median salary of such employees, considering the nature of the Officer's role, his seniority, the level of responsibility imposed on him and the number of employees at the Company. The Compensation Committee and the Board of Directors of the Company shall examine, from time to time, the reasonableness of this ratio, considering, *inter alia*, the nature of the Company's activity, its size and the manpower mix employed thereby.

In the process of formulating the Compensation Policy specified above and below, the Compensation Committee and the Board of Directors examined the ratio between the present terms of office of the Officers versus the average and median salary of the Company's employees. The Compensation Committee and the Board of Directors determined that the ratio is reasonable and does not adversely affect the working relations at the Company.

### **Repayment of Amounts Granted to Officers, to the Company**

- 13.1. In a case where, within 3 years from the date of approval of the Company's consolidated and audited financial statements for the Bonus Year, its financial statements are amended due to data that transpired to be erroneous and were restated in the Company's financial statements, such that, had the bonus amount that was due to the Officer for such year been calculated according to the amended data, the Officer would have received a lower bonus than that which he received in practice, the Officer shall repay the Company the difference between the bonus amount that he received and that to which he was entitled due to the said amendment. The said amounts shall be repaid without linkage. The manner of repayment of the amounts to the Company, including in installments, shall be determined by the Compensation Committee and the Board of Directors of the Company, provided that they are performed within a reasonable time, considering the circumstances.
- 13.2. In a case where the Company's consolidated and audited financial statements for any year are amended due to data that transpired to be erroneous and were restated in the Company's financial statements, such that had the bonus amount which was due to the Officer for such year been calculated according to the amended data, the Officer would have received a higher bonus, the Company shall pay the Officer the difference between the bonus amount to which he was entitled and that which he received due to the said amendment. The said amounts shall be paid without linkage. The amounts to be repaid (whether to the Company or to the Officer) shall be calculated considering mandatory payments according to law that were met by the Officer in respect of the amount that was initially paid to him, and any reimbursement of such mandatory payments that the Officer shall receive in respect of the amount that he repays.
- 13.3. The provisions of this section shall not apply in the event that an amendment to the Company's financial statements is made due to changes in the accounting standards or in legislation, the application of which shall commence after the date on which the Company's Board of Directors shall approve, for the first time, the Company's financial

statements for such year.

- 13.4. The Compensation Committee and the Board of Directors will be entitled to determine the repayment dates, such that they shall be performed within a reasonable period, considering the size of the amount that the Officer is required to repay.

#### **An Immaterial Modification of the Employment Terms**

- 14.1. Pursuant to the provisions of the law, the Compensation Committee (with respect to the CEO) or the Compensation Committee and/or the Company's CEO (with respect to Officers who report to the Company's CEO), as the case may be, shall be entitled to approve an immaterial modification of the employment terms that were approved according to this policy as stated in Section 272(d) of the Companies Law or Section 1B3 of the Relief Regulations. For this purpose, "immaterial modification" – a modification of up to 10% per year versus the total compensation cost of the Officer that was originally approved by the Compensation Committee and the Board of Directors, and with respect to the CEO, by the general meeting, all subject to the compensation caps set forth in this policy, provided that the modification throughout the period of the Compensation Policy does not exceed 15%.

#### **Period of the Compensation Policy**

The Compensation Policy shall be in effect for a period of three years commencing from the date of receipt of the general meeting's approval of the Compensation Policy and/or approval of the Board of Directors, insofar as the Compensation Committee and the Board of Directors shall have approved the policy despite the meeting's objection. For the avoidance of doubt, it is clarified that the provisions of this Compensation Policy with respect to the Annual Bonus shall apply commencing from the Annual Bonus for 202~~24~~<sup>25</sup> and thereafter.

#### **Miscellaneous**

- 16.1. The provisions of this Compensation Policy apply only to the Officers of the Company.
- 16.2. The Compensation Policy is drafted in the masculine gender for the sake of convenience only, but its provisions shall apply to both women and men, with no difference and with no change.
- 16.3. The Company may pay compensation to the Officer as an independent service provider (including through a company under his control) and not as a salaried employee, in which case, the payment cap for him shall be calculated according to the cost-of-salary cap for a salaried employee of the Company in his position (with the necessary adjustments), and the principles of the Compensation Policy shall apply with respect to him, *mutatis mutandis*.
- 16.4. This document establishes no right (including a right to receive compensation of any type whatsoever) for Officers to whom this Compensation Policy applies and/or any other third party. Insofar as an

Officer is granted lower compensation than the compensation described in this policy with respect to the same kind of officer, the same shall not constitute a deviation from the provisions of this policy.

- 16.5. The Compensation Committee and the Board of Directors shall examine, from time to time, the Compensation Policy and the need for adjustment thereof, and in particular whether a material change has occurred in the circumstances that existed at the time of determination hereof or for other reasons, and the need to determine a compensation plan for Officers of the Company, in consideration of the Compensation Policy.
- 16.6. Subject to the provisions of any law, the Compensation Policy does not derogate from existing agreements, or from Terms of Office and Employment or compensation that were approved prior to the determination of the Compensation Policy.

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